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Addressing the impact of COVID-19 on financial reporting for charity and not-for-profit organisations

8 June 2020
4:00pm – 5:00pm

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Agenda

- Introduction and housekeeping; Katharine Patel
- Overall planning and preparation; Katharine Patel
- Trustees' Report; Amanda Francis
- Accounting implications; Shachi Blakemore
- Audit implications; Edward Finch
- Q&A; Chaired by Katharine Patel

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Overall planning and preparation

Katharine Patel

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Unprecedented times

- Impact on charitable delivery
- Impact on governance, including finances
- Uncertainties and risks
- Financial planning and forecasting, including cash flow forecasts
- Remote working and financial controls
- Audit and access to supporting documentation

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Financial reporting and audit

- Charities SORP Committee: “Implications of COVID-19 control measures and charity financial reporting”
- Advisory, not mandatory
- Financial statements – where not yet approved
  - Level of information to be included to explain the impact of COVID-19 on the charity
  - Trustees’ report
  - Changes needed to the accounts?
  - Income, expenditure, commitments, valuations of assets and liabilities
  - Risk to the charity’s financial sustainability? Going concern impact?
- Transparency and clarity
- Extensions for filing accounts available
- Audit considerations and additional regulatory guidance for auditors

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Trustees' Report

Amanda Francis

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Trustees' report

- The need to demonstrate sound governance
- The need for transparency and the impact on the charity. The effect on the charity will have implications for the its income, expenditure and the value of assets and liabilities i.e. its financial position and sustainability
- Timescale - short and medium term (at least 12 months from date of approving accounts and (ideally) longer)

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What needs to be included in a trustees' report re COVID-19?

- A section specifically on COVID-19
  - Introduction
  - Operational impact
  - Financial impact
- Link to other sections of the report

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Operational impact

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

Refer to the impact , steps being taken to address uncertainties and how the situation is being managed.

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Example

The current 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 March 23rd 2020 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 CPOMS 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 are monitored. Keyworker children were catered for in school and staff that could work from home were encouraged to do so.

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Financial impact

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

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Example

The Trustees and Governors took the decisions to support parents as follows:

Fees (less any discounts) for the Summer Term will be discounted at 10% for the term, irrespective of when the school may physically reopen. This is to cover cost savings created by physical closure, such as catering. This loss in income will cost £xxx,xxx.

Boarding students have been charged day fees, less the 10% for the summer term. Should the School open during the term this will be pro-rata. The termly cost equates to £xxx,xxx.

Bus fees and wrap around care are not to be charged for the summer term. The termly loss in income equates to £xxx,xxx.

Nursery parents will not be charged for the Summer Term. The termly loss in income equates to around £xxx,xxx.

Deferred payment plans will be set up to support parents struggling to meet the demands of fees, affected by redundancy or Furlough.

Fees will not be increased in September 2020 as planned, but the decision over fee levels will be agreed by the end of the Summer Term 2020, in relation to any increase from January 2021 onwards. This is due to the need to give parents a term's notice of any increase.

Staff salary scales will not be increased as planned until the Lent Term 2021, in line with any fee increase.

The financial impact on the School will be significant in relation to the 2019-2020 financial year. Total loss in income is estimated at £xxx,xxx for the financial year 2019-20, with the added likelihood that the summer school will not proceed, losing a further £xxx,xxx of planned budgeted income.

The savings created by the physical closure relate to certain costs such as externally provided catering at approximately £xxx,xxx and school bus routes at £xxx,xxx. These costs along with the Furlough reclaim and salary savings will bring a total saving of £xxx,xxx to be offset against the loss in income. The overall effect of the 2019-2020 year, assuming the summer school cancels, is likely to be cost in the region of £xxx,xxx

The cash flow position of ABC School continues to be a significant concern as parents become unable to meet payment due dates and need support with a delayed payment programme.

The financial impact for the School from September 2020 is dependent on travel restrictions, imposed, social distancing measures in place and continued physical school closures. Pupil numbers from September will be affected by parental loss in income or financial concerns, which could in turn lead to a downward trend on school roll. An internal review has been carried out on likely numbers for September, which is currently estimated at xxx (2019-2020:xxx). The required notice date has lapsed, however, there are concerns that the overseas boarders may not be able to return due to border control restrictions. A financial review of the approved budget for 2020-21 has been carried out using xxx pupils, xxx of which are boarders, with xxx of these being from Overseas. The overall effect shows a loss position of £xxxK for the year; assuming the Autumn Term 2020 fees being maintained at the existing level, the drop in numbers of xxx and salaries scales being frozen. The Executive Team are considering how to mitigate these losses and are reviewing an appropriate model going forward.

