

Ensuring an effective year-end charity financial reporting and auditing process



Charity financial reporting requirements

Reporting requirements

- Charity Statement of Recommended Practice (SORP)
- FRED82 Consultation (completed 30 April 2023)
- In December 2022, the Financial Reporting Council issued the long-awaited review of UK (and ROI) GAAP
 - Implementation – periods commencing 1 January 2026
 - SORP impact
 - Key considerations: Lease accounting, Revenue recognition
- Compliance document vs. stakeholder communication tool
- Larger company requirements
 - Streamlined Energy Carbon Reporting (SECR)
 - s172 of the Companies Act 2006: the duty to promote the success of the company, when conducting their duties
 - IFRS Sustainability Disclosure Standards: accounting periods beginning 1 Jan 2024

Themes from recent charity audits

Themes	Key points
ISA 315 revised, including IT risks and related controls	<ul style="list-style-type: none">• Requirement continues• Deeper understanding
Interim audit work	<ul style="list-style-type: none">• Enables fuller risk assessment• With preparation, more efficient and effective
Asset valuations	<ul style="list-style-type: none">• Regular reviews• Timely valuation data
Related party transaction reporting	<ul style="list-style-type: none">• Needs consideration of family members to meet reporting requirements• Consider starting the request process earlier
Trustees' report	<ul style="list-style-type: none">• Wider data required• Impact of the charity

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Common accounting complexities

Revenue recognition

- Accounting considerations for revenue recognition
- Legacy income
- Grant income
- Principal versus agent
- Related risks, liabilities and provisions
- Disclosures

Capital transactions

- Valuation versus cost
- Construction contracts – risks and recognition
- Component accounting
- Impairment, change of use
- Ownership and leasing considerations (including FRED82 for future)
- Financing – loans (covenants) and capital markets
- Intangibles

Investments

- Listed investments
- Investment property
- Valuation
- Social investments
 - Programme related
 - Mixed motive
- Subsidiaries and joint ventures

Pension accounting

- Overall impact on the results portrayed by the financial statements
- Accounting considerations
- Defined benefit vs defined contribution
- Multi-employer schemes, including Local Government Pension Schemes (LGPS)
 - Net surpluses
 - Multiple schemes

Areas of valuation, estimation and judgement

Areas of valuation, estimation and judgement

- FRS 102 – management are required to use judgements in applying estimates and assumptions which affect the reported amounts in the financial statements
- Disclosure of these key judgements is included in the accounting policies
- Useful economic life of assets and depreciation
- Impairment of assets
 - External valuations
 - Occupancy/usage of buildings
- Recoverability of debtors
 - Policy, timing of reviews
- Pension provisions
- Holiday pay accrual - Estimate or based on HR data
- Provisions
 - Clawback, covid disruption claims, legal

Areas of valuation, estimation and judgement

- **Audit context** - continued Financial Reporting Council focus
- ISA 540 (Revised) Auditing Accounting Estimates and Related Disclosures
 - Auditor understanding of the entity, its environment and internal control
 - To include review of the outcome of previous accounting estimates
 - Assess risk of material misstatement in the current period
 - Inherent risk factors: estimation uncertainty, subjectivity and complexity
 - Audit work around testing methods, data and assumptions used by management in making estimates
 - Professional scepticism

Going concern and financial sustainability: Trustees' responsibilities and the audit requirements

- FRS 102.3.8 An entity is a going concern unless management either intends to liquidate the entity or cease trading or has no realistic alternative but to do so
- Requirement to carry out an assessment to ascertain whether the entity is a going concern
 - Take into account all available information about the future – at least but not limited to – 12 months from the date the financial statements are authorised for issue
 - Detailed forecasts (cash, performance and position) – reflect current economic outlook and recent post-balance sheet activity
 - Key judgements and assumptions used in the forecasts
 - Consider different scenarios and reverse stress testing
 - Material uncertainties - consider any events or conditions that cast doubt on the ability to continue as a going concern
- Clear disclosure on going concern assessment in the report and accounting policies, including if had to apply significant judgement

Going concern and financial sustainability: Trustees' responsibilities and the audit requirements

- Future income
 - Secure vs anticipated
 - UK cost of living
 - Government policy
- Cost base assumptions
 - Staff pay
 - Inflation
 - Pension costs
 - Cost of debt servicing
 - Capital and grant commitments

Going concern and financial sustainability: Trustees' responsibilities and the audit requirements

- **Audit context** - continued Financial Reporting Council focus
- ISA 570 (Revised) Going Concern
 - Revised in response to recent enforcement cases and well-publicised corporate failures
 - Positive statement in the audit report, flagging material uncertainties if relevant
 - Increased audit work to challenge Governors'/management's assessment of going concern, testing the adequacy of supporting evidence, and evaluating the risk of management bias
 - To consider all of the evidence obtained, whether corroborative or contradictory, when drawing a conclusion on going concern.

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Questions?



If you'd like to continue the conversation further, you can contact Buzzacott using the details below or come and visit us at Stand 10.

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