Ask ICAS Webinar Series

Coronavirus - Charities and Regulation
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Your ICAS team for today

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Coronavirus - Charities

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Agenda

• The challenges and opportunities
• Funding, cash-flow models and going concern
• Audit and independent examinations
• Matters of material significance / notifiable events
• Companies House / OSCR reporting requirements
• Technical support
• Accounting disclosures due to Covid-19
• Government support / announcements
Charities – the challenges and opportunities

• Whilst all charities are facing new challenges caused by Covid-19, for those providing essential services such as within the care sector, with Government/Council funded core contracts, demand for their services remains high.

• Some charities have little or no unrestricted reserves to navigate through these challenging times, for other charities funding remains secure for the foreseeable future.

• Charities often have minimal cash and are often reliant on regular donations. For those charities that have funding commitments from businesses, timing of receipt may need to be reassessed.

• Some charities hold sizeable investment portfolios and rely on dividends and interest as part of their income.

• Restricted funds are for restricted purposes, and Trustees have a duty to ensure only used for that specific purpose unless approved by the donor to waive the restriction.
Charities – the challenges and opportunities

• Many charities provide essential support to the public, and rely on volunteers. Continuing to provide this support for many charities is complex in this period of “lock-down”, although some are noting plenty of volunteers.

• Nonetheless, safeguarding vulnerable members of society must remain a priority, despite the challenges, ensuring adequate safety checks remain in place.

• From an operational perspective, non-financial matters are for some charities the largest risk and concern eg adequacy of PPE.
Funding, cashflow models and going concern

• Key is the charity’s survival in these unprecedented times

• Trustees should ensure they have a clear picture of cash-flow requirements – daily monitoring of cash and updating projections is not too often in the current climate

• Aware that charities like other businesses have been identifying areas to immediately reduce costs and cash outflow e.g. cap-ex spend, payroll costs using furlough scheme, finance payment holidays, VAT deferral scheme

• Essential to also identify ways to maximise cash inflow – ensure all grant claims have been submitted, closely monitor debtor balances and proactively seek payment. Consider eligibility for Government grant and loan support available
Charities – Audit & Independent Examinations

• Audit and IE’s may be low on the list of priorities for some, but external scrutiny remains a requirement for all Scottish charities

• New challenges caused by remote working eg is data available electronically and transferrable securely? Stocktakes during period of lock-down? Finance team on furlough? Is your Auditor / IE still able to undertake their work remotely?

• Assessing the appropriateness of applying the going concern basis will be an essential part of all discussions with auditors and independent examiners

• Trustees should fully **document** their assessment of the going concern position of the charity, including best and worst case scenarios, including key assumptions along with actions being taken to mitigate the risks as far as possible
Charities – Audit & Independent Examinations

Assessments may include;

• Revising cashflow projections to provide a realistic assessment of the impact of Covid-19 and the lock-down on cash and the charity’s ability to meet liabilities as they fall due

• A detailed review of the impact on the charity’s income streams – grant funding / donations / investment income / trading income

• Options to obtain additional finance – bank overdraft / new loans / Government financial support

• Speaking to suppliers / landlords / bank / HMRC re deferred payments

• An assessment of what the economic landscape will be post Covid-19 for the charity. Remember when assessing the going concern basis, this is looking at least 12 months ahead from the approval date of the accounts.
Charities – Audit & Independent Examinations

- Ensure assumptions are fully documented – auditors and independent examiners will want to review these
- Regularly revisit and update the forecasts for actual information and based on latest developments
- Keep in dialogue with your bank/funders/regulator as appropriate – “don’t stick your head in the sand”
- Duties on Auditors and IE’s to ensure adequate professional scepticism – challenging responses on assumptions applied to models and estimates, including cash flow forecasts
- Duties remain on Auditors to gather sufficient, appropriate audit evidence, meaning alternative procedures may need to be developed. EVIDENCE, EVIDENCE, EVIDENCE remains key
Message from the FRC

Latest FRC guidance states……..

