Charity Sector

Specialist Charity Accountants

Newsletter
Summer 2015

www.hawsons.co.uk

Introduction

It is with a degree of optimism that we bring you our Summer 2015 charity newsletter. As I write this we are nearly half way through 2015, where does the time go?

So far we have seen a steady improvement in the financial performance of many of our charity clients. However, this is not necessarily true across the sector as a whole. We have tried to bring you a range of topics in this issue, so hopefully there is something of interest to everyone.

In this issue we look at:

- Why might charities be susceptible to fraud?
- First thoughts on the new Charities Bill
- Strategic reporting for medium & large charities
- A summary of the new charity SORPs (FRS 102 & FRSSE)
- Forecasting and monitoring financial performance
- Charity health check

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

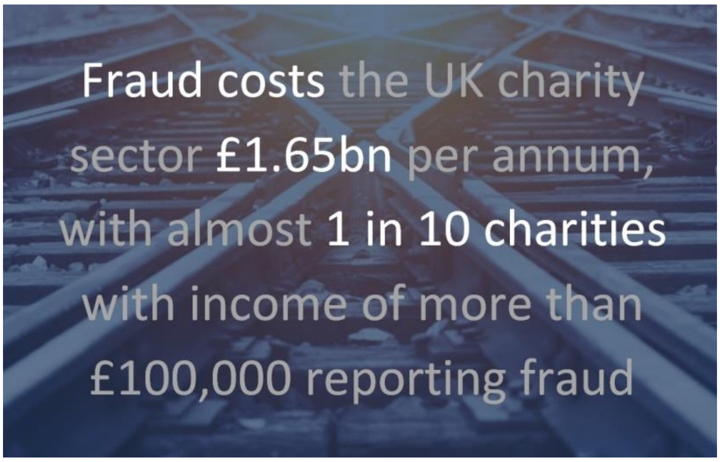
At Hawsons we recognise that not-for-profit organisations have very different requirements from other businesses and are currently exposed to a challenging economic climate. Our dedicated team fully understands the complex, ever-changing regulatory requirements of the charity and not-for-profit sector. 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**

HLB International

INVESTORS IN PEOPLE

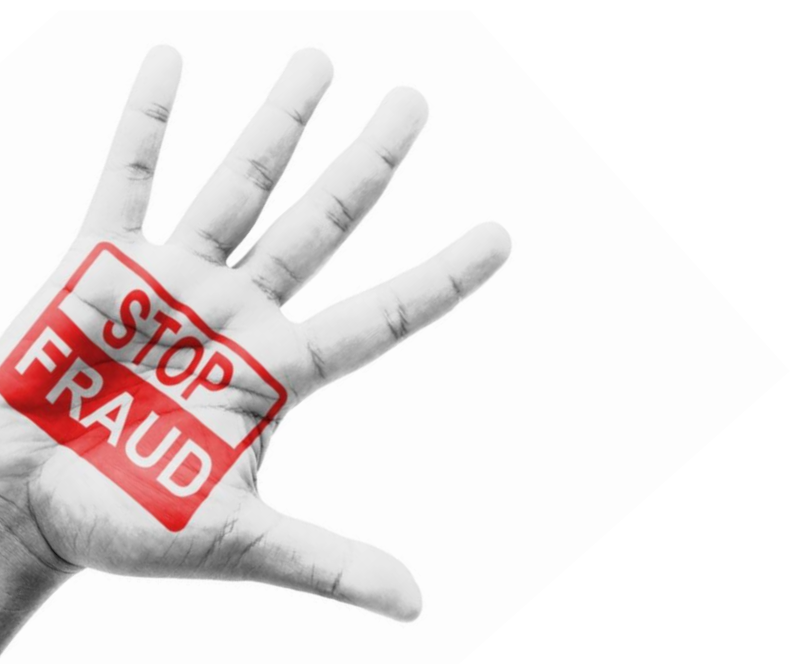
Why might charities be susceptible to fraud?



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.



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%.

There are two main 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 most common internal frauds identified are usually unauthorised or deliberately misdirected electronic payments, theft of cash takings, inflated expense claims, and failure to remove leavers from the payroll or fictitious employees. Externally, charities suffer most from cheque fraud, false payment requests, e-crime, phishing e-mails and identity theft.

How can we prevent fraud?

It is important charities introduce measures to help prevent and detect fraud. One 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.

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.

On our website you will find lots of information, including videos, articles and a free 'guide to preventing charity fraud' download.

www.hawsons.co.uk/charities

First thoughts on the new Charities Bill

The Charities (Protection and Social Investment) Bill was introduced in the House of Lords on 28 May 2015.

The Bill would protect people who present a risk of abuse and give the Charity Commission power to make orders disqualifying individuals from acting as trustees under certain circumstances. The Bill also provides clarification on social investments.

The Commission has welcomed the additional statutory power and comments that it will enable it to better protect charities from being run by individuals who are clearly not fit to do so.

