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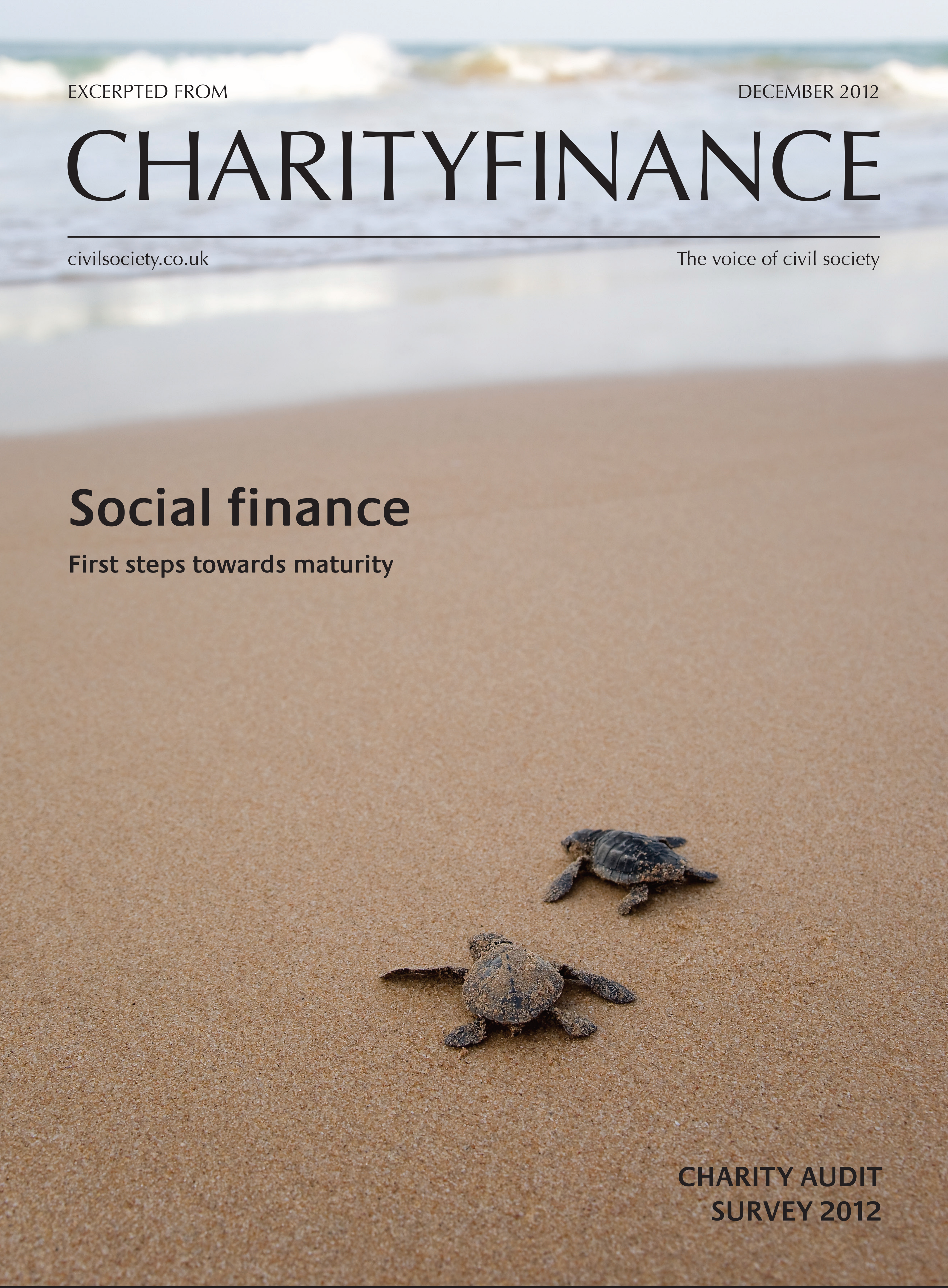


Social finance

First steps towards maturity

CHARITY AUDIT SURVEY 2012

interview with William Shawcross • reactivating lapsed donors • working in consortia • insolvency

Telling the story

Getting the message across to supporters in financial reporting is becoming just as important a goal as statutory compliance, finds Diane Sim.