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Other sections that may need to refer to COVID-19

- Reserves policy
- Risk management
- Future plans

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Example

The risks identified in the risk register (on page 11) 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 Congregation's Global community in aaa and bbb, 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 have mitigated this by reducing staffing where possible and closing catering facilities. Re-organisation of the model is currently under review from September 2020 to include consideration of staff redundancies and reduction.

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Accounting implications

Shachi Blakemore

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Potentially adjusting items

- Accounting implications – will depend on year end
  - For adjusting events, conditions need to exist at the year end
- Recognition criteria for income and expenditure, accruals accounting remains the same
- Accounting estimates and judgements
  - Debtor provision
  - Legacy income recognition
  - Holiday pay accrual
- Other considerations
  - Sunk costs
  - Grant commitments
  - Furloughed staff grant

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Assets and liabilities

- Impairment of fixed assets
- Investment properties
- Listed investments
- Bank loan covenants

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Audit implications

Edward Finch

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Is the timetable still achievable?

- Are you able to deliver Have you got access to accounting data for all locations – including supporting paperwork?
- Will the Trustees' Annual Report be drafted – who by?
- Furlough - are there sufficient finance staff still working to deliver BAU and year end?
- Will all third parties provide data in time?

- Consider filing extension (all regulators)
- Governance considerations

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Audit assertions

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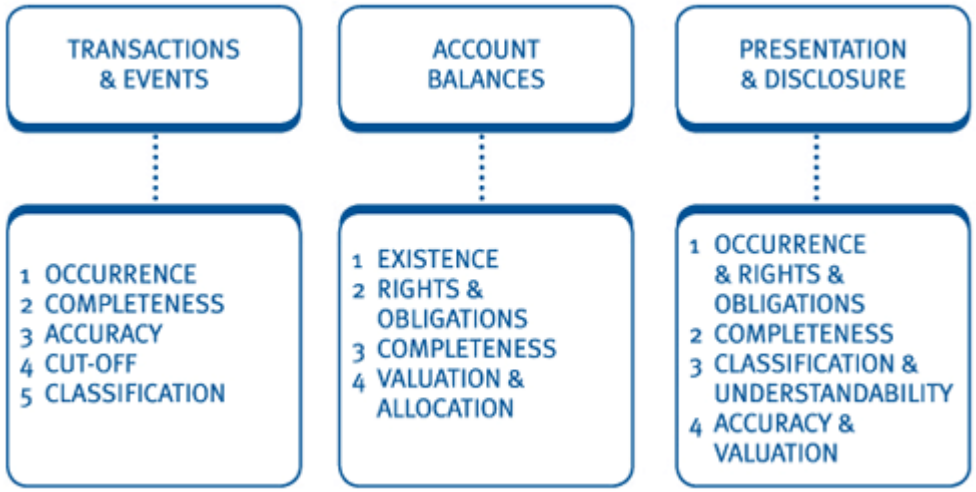
Auditor practicalities

- Can you provide remote access to systems?
- Access to underlying paperwork – particularly for testing completeness, eg:
  - 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
- Post balance sheet information – greater focus
- Flexibility of timing and approach



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Going Concern

- The bar for adopting going concern is very low
- But there will be greater 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

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.

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Going concern

- Most common conclusions
  - Going concern appropriate with no significant uncertainty
  - Going concern appropriate with significant uncertainty but not material
  - Material uncertainty related to going concern
- Impact on audit report
  - Report unmodified
  - Emphasis of matter
  - Material uncertainty related to going concern
- Conclusion that going concern (or other basis) inappropriate would be very rare

- In any event disclosure should include
  - Conclusion on basis of preparation
  - Basis for conclusion (key assumptions and judgements)
  - Extent of uncertainty or reasons for believing not significant
- Audit evidence (not changed but reacting to general uncertainty)
  - Forecasts and other documentation incorporating impact of Covid-19 controls etc (revised if needed)
  - For at least one year from date of approval
  - Evidence of board level consideration
- This is good preparation for next year
  - Revised ISA 570
  - Addressed at planning
  - Requires signed off board level assessment
  - And more in depth challenge
  - But leads to a positive opinion…

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Q&A

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Get in touch

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Thank you for attending