This is certainly a welcome step in the right direction as charities rely heavily on public support for funding and voluntary commitments. It is absolutely vital the sector tackles abuse to maintain public trust and confidence.

The Bill has been greeted with cautious optimism within the sector and although the Commission is unlikely to use this additional power more than a few times a year, it is another measure which contributes to ensuring the protection of charities from individual or collusive abuse. The Bill also includes clarification on charities' ability to make social investments, which we believe is another positive step.

It is pleasing that the Bill will implement the Law Commission's recommendation to give charities more power to make social investments if they wish to do so. Social investments are investments that aim to achieve both a financial and a social return.

For more information on the Charities Bill please visit www.hawsons.co.uk/charities-bill-2015 or contact your local office specialist.

Strategic reporting for medium & large charities

The introduction of strategic reporting applies to charitable companies that are defined as either medium or large under the Companies Act 2006. The regulations apply to financial periods ending on or after 30 September 2013 and require applicable charities to prepare a strategic report, which must contain a fair review of the charity's development and performance during the year and a description of the principal risk and uncertainties facing the charity.

What charities have to prepare a strategic report?

Small charities are not required to prepare a strategic report. If your charity meets two out of these three following criteria the charity is not small and therefore will need to prepare a separate strategic report.

- Number of employees is > 50
- Turnover is > £6.5m
- Gross assets are > £3.26m

A good strategic report should provide a complete and meaningful picture of the charity's strategy, development and performance; both present and future.

In guidance issued by the Charity Commission it is emphasised that "as most of the information required by the Strategic Report is already required under SORP 2005, to remove unnecessary duplication, the Strategic Report should be included within the Trustees' Annual Report as a separate clearly delineated section headed Strategic Report. Where information is provided in a 'Strategic Report' section of the Trustees' Annual Report, it will form also part of Trustees' Annual Report and so will not need to be repeated in other sections of the Trustees' Annual Report in order to comply with the SORP's requirements."

It should also be noted that when trustees formally approve their report in the annual financial statements, they should also approve the strategic report at the same time. This can sometimes be overlooked.

For more information please visit www.hawsons.co.uk/strategic-reporting or contact your local office specialist.

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.

Forecasting and monitoring the charity's financial performance

It is important for any business to have a reliable and robust financial forecast, and charity and not-for-profit organisations are no different.

Whilst a forecast of the charity's finances is an assessment of what may or may not happen, forecasting future performance and costs is just as important as monitoring current ones. In our experience the process of putting together the model itself is also a valuable learning exercise for trustees, which can have benefits beyond the charity's financial issues. In particular, we find that a thorough review often yields an insight of how the charity's performance can be improved and assists the trustees in setting strategic objectives for the future.

Forecasting may be more important than ever for charities

Given today's unpredictable economic climate, together with the unpredictability of charity income streams, a financial forecast is more important than ever. A forecast can be invaluable in identifying potential funding issues in a timely manner so that these can be addressed before it is too late. It is much easier to raise finance in advance of an issue arising than waiting for it to occur. This demonstrates management competence, whereas attempting to raise finance at the last minute reflects poorly on management and makes it more difficult to secure funding. This can also reflect negatively on the trustees who should always be able to demonstrate that they are acting in the charity's best interests.

Every charity needs to plan ahead to ensure success, but daily pressures often delay and hinder the forecasting process. At Hawsons, we can help prepare a financial forecast, which enables you to forecast your profit levels and cash flow requirements and provide a benchmark against which you can measure your actual results. We will challenge the assumptions used and provide a sense check on the numbers based on our experience of helping clients going through this process.

For more information on how Hawsons can help your charity with forecasting and monitoring financial performance please contact your local office specialist.

Fraud: Forecasting and monitoring the charity's financial performance can also help to combat fraud. Fraud costs the UK charity sector £1.65bn per annum and it is crucial charities implement a number of preventative measures to mitigate vulnerability.

Commission releases updated annual return form

The Charity Commission has now released its updated annual return, which includes new questions regarding the level of income charities receive from government (central of local) grants and contracts, the charity's staff pay policies and details on the charity's financial controls.

The online form, which must be completed by all registered charities with an annual income of more than £10,000 and all Charitable Incorporated Organisations (CIOs) who are reporting on their financial years ending in 2015, has been expanded to improve transparency and promote good governance within the charity. The new format form should strengthen the regulators overall ability to identify risk.

Sarah Atkinson, Director of Policy and Communications at the Charity Commission said: "Charities will recognise that the public's appetite for information about where their money comes from, and how they use it, is growing. It is therefore vital for charities to provide the regulator with up to date information. Completing the annual return is about meeting both your legal responsibilities and the expectations of the public - there's no excuse. As well as improving transparency, I hope the new questions will also promote good governance by prompting trustees to consider carefully their charity's financial controls and the basis for setting staff pay."

Charities have 10 months from their financial year-end to complete the annual return.

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

Did you answer no to any of these questions?

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Registered to carry on audit work in the UK and Ireland and regulated for a range of investment business activities by the Institute of Chartered Accountants in England and Wales.

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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

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