Charity Audit Survey 2012

IT'S BEEN ANOTHER tough year – with the longest double-dip recession since the Second World War; the kicking in of long-anticipated public spending cuts; and a further 12 months of low or no investment returns.

While the UK economy officially moved out of recession in the third quarter, progress has been undermined by a sharp rise in inflation from 2.6 per cent to 3.2 per cent in October.

Indeed, there has been little to relieve the pressure on charities' funding streams, regardless of whether they rely on voluntary, public sector, investment or trading income, or a combination of these.

Understandably many of the charities participating in *Charity Finance's* 2012 Charity Audit Survey are more concerned with managing their finances than they are about reporting on them, as they strive to diversify funding streams and cut costs.

"The challenge facing our organisation over the next 12 months is securing new funding to continue our aims and objectives," comments the finance manager of a charity with annual income of £3.7m.

"The issues facing us are more to do with meeting government challenges and developing new income streams. The reporting is far less of an issue," adds the head of finance at a charity with annual income of £4.7m.

> "We want to use the trustees' annual report as part of our fundraising documentation"

"The main issue for us over the next 12 months is not financial reporting but the financial situation in general, particularly the impact of public sector spending cuts and increased competition for voluntary income," concurs the director of a charity with annual income of £1.3m.

At the same time, however, there is an increasing awareness on the part of charities of the links between financial management and financial reporting, and how the latter can influence the former.

"We want to be able to use the trustees' annual report as part of our fundraising documentation and ensure that it is clear and full of impact," says the director of finance at a charity with annual income of £7.4m.

"We need to make the trustees' annual report work positively for us and demonstrate our impact," adds a spokesman for a charity with annual income of £3m.

Having an auditor that can help a charity meet its statutory compliance requirements and, at the same time, put a compelling case to stakeholders is therefore critical.

"We need to make the information in the trustees' annual report more relevant and attractive to our stakeholders," adds the financial director of a charity with annual income of £4.3m. "Our goal is to reduce the volume of the trustees' annual report, while remaining compliant," adds the head of finance at a charity with annual income of £4.7m.

Charity auditors

Figure 1 opposite ranks audit firms by the audit fees of their charity clients. The data is derived primarily from the 872 charities that participated in *Charity Finance's* 20th annual survey of the charity audit market and related reporting issues.

The survey data is supplemented by audit data from the top 400 UK charities based on income, which *Charity Finance* routinely tracks for the purposes of compiling the Charity 100 and Charity 250 Indexes. This results in coverage of almost 1,200 charities, which collectively have annual income of £22.2bn and generate audit fees of £23.9m.

Coverage of the larger UK charities is therefore pretty

Prize draw winners

All charities responding to the survey in full were entered into a prize draw for three luxury Christmas hampers. Congratulations to the following winners:

- Andy Ross, ActionAid
- Marie-Mathilde Suberbere, Esmée Fairbairn Foundation
- Paul Slyfield, Norcas

