

Buzzacott

## Charity accounts for non-accountants

6 May 2021

10:30am – 11:45am

## Agenda

- Introduction; Amanda Francis
- Trustees' report: Amanda Francis
- Accounting considerations: Gumayel Miah
- Audit issues: Eddie Finch
- Q&A; Chaired by Amanda Francis

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Trustees' report

Amanda Francis

## Trustees' report

- The need to demonstrate sound governance
- The need for transparency and focus on the impact the charity's work has had on stakeholders
- An opportunity to “tell your story” by using narrative, photographs, case studies and statistics
- What has been the impact of COVID-19 on the charity?
- Timescale – short and medium term (at least 12 months from the date of approving accounts and (ideally) longer)

## COVID-19 – 2020/2021: A time for reflection

- What has been the effect of COVID-19 on the charity and its work?
- Will there be long term implications for work and strategy? i.e. has COVID-19 changed the charity's thinking about what "normal" will look like in the years ahead?
- Try to include:
  - Introduction
  - Operational impact
  - Financial impact
  - The future implications for your charity. Out of adversity often comes opportunity.
- Link to other sections of the report

## Operational impact

- Impact on demand and delivery of the charity's work – now and in the future
- Effect on staff, members and volunteers
- Impact on beneficiaries
- Impact on finances
- Impact on fundraising and on funders

Refer to the impact, steps being taken to address uncertainties (operational and financial), how the situation is being managed and what the future implications for the charity may be

Reflecting on the future:

- Property and infrastructure
- Working patterns
- A new way of delivering services, a new focus and/or opportunities
- Future investment and new/different risks

## Example

The worldwide effects of the spread of COVID-19 have been wide-ranging globally with long term damage likely to both the economy of the UK and most countries across the globe. The closure of schools from 23 March 2020 and then again at the start of 2021 had serious implications for independent schools dependent on fee income.

ABC School adapted swiftly and well to a virtual learning environment. The full timetable being taught using the 'Zoom' software or 'Microsoft Teams'. Students adapted to this by logging in from all over the world. In addition to the lessons and worksheets the School continued to ensure the wider school experience was catered for in terms of pastoral care offered through daily form time, regular contact available with teachers and the extended curriculum being offered where possible. Safeguarding was of paramount importance and students were able to be in regular contact with the designated Safeguarding Lead, and all staff continued to use our existing web-based systems for recording concerns. The Headteacher regularly updated the parents through her weekly newsletters and parents could contact staff via email or by telephoning the School, where phones were monitored. Keyworker children were catered for in school and staff that could work from home were encouraged to do so.

## Financial impact

- Income levels
- Expenditure and costs
- Assets and liabilities – investments (income and valuation), property values and strategy, recovery of debts, repayment of monies received in advance, contractual liabilities
- Cash flow
- Future commitments and investment and designated funds
- The overall financial sustainability and going concern of the charity

## Example

The governors took the decisions to support parents as follows:

- Fees (less any discounts) for the Summer Term 2020 were discounted at 10% for the term. This was to cover cost savings created by physical closure, such as catering. The resulting loss of income was £176,318.
- Boarding students have been charged day fees, less the 10% for the summer term. The termly cost equates to £136,017.
- Bus fees and wrap around care were not charged for the summer term. The termly loss in income equates to £76,639.
- Nursery parents were not charged for the Summer Term. The termly loss in income equates to around £15,901.
- Deferred payment plans were set up to support parents struggling to meet the demands of fees, affected by redundancy or furlough.
- Fees were not be increased in September 2020 as planned and remain the same for the financial year 2020/21.
- Staff salary scales were not be increased for the financial year 2020/21.

The financial impact on the School has been significant in the 2019/20 financial year. Overseas boarding numbers for 2020-21 are reduced due to travel restrictions and lack of confidence of international parents of the UK controlling the virus. International interest in the School had been growing prior to this pandemic and the School is confident of growth in this area going forward.

