



# Charity Sector

## Specialist Charity Accountants

Newsletter

Spring 2015



[www.hawsons.co.uk](http://www.hawsons.co.uk)

### Introduction

Welcome to our first charity newsletter of 2015.

From an accounting perspective, the sector has been left relatively untouched compared to many other sectors in recent years. However, the new FRS102 framework has arrived at last and brought with it two new charity Statements of Recommended Practice (SORPs). Exciting times indeed!

In this issue we look at some of the key changes arising from these recently announced SORPs, as well as looking at the forthcoming increase in audit thresholds for charities. In addition, we consider the impact of fraud in the sector and move on to discuss the ever-increasing importance of data security.

We hope you enjoy this edition of our newsletter and, as always, please get in touch if you would like any further information.



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### Hawsons are specialist charity accountants

At Hawsons we recognise that not-for-profit organisations have very different requirements from other businesses and are currently exposed to a challenging economic climate. Our dedicated team fully understands the complex, ever-changing regulatory requirements of the charity and not-for-profit sector. Given the additional pressures on fundraising, complex tax regimes, internal risk exposure and stakeholder demands, it has never been more important to obtain specialist professional advice.

Our specialist team acts for a large number of charitable and not-for-profit organisations across each of our Sheffield, Doncaster and Northampton offices. For more information on our charity and not-for-profit expertise, including the services we offer and our experience, please visit:

[www.hawsons.co.uk/charities](http://www.hawsons.co.uk/charities)



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# Fraud: The Price, Detection and Prevention

Fraud costs the UK charity sector £1.65bn per annum, with almost 1 in 10 charities with income of more than £100,000 reporting fraud

No sectors are immune to fraud and the charity sector is no different.

In fact, charities can sometimes be seen as soft targets. Reasons for this include:

- To a certain degree, many charities still rely on cash-based fundraising and have fluctuating income streams, which can make it easier to conceal a fraud as financial trends become more difficult to track year on year.
- The lack of sophistication of internal controls, often due to a reliance on a small number of people and continuing funding pressures which can make it hard to monitor finance.
- As charities have a high level of public trust and confidence, fraudsters know that the association with a charity name/logo can give credibility.
- As there is a strong trust on the goodwill of staff and volunteers, the warning signs of internal fraud can sometimes be overlooked.
- Charity fraud and the growth of the internet also remain a key concern regarding vulnerability online.

## Types of fraud

There are various frauds to which charities are potentially vulnerable. These can be categorised as either internal (involving only people within the charity) or external (in which at least some part of the fraud is committed outside of the charity).

## The price of fraud

Charities that fall victim to fraud not only face financial losses, but also suffer potential prolonged damage to their reputation and levels of public trust and confidence.

## Latest statistics estimate

- Global average loss to charities per year through fraud is 5.47% of income
- Fraud costs the UK charity sector £1.65bn per annum
- Almost 1 in 10 charities with income of more than £100,000 reported fraud
- 70.7% of victims experienced fraud externally – 31.3% experienced fraud internally (some experienced both)

A recent report, co-authored by the Centre for Counter Fraud Studies and BDO, estimated that improved counter-fraud measures could reduce the cost of UK charity fraud by up to 40%.

## How can we prevent fraud?

It is important charities introduce measures to help prevent and detect fraud. One of the best steps a charity can take is to develop a clear plan of what to do when there is a suspected/confirmed fraud. This should include a formal anti-fraud policy, a confidential whistleblowing policy and a pre-planned procedure to follow.

It is important charities introduce measures to help prevent and detect fraud. These measures should be as transparent as possible.

**“Just because you have not been a victim of fraud – do not assume that you won’t be”**

Some basic measures include:

- Keep records of alleged and confirmed fraud.
- Introduce (and issue to all staff) a formal anti-fraud policy. Ensure these policies are kept up to date as fraudulent threats evolve over time.
- Introduce and encourage a whistleblowing policy.
- Implement robust financial controls.
- Implement a robust recruitment system.
- Increase internal awareness.