figure 1: Top 40 audit firms ranked by audit fees

	Audit firm (2011 rank in brackets)	Audit fees (inc VAT) £	Income of audit clients £	No. of clients
1	Crowe Clark Whitehill (1)	3,665,003	3,663,604,220	115
2	PricewaterhouseCoopers (2)	2,653,612	3,890,949,410	45
3	Grant Thornton (5)	1,849,900	2,104,764,019	35
4	haysmacintyre (3)	1,670,424	972,379,143	111
5	Deloitte (6)	1,387,900	1,870,755,000	23
6	BDO (8)	1,280,754	1,492,461,490	36
7	KPMG (7)	1,216,868	1,007,228,102	32
8	Kingston Smith (9)	1,165,979	689,893,329	77
9	Baker Tilly (4)	1,131,279	1,096,471,692	58
10	Sayer Vincent (10)	970,143	549,035,239	78
11	Public audit bodies (11)	666,700	687,827,000	13
12	PKF (12)	644,485	640,309,903	23
13	Buzzacott (13)	585,380	408,492,779	18
14	HW Fisher (15)	479,809	146,610,882	74
15	Mazars (16)	419,845	249,452,666	21
16	MHA MacIntyre Hudson (14)	360,904	123,842,485	48
17	Chantrey Vellacott (17)	359,709	334,795,492	23
18	Scott-Moncrieff (18)	309,328	194,775,416	24
19	Littlejohn (20)	214,389	93,502,382	7
20	Knox Cropper (22)	176,400	190,469,860	4
21	Critchleys (19)	168,639	106,282,935	14
22	Larking Gowen (-)	157,296	77,011,880	37
23	Saffery Champness (21)	155,100	143,353,147	8
24	Russell New (26)	129,677	44,406,602	18
25	RSM Tenon (23)	106,134	75,598,262	11
26	Clement Keys (-)	91,500	46,662,220	3
27	Peters Elworthy & Moore (-)	89,570	15,363,125	12
28	Henderson Loggie (28)	88,000	102,142,000	3
29	Nexia Smith & Williamson (-)	83,241	64,359,670	6
30	Griffin Stone Moscrop (-)	79,710	129,130,419	11
31	Larkings (30)	79,444	21,805,539	11
32	Bishop Fleming (29)	79,289	24,334,283	13
33	Broomfield & Alexander (27)	71,266	31,969,115	12
34	Ernst & Young (24)	69,600	62,575,000	3
35	Goldwins (34)	57,720	12,931,079	17
36	Menzies (-)	56,848	47,250,111	3
37	James Cowper (-)	52,690	16,192,729	7
38	Barber Harrison & Platt (31)	52,655	29,857,274	8
39	Wilkins Kennedy (25)	51,310	14,509,390	5
40	UHY Hacker Young (36)	49,200	49,834,996	3
	Other audit firms	917,339	673,271,899	129
	Total	**23,895,038**	**22,196,462,184**	**1,199**

comprehensive, while coverage of charities with annual income of less than £16.8m – the cut-off point for membership of the Charity 250 Index – is reasonably representative.

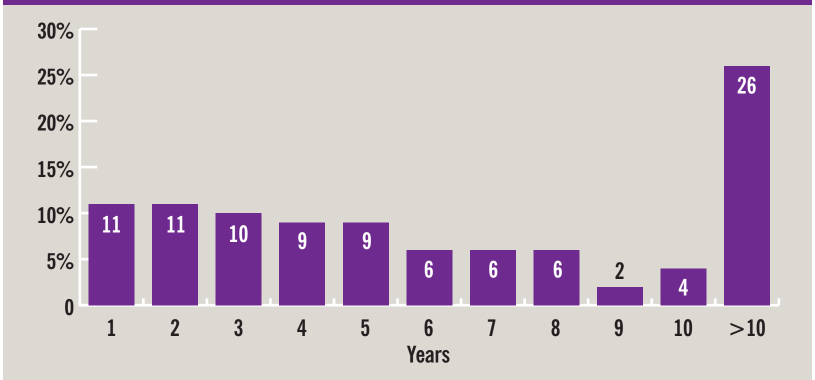
Charities with annual income of over £10m represent 37.6 per cent of all audit clients listed in figure 1, while the remainder are split between charities in the £5m-£10m income bracket (10 per cent), charities in the £1m-£5m income bracket (26.7 per cent) and charities with income of below £1m (25.7 per cent).

Crowe Clark Whitehill (CCW) tops the league table for the fourth year running with audit fees of £3.7m from 115 charity clients, which collectively report annual income of £3.7bn. Partner and head of not-for-profit, Pesh Framjee, estimates that fee income for audit and related business services provided to the charity sector has risen by around 15 per cent over the last year.

PricewaterhouseCoopers (PwC) has retained its second position in the ranking, based on audit fees of £2.7m from 45 charity clients with total income of £3.9bn. As a 'big-four' accounting firm, PwC can offer "a broad range of specialist services to charities – as well as the more traditional accounting, audit and tax-related fields – ranging from social impact reporting and getting social enterprises off the ground, through to major restructuring," says Liz Hazell, head of charities at PwC.

Hazell also notes a change in the balance of work over the last 12 months. "Sadly, our insolvency colleagues have been particularly busy trying to pre-empt the demise of failing charities. We've also been working with our clients on a range of other interesting assignments as they adapt to the 'new-normal' economic environment," she says.

figure 2: Number of years with auditor (% respondents)



CCW and PwC have occupied the same top two positions in each of the last four years. Together they account for 26.4 per cent of the charity audit fees included in figure 1. While this is down from last year's figure of 28.5 per cent, it is still up on the 22 per cent share recorded in 2009.