With the continuing effect of the global pandemic in January 2021 the Government took the decision to close schools again for the first half of the Lent Term. The governors have taken the decision to support parents during the 2020-21 financial year as follows:

- Fees (less any discounts) for the first half of the Lent Term 2021 have been discounted at 10% for the half term. This was, as before, to cover cost savings created by physical closure, such as catering. This loss in income will cost £81,203.
- Boarding students who remain at home will be charged day fees, less the 10% for the first half of the Lent term. This loss in boarding income equates to £51,398.
- Any full International boarders who had to be accommodated in school continue to pay full boarding fees.
- Any vulnerable children or children of critical workers, who choose to attend school will pay full normal fees.
- Nursery children will continue to pay fees as normal and appropriate funding has been applied for.
- There will be no charge for school buses for the first half of term as bus routes will not be running. Loss in income for school buses is £29,088.

## Other sections that may need to refer to COVID-19

- Reserves policy
- Risk management
- Future plans

## Example

The risks identified in the risk register include three identified risk sections which relate to the current crisis and itemised below are the specific mitigation lengths ABC School is taking as follows:

- *A loss of income due to decline in pupil numbers.* This is mitigated by ensuring we achieve excellence in all areas in a virtual environment; to include the provision of a high level of pastoral care; safeguarding support and monitoring, continuing to achieve excellent examination results through the assessing and fair grading of GCSEs and A Levels; the implementation of a co-curriculum programme as far as possible; marketing is effective and stepped up as appropriate; developing links being put into place with our global community, to encourage boarders and ensuring regular communication and satisfaction where possible with existing parents. Support for parents to assist their cash flow is being put into place where necessary.
- *Changes in Government policies and regulatory compliance.* This is mitigated by monitoring advice given by bodies such as ISA, GSA, BSA and ISBA during the crisis and reviewing information given daily by Government. The Coronavirus Job Retention Scheme has been utilised. Staffing levels are continually monitored and are considered appropriate; ensuring appropriate staff training is in place to handle this crisis.
- *Sudden changes in unavoidable costs.* These costs have occurred by the Government enforcing physical closure. The Executive Team has mitigated this by reducing staffing where possible and closing catering facilities. Re-organisation of the model is currently under review to include staff redundancies and reduction along with improving efficiencies of systems.

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Accounting considerations

Gumayel Miah

## Accounting considerations stemming from the activities of the charity

Issue	Considerations
Cancellation/postponement of events, courses, and other in-person services	<ul style="list-style-type: none"> <li>Income ordinarily recognised in the period when service delivered</li> <li>If postponed/delayed until after year-end, hold any cash received in advance as a creditor</li> <li>If fee payer is happy to forgo refund of cancelled event, treat cash received as a donation</li> </ul>
Project/research funding which can no longer be used	<ul style="list-style-type: none"> <li>Funding for specific projects typically reported as “restricted” income</li> <li>Project may no longer be feasible due to changes in circumstances</li> <li>Funding may need to be returned if donor does not allow alternative use</li> </ul>
Withdrawal of grant awards by grant making charity	<ul style="list-style-type: none"> <li>Grant recipient may no longer be able to apply the funding as intended (reverse of the above)</li> <li>Grant maker should consider whether the award is withdrawn</li> <li>Where withdrawn, any commitment is removed and grant expenditure reduced</li> </ul>
Curtailement of charity shop activity due to COVID-19 lockdown	<ul style="list-style-type: none"> <li>Consideration to be given relating to write down of slow moving or obsolete stock</li> <li>Value of rates reduction should be left as a reduction to expenditure, not additional income</li> </ul>

## Accounting considerations stemming from changes in the external environment

Issue	Considerations
Investment properties and value estimates	<ul style="list-style-type: none"> <li>• Investment properties ordinarily carried at market value at balance sheet date</li> <li>• RICS have lifted original recommendation to caveat valuations with “material uncertainty” clause</li> <li>• Trustees should make their own assessment of likelihood of change in property value</li> <li>• Rent waivers to commercial tenants – is this in the best interests of the charity?</li> </ul>
Possible impairment of functional fixed assets	<ul style="list-style-type: none"> <li>• Asset value may need to be written down if impaired (value on balance sheet &gt; recoverable amount)</li> <li>• Recoverable amount = higher of ‘market value’ and ‘value in use’/‘service potential’</li> <li>• Service potential may be reduced if, for example, level of activity/use of asset permanently reduced</li> </ul>
Debtor recoverability risk	<ul style="list-style-type: none"> <li>• Greater chance of debtors falling into financial difficulty due to pandemic</li> <li>• If debt is unlikely to be recovered, a provision (to reduce the gross debt value) should be made</li> </ul>
Increase in holiday pay accrual	<ul style="list-style-type: none"> <li>• More employees have been carrying forward unused holiday entitlement where allowed</li> <li>• In these cases, the employer should accrue the value of the unused entitlement at year-end</li> </ul>