For more information and details on the measures your charity can implement to mitigate vulnerability to fraud, including how to increase internal awareness, overcoming identity and online fraud and the trustees’ responsibilities, please visit our website.

[www.hawsons.co.uk/charities](http://www.hawsons.co.uk/charities)

# A Summary of the Charities Statement of Recommended Practice (FRS 102 and FRSSE)

This document is designed to act as a brief synopsis of the changes arising from the implementation of the two new versions of the Charities Statement of Recommended Practice (SORP). These are designated as the Charities SORP (FRS 102) and the Charities SORP (FRSSE).

## Implementation date

Both the FRS102 and FRSSE SORPS are effective for accounting periods commencing on or after 1 January 2015. So for example, a charity with a March year end will have its first set of accounts prepared under the new framework for its year ended 31 March 2016. However, consideration should be given to this now as the comparatives for the year ended 31 March 2015 will need to be restated under the new SORP. An opening balance sheet will also need to be prepared at 1 April 2014; which is known as the transition date.

## FRSSE SORP

Note that the FRSSE SORP makes only limited changes and, as such, a number of changes appearing in FRS 102 SORP do not appear in the FRSSE SORP. To be eligible to use this SORP the company must meet the size criteria that define a small company or small group under the Companies Act 2006. A charitable company currently qualifies as small if it meets two of the three criteria in both the current and preceding financial years:

### Company

Annual turnover < £6.5m

Balance sheet total < £3.26m

Average no of Employees <50

The FRSSE SORP requires fewer detailed disclosures than the FRS 102 SORP and also removes the inclusion of a mandatory cash flow statement (optional under the FRSSE SORP). In addition, many charities participate in multi-employer pension schemes and where the share of liability cannot be identified then the existing policy can be used (this is not permissible under the FRS 102 SORP).

The other significant change is that under FRSSE SORP goodwill has a rebuttable presumption that it has a finite useful life of no more than 20 years if the entity is unable to make a reliable estimate of its useful life. Under FRS 102 SORP this finite life falls to 5 years.

## Important Consideration

Please note that there is a strong possibility that the FRSSE SORP will be withdrawn and updated in the next year or so. Any charity adopting the FRSSE SORP may end up using it for only one year before changing again. Please get in touch if you have any questions on this, or would like some guidance.

## FRS 102 SORP

Some key changes are highlighted below; please note that many are also applicable under the FRSSE SORP:

### Trustees' Annual Report

- There is now a greater emphasis placed on identification of the risks and uncertainties faced by charities and how those risks will be managed.
- Trustees will be required to compare the level of reserves to the policy put forward and explain how the current reserves will be brought into line with that policy.
- The arrangements for setting the remuneration of key personnel must now be disclosed (benchmarks, conditions etc).

### Primary Statements

- Governance costs are now included within support costs.
- The headings for the Statement of Financial Activities have been simplified under the new SORP which will change the presentation.
- Heritage assets should now be disclosed separately on the balance sheet where possible.
- Social investments should be disclosed separately on the face of the balance sheet (where applicable).

### Policies and Disclosures

- Income should be recognised in the financial statements when it becomes 'probable' (previously 'virtually certain' under the old SORP 2005). The 'measurement' and 'entitlement' criteria remain unchanged. We anticipate that this will impact charities who achieve a large amount of income via legacies.
- A liability should now be recognised in the balance sheet for unpaid holiday entitlement.
- Goods that have been donated for resale should now be recognised when the charity first receives the goods as a gift unless impractical.
- The going concern assessment requires a greater degree of consideration and disclosure in the accounts.
- Financial instruments need to be classed as either 'basic' or 'non-basic' with 'non-basic' instruments requiring measurement at fair value at each balance sheet date.
- The definition of related parties has now been expanded to include key management personnel.

# Charity Audit Threshold Doubles

The Government has recently released their response to a consultation on charity audit and independent examination thresholds. The annual income threshold has doubled from £500,000 to £1m, after a majority of consultation responses supported the change.