The composition of the top ten players has not changed over the last year, though the pecking order has. Grant Thornton and BDO each move up two places, from fifth to third position and from eighth to sixth position respectively, while Deloitte and Kingston Smith each move up one place, to fifth and eighth position respectively.

haysmacintyre moves from third to fourth place and Baker Tilly falls from fourth to ninth place, while KPMG and Sayer Vincent retain their positions in seventh and tenth places respectively.

Anecdotally, several mid-tier players note a continuation of the tendency for the traditional 'big-four' players (namely, Deloitte, Ernst & Young, KPMG and PwC) to pitch for charity audits, which in a more benign economic climate they might have considered too small.

This no doubt has been a contributory factor to last month's announcement that mid-tier players BDO and PKF are in advanced discussions to merge in the early part of 2013. Based on this year's figures, their combined charity audit fee income of £1.9m would place them in third position, just ahead of Grant Thornton.

BDO head of not-for-profit, Don Bawtree, says: "The proposed merger will provide charities with an even stronger team of advisers dedicated to delivering exceptional client service. Together, we will bring an even deeper and broader expertise from which clients can benefit."

Ian Mathieson, who heads up PKF's not-for-profit team, adds: "We've been speaking to clients about these developments and the feedback that we've received has been very positive."

Teething problems

While there have been no new accounting requirements over the last 12 months, there have been some teething issues with standards introduced the previous year.

Several auditors surveyed this year have found the practical application of FRS 30 on Heritage Assets harder than expected. "FRS 30 introduced some significant new disclosure requirements for reporting the content and value of collections … hence qualitative characteristics have been an important factor when assessing the view given by the accounts, and for some clients this has been challenging." says Nick Sladden, head of charities and social enterprises at Baker Tilly.

Others note difficulties posed by the new clarified international standards on auditing introduced for financial years ending on or after 15 December 2010, particularly the stringent new requirements they make for information on related-party transactions.

"Auditors are now required to obtain details of all related parties – which could mean family members of a senior manager or people or entities who are even more tenuously related – whether or not they have actually had any dealings with the charity," says Simon Erskine, charities technical partner at MHA MacIntyre Hudson. "For charity trustees used to simply providing details of their expenses each year this has been a major culture shift," he adds.

Richard Weaver, charities partner at haysmacintyre, concurs that related-party transaction requirements are "unduly onerous" and that greater clarity on precisely what type of data is required would be helpful.

While it is still early days for these measures and reasonable for there to be some 'bedding down' issues, on another matter Anthony Epton, charities partner at Goldwins, says that in light of the Charity Commission's revised guidance there are still issues to be resolved with the public benefit requirement introduced much earlier for accounting periods falling on or after 1 April 2008.

The 'big-four' players have certainly won some significant charity audits over the last year. These include: Action on Hearing Loss won by PwC from CCW, Guide Dogs for the Blind Association won by Deloitte from CCW and, more recently, Charity Projects won by KPMG from Chantrey Vellacott.

Given the time lag (of up to ten months) between the financial year-end and the filing of the annual report, not all of these changes will be reflected in the current ranking.

The large number of schools opting out of local authority control to become academies, which have the status of exempt charities, continues to expand the charity audit market. Firms active in this segment include Baker Tilly, which according to head of charities and social enterprises Nick Sladden "has won over 100 new charity audits over the last year, predominantly in the education sector", and MHA MacIntyre Hudson which, according to charities technical partner Simon Erskine, now has almost 150 academy audit clients.

Going concern

Unsurprisingly, given the current economic climate, there has been more attention paid by trustees and their auditors to the issue of going concern. "The economic situation and the double-dip recession, government spending cuts, lower investment returns and reductions in charity funding have resulted in far greater focus, by both trustees and ourselves as auditors, on the appropriateness of adopting the going-concern assumption used in the preparation of financial statements," notes Sladden at Baker Tilly.

> "The large number of schools converting to academies continues to expand the charity audit market"

"This has led to extra work, both for the charity and ourselves as auditors, with a view to making the case either that there is no significant concern, despite adverse indicators such as a deficit for the year or net current liabilities, or, if there is significant concern, why it is still appropriate to make up the accounts on a going-concern basis," adds Erskine at MHA MacIntyre Hudson.