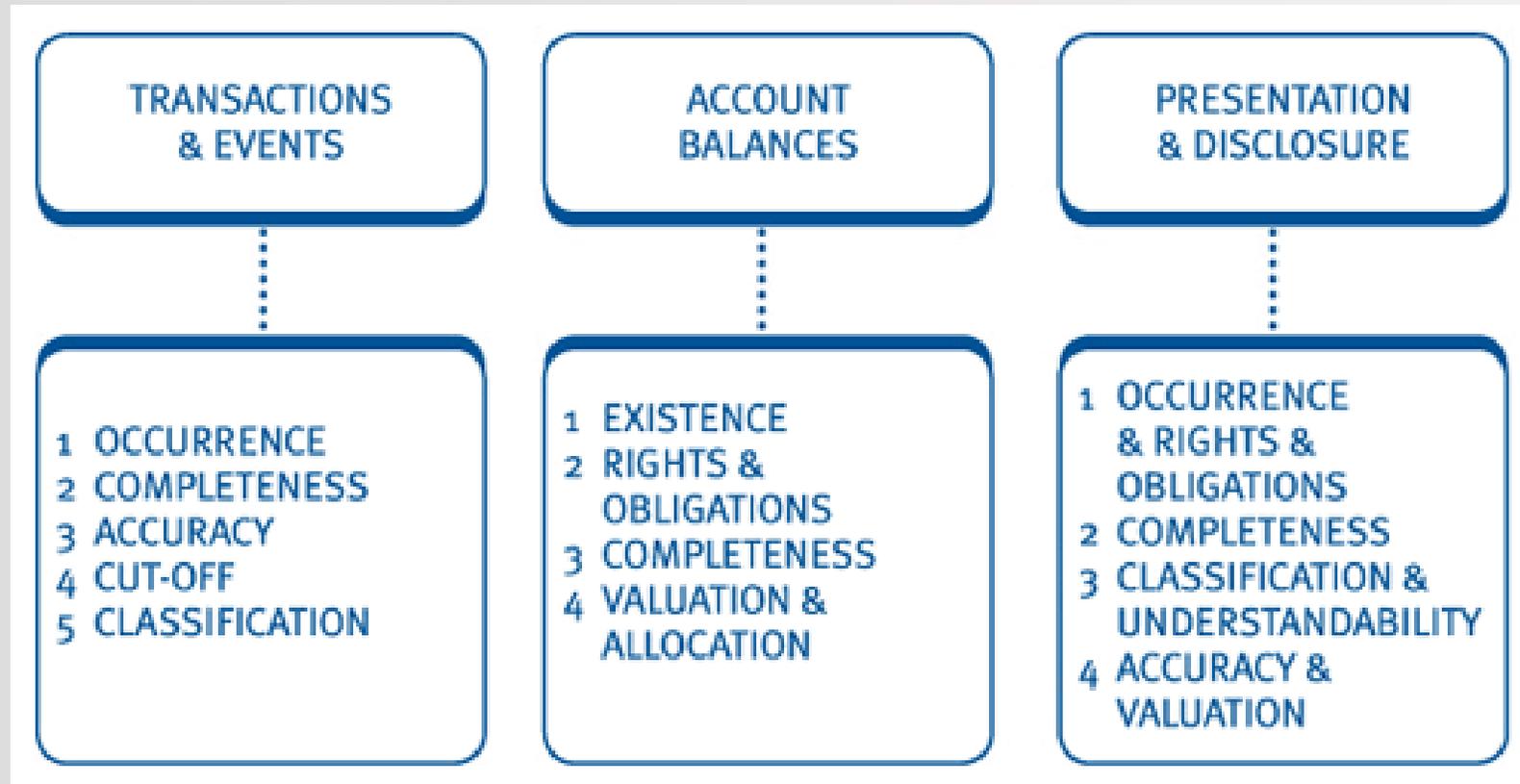
## Accounting considerations relating to external financial support