“The FRC is concerned that the current situation should not undermine the delivery of high-quality audits. Audits should continue to comply fully with required standards. In current circumstances, additional time may be required to complete audits and it is important that this is taken, even at the risk of delaying company reporting.”

ICAS advises Members to sign up to news alerts from the FRC and to check their website on a daily basis for updates given the fluidity of the current situation.
Matters of material significance reportable to UK charity regulators by Auditors / Examiners

Section 4 – reporting matters of material significance to the regulators

• Reaffirms duties on auditors and independent examiners to report such matters immediately upon becoming aware of a matter “during the course of an audit or independent examination”.

• Duties apply “from the moment the appointment is agreed until such time as the auditor or examiner resigns or is no longer retained for it by the trustees (not withstanding that upon resignation matters may still be reportable)
Matters of material significance reportable to UK charity regulators by Auditors / Examiners

Examples of matters ALWAYS considered to be reportable *(list is not exhaustive)*;

1. Dishonesty and fraud
2. Failures in internal controls and charity governance resulting in a risk of material loss or misappropriation or significant risk to funds
3. Money laundering / criminal activity
4. Support of terrorism
5. Risk to charity’s beneficiaries
6. Breaches of law leading to material charitable funds being misapplied
7. Breach of an order by the charity regulator
8. Modified audit opinion / EofM / qualified independent examiners’ report
9. Mis-management of conflicts of interest and non disclosure of RPTs
Matters of material significance reportable to UK charity regulators – Auditors / Examiners

Section “Reporting at times of national emergency”

• Unless the legal duty to report matters of material uncertainty is relaxed by Govt. the auditor/IE must still report matters of material uncertainty [as previously outlined]

• However where a modified opinion, emphasis of matter or matter identified by the IE is solely due to the exceptional circumstances of the national emergency affecting the conduct of the audit or IE, then this is NOT considered to be a reportable matter to the regulator, because remedying the situation is not in the power of the auditor/IE/preparer of the charity accounts or charity regulator.

• Examples provided of exceptional circumstances include travel restrictions, access restrictions to financial records & limitations of scope due to control measure imposed to deal with the national emergency

• Recommend Trustees document assessment and decision

OSCR Notifiable events by Trustees

• Events that have or will have a significant effect on the charity
• The responsibility of the Trustees to notify OSCR as soon as possible, once they have looked into the issue and decided how to deal with it
• Includes reference to “substantial financial loss”
• “Substantial” will vary by charity, but guidance suggests anything that involves 20% or more of a charity’s income is substantial – but this is only a guide
• Recommend that Trustees document and evidence their consideration and conclusion of whether a notifiable event exists, and any action requiring to be taken

What are Companies House and OSCR saying?

Companies House
• Granting automatically and immediately (on request) an additional 3 months to file accounts with Companies House to help avoid penalties for those companies including corporate charities citing issues around Covid-19

OSCR
• Currently not taking further action with respect to missed deadlines.
• Allowing charities to submit accounts with typed signatures rather than ‘wet signatures’
• Working to see what they can do to amend the Register to reflect the current position to avoid a red line indicating that financial information has not been provided within the deadline
• Working closely with SCVO – promoting use of their coronavirus Third Sector Information HUB - https://scvo.org.uk/support/coronavirus
What technical guidance is out there?

• FRC (Guidance for companies on Corporate Governance and Reporting) [https://www.frc.org.uk/about-the-frc/covid-19/company-guidance-update-march-2020-(covid-19)]


• Johnston Carmichael – Coronavirus Hub guidance & support [https://johnstoncarmichael.com/coronavirus]
Disclosure considerations due to Covid-19

- Trustees report – going concern assessment, new risks and uncertainties, implications for the future
- PBSE disclosure including quantified material decrease in asset values / impairments in asset values eg listed investments, properties, stock written off
- Adjusting v non-adjusting event? – will depend on the financial year-end
- Any part of the charity operations now deemed “discontinued activities”?  
- Going concern policy note disclosures – adequate?
- Any new significant estimates and judgements to disclose eg Debtor recognition, impairment?
Have you considered?