While this has been an issue for charities across the board, it has been particularly relevant for charities that rely on public sector funding. "There are a great many reporting issues thrown up by the shift from grants to contracts, and payment by results," comments Reza Motazedi, who heads up the charities and not-for-profit group at Deloitte. "There is no longer any certainty about how much will be received and by when," he adds.

KPMG partner and head of charities, Marianne Fallon, says that "in view of the uncertainties over funding, it is vital that charities fully understand, and can cover, their cost base. With less and less unrestricted funding for charities to call on to make good funding gaps and diminishing investment income, the margins are much tighter."

Carol Rudge, head of not-for-profit at Grant Thornton, notes "a refocusing on core services and reduction or exit from peripheral activities" on the part of charities that are struggling for funds. "When resources are limited, charities are going back to basics to make sure that they fulfil their core mission," she says.

figure 3: Audit fees by charity income band

				Median £						
Income band (£m)	No. of charities	Highest fee £	Lowest fee £	This year	Last year	2009	2007	1-year change %	3-year change %	5-year change %
< 0.1	53	7,895	120	1,500	1,746	877	881	-14	71	70
0.1 – 0.25	44	7,200	174	2,622	1,763	2,437	2,590	49	8	1
0.25 – 0.5	75	15,450	300	3,888	4,000	4,000	4,442	-3	-3	-12
0.5 – 1	136	18,000	600	6,000	5,000	5,750	5,170	20	4	16
1 – 2	130	25,920	1,350	7,800	7,440	7,500	7,500	5	4	4
2 – 5	190	32,760	2,000	10,080	9,792	9,150	8,500	3	10	19
5 – 10	120	49,400	1,380	14,056	12,660	14,000	14,600	11	0	-4
10 – 25	225	73,500	2,760	21,440	20,000	21,000	20,285	7	2	6
25 – 50	127	167,600	6,000	33,000	34,000	33,250	31,500	-3	-1	5
50 – 100	58	179,000	15,000	48,000	45,000	45,500	50,000	7	5	-4
> 100	41	300,000	9,530	87,000	87,000	80,000	80,000	0	9	9

Non-audit services

For many charities, a cost-effective audit undertaken by a charity specialist that understands the sector's operating environment and reporting conventions is the core – if not frequently the only – requirement.

Even in these straitened times, however, there is still a steady demand from charities for additional services from their auditors. This year the focus is firmly on initiatives that will help with the immediate tasks of raising income and cutting costs.

"We have provided a lot of advice on trading and social enterprise, as charities seek to find new ways to generate income – along with the tax and VAT implications of these moves," says Sayer Vincent partner Kate Sayer.

"We have also undertaken a lot of reviews of the finance functions and other support functions, as organisations try to ensure that they are getting value for money from these," she adds.

Nick Brooks, who heads up the not-for-profit group at Kingston Smith, reports increased demand for the services of the firm's fundraising team which will undertake audits of charities' current fundraising activities and devise income-generation strategies.

He also observes increased demand for HR advice, particularly in the area of redundancies, outsourcing and the impact of new pension regulations, for which, he says "charities are better prepared than their corporate equivalents".

According to Framjee at CCW, the focus on non-audit work has moved away from discretionary 'nice-to-have' assignments to those that will deliver direct benefit, such as effectiveness reviews, cost-reduction programmes and restructuring initiatives, so that charities can justify the investment required.

Jandy Stevenson, who leads the charities team at Henderson Loggie, notes an increased focus on tax efficiency, as charities seek "general tax and VAT advice to ensure they pay no more than they should. Where the charity has restructured, our advice can help to ensure tax does not become payable on the new set-up."

While corporation tax and VAT are the obvious areas, there are other areas of tax affecting charities. One pointed out by Bawtree at BDO is "the Community Infrastructure Levy, from which charities can claim complete relief, though they are not always as aware of this as they should be", he says.

Weaver at haysmacintyre points to the sometimes defensive nature of non-audit advice sought, as charities seek to ensure compliance with regulatory requirements. "Non-audit services have tended to be advice to prevent challenges from HMRC in key areas such as self-employed status or VAT recovery, rather than consultancy services," he says.