Issue	Considerations
Coronavirus Job Retention Scheme	<ul style="list-style-type: none"> <li>Income generally received in the same period as when the employee was on furlough</li> <li>Amounts recovered should be reported as income and not offset against staff costs</li> <li>Should be considered as unrestricted income given the terms of the scheme</li> </ul>
External debt finance (including Bounce Back Loan Scheme)	<ul style="list-style-type: none"> <li>Liability needs to be split between amounts payable within a year, and amounts due after a year</li> <li>Accounts disclosure should provide narrative explaining key terms of the facility made available</li> </ul>
Temporary rent concessions	<ul style="list-style-type: none"> <li>Rent deferrals – report full rent in period of occupancy, but recognise liability for amounts owed</li> <li>Temporary rent reductions - report as a reduction in expenditure in the period of reduced rent</li> <li>Rent free period as a lease incentive - spread evenly over the lease term</li> </ul>
Grant funding from third parties	<ul style="list-style-type: none"> <li>Terms of grant funding to be understood to help determine correct classification</li> </ul>

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Audit issues

Eddie Finch



## A year later in audit

- Remote working works very well for some parts of the audit but not all:
  - Access to underlying paperwork – particularly for testing completeness, e.g.:
    - Booking records
    - Takings summaries
    - Correspondence files
    - Large contracts etc.
  - Stock take timing
  - Fixed assets
  - Access to staff
    - Updates with finance team during audit
    - Access to operational teams/management
    - Impact of furlough
- Flexibility of timing and approach
- Comparability issues => more explanation required

## Going concern

### Interpreting the term "going concern" in this ISA (UK)

The financial reporting frameworks applicable in the UK generally require the adoption of the **going concern basis of accounting** in financial statements, except in circumstances where management intends to liquidate the entity or to cease trading, or has no realistic alternative to liquidation or cessation of operations. In effect, an entity that does not meet the threshold for that exception is described as a **going concern**. This requirement applies even when there are uncertainties about events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern in the future. Such uncertainties are required to be disclosed in the financial statements when they are material.

The term **going concern assumption** is the defining assumption about the condition of an entity for which adoption of the going concern basis of accounting is appropriate: that the entity is, and will be able to continue as, a going concern. Accordingly, as used in this ISA (UK):

- A. The term "going concern" applies to any entity unless its management intends to liquidate the entity or to cease trading, or has no realistic alternative to liquidation or cessation of operations; and
- B. The term "ability to continue as a going concern" is equivalent to the term "ability to continue to adopt the going concern basis of accounting" in the future.

## Going concern

- The bar for adopting going concern is **very low**
- **But** there is greater general uncertainty
- There is more likely to be a requirement to disclose “events or conditions that may cast significant doubt...”
- It is more likely that the audit report will draw attention to these
- Preparing an appropriately detailed financial forecast or projection with:
  - Clearly documented assumptions;
  - References to external and internal data sources; and
  - Sensitivity analysis and (reverse) stress testingwill help management prepare a supporting paper for concluding on going concern.
- This should always be **proportionate to the risk** relating to going concern and may be quite light touch if reserves are high, income and expenditure predictable and/or manageable.
- Revised requirements (revision of International Standard on Auditing (ISA) (UK) 570 Going Concern)
  - Greater documentation of charity’s risk assessment and monitoring controls
  - Challenge of data sources and methodologies behind forecasts etc.
  - Management (and trustees) to document information considered in reaching going concern conclusions
- BUT – a positively framed audit opinion...

## Other audit changes

- Revised ISA (UK) 540 Auditing accounting estimates and related disclosures
- Greater auditor documentation – from planning through to sign off
  - Risk of material misstatement arising from estimates
  - Complexity and subjectivity of the estimates
  - Challenge of data sources and methodologies behind estimates
- Very similar changes to those in ISA 570 – to minimise additional audit resource:
  - Document basis of assumption including methodology and data sources
  - Demonstrate alignment with accounting standards etc.
  - Provide summaries of key estimates to trustees (and auditors) at the outset
- Where the auditor assists with accounts preparation, they can help point to appropriate methodologies but cannot choose the methodology or the data and assumptions to be used.
- Revised ISA (UK) 700 Forming an opinion and reporting on financial statements
- Additional requirement to explain to what extent the audit was considered capable of detecting irregularities, including fraud:
  - “Bespoke” requirement – no boilerplate encouraged
  - Includes “routine” processes such as testing controls as well as broader consideration of regulatory compliance
  - May include caution regarding collusive fraud and regulations distant from financial management and reporting

# Q&A

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Thank you for attending

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