The Government intends to pursue the following:

- The charity audit threshold will double from £500,000 to £1m
- The group audit threshold is also set to increase from £500,000 to £1m
- Both the income and asset component of the 'asset thresholds' limit will remain unchanged, at £250,000 and £3.26m respectively



The required statutory instrument, which sets out the changes, was presented to Parliament before its dissolution on 30 March. The changes came into effect on 31 March 2015.

## What does this mean for my charity?

For charities with income between £500,000 and £1m, it is strongly recommended that early discussions take place with the charity's accountants. Governing documents should be checked to ensure an audit is not required and a decision made as to whether the trustees are happy to rely on an independent examination.

# Cyber security risks for charities

Charities need to be aware of the risk of significant fines of up to £500,000 which can be issued by the Information Commissioner's Office (ICO). Credit card numbers, bank account details, names and addresses, national insurance numbers and dates of birth are some of the key 'ingredients' for identity theft; hence the stringent fines for failure to comply with the Data Protection Act.

## Charity fines totalling £270,000

In the last few years the British Pregnancy Advice Service and Norwood Ravenswood have been fined £200,000 and £70,000 for not taking care of personal data, respectively. In addition, the ICO has issued enforcement notices to Asperger's Children & Carers Together and Wheelbase Motor Project who both lost unencrypted hard drives. The notices required the charities to implement encryption and other security measures. Breaches like this can be very disruptive, take up a lot of management time and cause damage to reputations.

## Cyber security measures your charity should implement

Best practice is for charities to do at least the following 3 things:

1. Encrypt laptops and portable hard drives
2. Provide cyber security training and assessments of understanding to all staff
3. Implement an Information Security Management System (ISMS). An ISMS defines roles and responsibilities and helps identify and mitigate risk.

## Hawsons have a proven solution

Hawsons can help with all aspects of cyber security including advice on encryption, staff training and the provision of an SMS which is used by over 70 charities.

Please give us a call for more information and a free, no-obligation discussion on how we can help you.



# Charity Health Check

## How healthy is your charity?

If you answer no to any of the below questions, we would really like to meet you and share with you how Hawsons may be able to help you. We offer all new clients a free initial, no-obligation consultation, at a time to suit you. Whether we are appointed as auditors/advisers, or helping with a one-off exercise, we look forward to meeting you.



## Questions

	YES
Do you feel that your charity has sufficient funds to undertake all of its aims?	<input type="checkbox"/>
Have the trustees outlined a policy for reserves setting out the amount the charity needs to hold in funds?	<input type="checkbox"/>
Have you reviewed the new charity SORP and understand how your charity's accounts may be affected?	<input type="checkbox"/>
Do the charity's accounts present the best image to funders and the public at large?	<input type="checkbox"/>
Are you making full use of the SORP exemptions to make the charity's published accounts easier to follow?	<input type="checkbox"/>
Have you undertaken a VAT health check in the last 12 months?	<input type="checkbox"/>
Does the charity have incoming resources that may be VATable?	<input type="checkbox"/>
Are you confident that your charity is not undertaking trading activities?	<input type="checkbox"/>
Are you aware of the tax laws relating to charities and are confident that the charity is complying with them?	<input type="checkbox"/>
Do you find dealing with the charity's payroll and making HMRC returns a straightforward process?	<input type="checkbox"/>
Do the charity's trustees know about their responsibilities and level of personal risk?	<input type="checkbox"/>
Has the charity considered the potential benefits of incorporation?	<input type="checkbox"/>
Have you reviewed the structure of the charity recently to check that it's still appropriate for the activities that it undertakes?	<input type="checkbox"/>
Are you comfortable that the charity has control over all of its incoming resources and expenditure?	<input type="checkbox"/>
Can the charity demonstrate how funds have been applied to its aims with relative ease at any given point in time?	<input type="checkbox"/>
Does the charity have a funding plan for the next 12-24 months?	<input type="checkbox"/>

**Did you answer no to any of these questions?**



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Find out more about how Hawsons can help your charity.

Please call your local office or visit:

[www.hawsons.co.uk/charities](http://www.hawsons.co.uk/charities)

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