Similarly, Bawtree notes "a sharper focus on compliance with gift aid rules" following the recent HMRC clampdown on fraudulent and non-compliant gift aid claims.

figure 4: How was your auditor chosen? (% respondents)

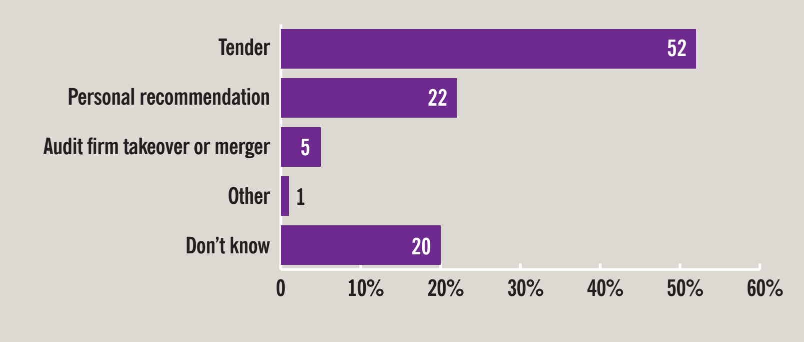


figure 5: What factors were important when choosing your auditor? (% respondents)

figure 6: Do you have any of the following problems with your auditor?

Audit firm	No. of charities responding	No. of problems reported	Poor understanding of own charity	Poor understanding of charity sector	Fees too high	Lack of technical competence	Staff changes	Slow to deliver	Poor liaison	Lack of access to partner	Lack of access to manager	Other
Baker Tilly	38	21	3	1	4	1	4	3	2	0	0	3
Barber Harrison & Platt	8	3	0	0	3	0	0	0	0	0	0	0
BDO	15	0	0	0	0	0	0	0	0	0	0	0
Bishop Fleming	13	8	1	0	1	1	0	3	1	0	0	1
Broomfield & Alexander	12	1	1	0	0	0	0	0	0	0	0	0
Buzzacott	11	6	1	0	2	0	1	0	1	0	0	1
Chantrey Vellacott	19	6	1	0	2	0	3	0	0	0	0	0
Chiene and Tait	3	0	0	0	0	0	0	0	0	0	0	0
Clement Keys	2	3	1	0	1	0	0	1	0	0	0	0
Critchleys	11	2	0	0	1	0	1	0	0	0	0	0
Crowe Clarke Whitehill	60	32	1	1	9	0	8	5	4	2	1	1
Goldwins	17	1	0	0	1	0	0	0	0	0	0	0
Grant Thornton	9	7	1	0	2	1	1	1	1	0	0	0
Griffin Stone Moscrop	11	0	0	0	0	0	0	0	0	0	0	0
HW Fisher	74	12	0	0	4	0	6	2	0	0	0	0
Hawsons	2	1	0	0	0	0	1	0	0	0	0	0
haysmacintyre	95	7	1	0	0	0	1	1	1	1	0	2
James Cowper	7	1	0	0	1	0	0	0	0	0	0	0
Kingston Smith	70	38	3	0	9	2	9	3	4	2	1	5
Knox Cropper	2	3	0	1	1	0	0	0	0	0	0	1
KPMG	15	17	1	2	3	1	4	2	1	2	1	0
Larking Gowen	37	6	0	0	3	0	2	1	0	0	0	0
Larkings	11	3	0	0	1	1	1	0	0	0	0	0
Littlejohn	6	1	0	0	1	0	0	0	0	0	0	0
Lovewell Blake	2	0	0	0	0	0	0	0	0	0	0	0
Lubbock Fine	5	2	0	0	2	0	0	0	0	0	0	0
MHA MacIntyre Hudson	48	20	1	0	5	1	4	4	4	0	1	0
Mazars	14	2	0	0	1	0	1	0	0	0	0	0
Nexia Smith & Williamson	5	1	0	0	1	0	0	0	0	0	0	0
Peters Elworthy & Moore	12	4	1	1	1	1	0	0	0	0	0	0
PKF	7	4	0	0	2	0	1	0	0	0	0	1
Price Bailey	11	2	0	0	1	0	0	0	1	0	0	0
PricewaterhouseCoopers	6	5	0	0	2	0	1	1	0	0	0	1
Princecroft Willis	5	0	0	0	0	0	0	0	0	0	0	0
RSM Tenon	9	1	0	0	0	0	1	0	0	0	0	0
Russell New	18	1	0	0	1	0	0	0	0	0	0	0
Sayer Vincent	77	12	0	0	8	0	2	0	0	0	0	2
Scott-Moncrieff	21	4	0	0	2	0	2	0	0	0	0	0
Slade & Cooper	8	0	0	0	0	0	0	0	0	0	0	0
Wilkins Kennedy	4	0	0	0	0	0	0	0	0	0	0	0
Other firms	72	43	3	4	4	3	2	12	5	2	3	5
Total	872	280	20	10	79	12	56	39	25	9	7	23