Extension of accounting period

Whilst not appropriate in all circumstances, for some charities it may be worth considering taking advantage of the ability to extend the accounting period.

• The Companies Act 2006 allows an accounting period to be extended (*accounting period cannot exceed 18 months*) subject to certain conditions which should be considered prior to pursuing this approach.

• NB - Charities *must not have* three or more financial periods exceeding 12 months in any five year period

• A notice of the change in accounting period *MUST* be provided to OSCR within three months of the date of the decision to change the accounting reference date.
Government support / announcements

Summary of key Government measures to date:

1. Job Retention Scheme – HMRC portal opening w/c 20th April 2020 (will require charity UTR number for furlough claims)
2. Time To Pay - deferring VAT and income tax payments
3. Business Interruption Loan Scheme
4. Assistance for non-domestic rates payers (if applicable)

……. be mindful of Scottish dimension but on the most part they are mirrored.
Government support / announcements

Third sector specific announcements;

1. **Third sector resilience fund** - £20m emergency fund to help stabilise finances (grants up to £100k) & £5m of interest free loans (starting at £50k)

2. **Community Response, Recovery and Resilience fund** – for charities supporting people most in need

3. **Wellbeing fund** – £33m available for charities providing important services for people as a result of coronavirus

4. **Announcement by Chancellor** last week to support UK Third Sector meaning an additional £30m for Scottish Govt. (anticipated for the benefit of the Third sector)

https://scvo.org.uk/support/coronavirus/funding/for-organisations
Summary

Whilst these are unprecedented times, certain things remain a constant;

• Cashflow management and protection of restricted reserves
• The need to exercise professional judgement
• The requirement to ensure audit/IE quality is maintained, albeit alternative procedures may be necessary
• Trustees responsibilities and duties – safeguarding the assets of the charity, it’s employees and beneficiaries, reporting a balanced position, assessing the risks and uncertainties and developing plans to mitigate the impact of Covid-19 on the charity as far as possible
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ICAS Regulation

- ICAS Regulation.

- Regulations and Standards continue to apply and there is an expectation that firms, members and IPs will endeavour to continue compliance, and exhaust all reasonable measures to do so.

- A proportionate approach will be taken, and mitigating circumstances may be taken into account during subsequent monitoring procedures where issues or concerns are identified.
ICAS Regulation

- Awareness of the issues and challenges facing firms.
- Impact on Regulatory Authorisations.
- Regulatory monitoring approach agreed with oversight bodies.
- Approach to monitoring activities already scheduled.
- Remote monitoring activities.
ICAS Regulation

- Feedback received from firms thus far
- Impact on audit monitoring visits that are required to commence within a specified time.
- What if a firm is struggling to respond or provide information to ICAS and/or the Committee within previously prescribed timescale?
- The outlook for the summer and beyond.
ICAS Regulation

• Insolvency monitoring and engagement with ICAEW.

• The impact on the mandatory audit course: 'Keeping Audit on the Right Track'.

• The FRC approach to engagement with RSBs.
ICAS Regulation

• Client confidentiality.
• Data protection.
• Compliance with AML requirements and adapting take-on procedures.
NCA: SAR themes

• An increase in the number of SARs.

• Exploiting the current crisis to rationalise the movement of money.

• Whilst individual activity may not be suspicious, reporters are citing these in combination with other ML flags, including large cash deposits; sending funds abroad; multiple faster payments; etc.
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Q & A
Further information and guidance

• Coronavirus Hub on icas.com/coronavirus

• CA Connect on icas.com/caconnect

• Technical Helpdesk (Contact us on icas.com)

• Follow on Twitter @ICASaccounting and LinkedIn - ICAS - The Professional Body of CAs
Ask ICAS Webinar Series – Next week

• 23 April – Latest news and hot topics
  • Coronavirus Job Retention Scheme
  • Employment law
Thank you for joining us

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