figure 7: Satisfaction – how do you rate your auditor on the following? (% of respondents)

	Charity expertise			Commitment to the voluntary sector			Overall service			Total responses
Audit firm	Good	Average	Poor	Good	Average	Poor	Good	Average	Poor	
Baker Tilly	95	5	0	95	5	0	86	14	0	38
Barber Harrison & Platt	100	0	0	100	0	0	100	0	0	8
BDO	100	0	0	100	0	0	100	0	0	15
Bishop Fleming	92	8	0	85	15	0	75	25	0	13
Broomfield & Alexander	100	0	0	100	0	0	100	0	0	12
Buzzacott	100	0	0	100	0	0	73	27	0	11
Chantrey Vellacott	95	5	0	89	11	0	95	5	0	19
Chiene and Tait	100	0	0	100	0	0	100	0	0	3
Clement Keys	50	50	0	50	50	0	0	100	0	2
Critchleys	91	9	0	91	9	0	100	0	0	11
Crowe Clark Whitehill	98	2	0	95	5	0	92	8	0	60
Goldwins	100	0	0	100	0	0	100	0	0	17
Grant Thornton	78	22	0	67	33	0	78	11	11	9
Griffin Stone Moscrop	91	9	0	91	9	0	100	0	0	11
HW Fisher	97	3	0	96	4	0	91	9	0	74
Hawsons	50	50	0	50	50	0	50	50	0	2
haysmacintyre	99	1	0	97	3	0	96	3	1	95
James Cowper	100	0	0	100	0	0	100	0	0	7
Kingston Smith	90	10	0	93	6	1	82	13	5	70
Knox Cropper	0	100	0	0	0	100	0	0	100	2
KPMG	87	13	0	87	0	13	87	7	6	15
Larking Gowen	83	17	0	81	19	0	92	8	0	37
Larkings	100	0	0	100	0	0	100	0	0	11
Littlejohn	100	0	0	100	0	0	100	0	0	6
Lovewell Blake	50	50	0	100	0	0	100	0	0	2
Lubbock Fine	100	0	0	80	20	0	100	0	0	5
MHA MacIntyre Hudson	96	4	0	89	11	0	89	9	2	48
Mazars	93	7	0	93	7	0	93	7	0	14
Nexia Smith & Williamson	67	33	0	67	33	0	100	0	0	5
Peters Elworthy & Moore	82	9	9	82	18	0	82	18	0	12
PKF	100	0	0	100	0	0	100	0	0	7
Price Bailey	100	0	0	82	18	0	91	9	0	11
PricewaterhouseCoopers	100	0	0	100	0	0	83	17	0	6
Princecroft Willis	100	0	0	75	25	0	100	0	0	5
RSM Tenon	100	0	0	100	0	0	100	0	0	9
Russell New	100	0	0	100	0	0	89	11	0	18
Sayer Vincent	99	1	0	99	1	0	94	6	0	77
Scott Moncrieff	100	0	0	100	0	0	95	5	0	21
Slade & Cooper	100	0	0	100	0	0	100	0	0	8
Wilkins Kennedy	75	25	0	75	25	0	100	0	0	4
Other firms	69	30	1	63	33	4	70	29	1	72
Total	93	7	0	91	8	1	90	9	1	872

The urge to merge?

The state of the economy and the challenges it poses provide a compelling rationale for more mergers and collaborative-working arrangements in the charity sector.

While there is plenty of evidence of the latter, the incidence of the former is much lower than many would expect.

"There is not as much activity on the merger front as one might have reasonably anticipated," says Mathieson at PKF. "There is certainly more collaborative working these days, but the sector has always been known for being innovative and working in partnership," he observes.

"Surprisingly, mergers are still not occurring at the rate we thought they would, given the nature of the economy," adds Weaver at haysmacintyre.

> "Mergers are still not occurring at the rate we thought they would, given the nature of the economy"

There are plenty of examples of charities working collaboratively on joint funding bids, sharing back-office facilities such as IT, finance and procurement, as well as income-generating activities such as fundraising.

As Stevenson at Henderson Loggie points out, collaboration is frequently "driven by funding arrangements. Where the remit is beyond the objectives of the charity, or the charity is not large enough to deliver the full contract, partnership arrangements are required," she says.

"It is important for charities to understand the risks and rewards around partnership arrangements and they should seek advice before they enter any contracts," she adds.

There will be particular issues for charities collaborating with commercial organisations in cross-sectoral alliances, says KPMG's Fallon. "They will need to square with their own mission the fact that their involvement will be contributing to their partner's profits," she says.

Charity auditor awards 2012

With around 90 per cent of respondents rating as good the charity expertise, commitment to the voluntary sector and overall service levels provided by their auditors, the charities surveyed enjoy a high level of satisfaction with the audit services they receive.

Nonetheless we have tried to identify firms worthy of special mention based on the ratings they have received and the number of clients rating them, on the basis that the larger the sample gets, the harder it is to maintain a consistently high rating. For this reason, firms with less than ten clients rating them have been excluded from the rankings.

Overall service (30-plus responses)

1	haysmacintyre
2	Sayer Vincent
3	Larking Gowen
4	Crowe Clark Whitehill
5	HW Fisher

Charity expertise (30-plus responses)

=1	haysmacintyre
=1	Sayer Vincent
3	Crowe Clark Whitehill
4	HW Fisher
5	MHA MacIntyre Hudson

Overall service (10-30 responses)

1	Goldwins
2	BDO
=3	Broomfield & Alexander
=3	Griffin Stone Moscrop
5	Critchleys

Charity expertise (10-30 responses)

1	Scott-Moncrieff
=2	BDO
=2	Goldwins
=2	Russell New
5	Broomfield & Alexander

On the horizon

The publication of the new accounting standard FRS 102, based on International Accounting Standards, is imminent.

This will form the basis of UK Generally Accepted Accounting Practice (UK GAAP) and will apply to financial years commencing on or after 1 January 2015, with a requirement for comparable figures for the preceding year.

A consultation draft of the new charities Sorp is then expected to be published in late summer 2013.

Charities' fears over the adoption of International Financial Reporting Standards (IFRS), and their applicability to non-profit-making organisations, have been largely dispelled by the exposure draft of FRS 102 which incorporates guidance on the application of the proposals to public benefit entities. "This has provided greater clarity on the likely impact of convergence from UK GAAP to IFRS-based accounting principles on the sector," says Hazell at PwC.

Nonetheless, there are still "key areas of change that charities should be aware of", she cautions. These include: "treatment of gifts received; recognition of holiday-pay accruals; recognition of liabilities relating to multi-employer pension schemes; accounting for financial instruments; classification and treatment of property assets, including investment properties; presentation and disclosure of financial statements; and group accounting, including business combinations, mergers and joint ventures".

Arguably one of the most controversial issues is the proposed disclosure of liabilities relating to multi-employer pension schemes, just as charities that run their own defined-benefit schemes do now under FRS 17.

Making sure that stakeholders understand what the figures relating to pension deficits actually mean in practice will be a key challenge, warns Mathieson at PKF: "Getting the message across clearly in the annual accounts about the sensitivity of any deficit to small changes in assumptions; the fact that it is not an immediate outflow of cash; and its impact on reserves; will be important, so that stakeholders fully understand the situation."

Compliance with the new reporting requirements will undoubtedly be a primary objective of charity trustees as they compile their annual reports. They should not, however, lose sight of the need to communicate effectively to their core stakeholders what it all means in terms of the services provided to beneficiaries.

"As charities compete for decreasing resources, telling the story in a way that engages and encourages supporters and demonstrates impact is vital," says Motazedi at Deloitte. ■

Diane Sim is a research analyst at Charity Finance