



How to Guide Covid-19 Charities SORP Committee Guidance

Implications of Covid-19 control measures and charity financial reporting

Introduction

Uniquely and reflecting the unprecedented times we are living through, the Charity SORP Committee has issued guidance to supplement the Charity Statement of Recommended Practice (SORP) on the single issue of the Covid-19 pandemic. This guidance was Issued on 23 March 2020 and can be found on the Charity SORP [website here](https://www.charitySORP.org):

<https://www.charitySORP.org/media/648486/sorp-covid-19.pdf>

It presents a timely reminder that financial statements must provide a true and fair view, and there can seldom have been a single issue that has so dominated the lives of everyone, so it must not be ignored in financial reporting. This is advisory guidance only, not mandatory, but is undeniably helpful. It is relevant for those currently finalising their statutory financial statements as well as those planning for their year-end process.

The guidance is helpful for both preparers of financial statements and those that scrutinise them, whether auditors or independent examiners.

At MHA we consider that for our audits and independent examinations we should adopt a case-by-case approach for each of our clients, and a blanket or boiler-plated response is not helpful nor appropriate. So, we are keen to discuss these issues with our clients as soon as possible.

Given the all-encompassing impact of Covid-19 on our lives it is not surprising that the guidance indicates that this consideration should include its effect on charities' financial reporting in their statutory financial statements and any impact on financial sustainability. The effect on each individual charity may be widely different, both negative and positive, hence this will need to be made clear to readers of the financial statements. As a result, there cannot be a standard approach to financial reporting, and each charity will need to assess their own particular circumstances and reflect this in their financial statements appropriately.

Contents of the Guidance

A summary of the five main areas that charities need to consider is set out below:

1 Trustees Annual Report

It is likely that some reference to Covid-19 will be needed in every charity's Trustees Annual report. The guidance helpfully cross-references to Module 1 of the Charity SORP so the Covid-19 guidance can be considered alongside the normal content of an Annual Report. **Narrative is likely to cover:**

- Impact on the current and future activities and operation of the charity.
 - Implication for the charity's finances and fundraising.
 - Effect on financial sustainability and going concern, including any material uncertainties that have now arisen.
 - Consideration of the charity's reserves, their nature and adequacy, including the possible need to designate funds for future Covid-19 responses. It may be helpful to also consider the Charity Commission Guidance: Coronavirus guidance for the charity sector <https://www.gov.uk/government/news/coronavirus-covid-19-guidance-for-the-charity-sector> as it includes reference to charity reserves and their use. It clarifies the definition of free reserves, and limitations related to use of restricted funds. It is helpful in reminding charities that reserves can be utilised at this time if appropriate, but trustees must consider this prudently, keeping in mind the need for overall financial resilience.
 - How future aims and activities may be affected.
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2 Accounting Policies

There is a possibility that Covid-19 could affect the accounting policies that underlie the financial statements. **Things to consider include:**

- Effect on key judgements and estimates, such as income recognition and asset or liability valuations.
- Consideration of the going concern basis of preparation of the financial statements – use normal considerations hence existing Financial Reporting Council guidance is applicable and could be helpful. <https://www.frc.org.uk/getattachment/62ae3969-fe26-4def-8d25-e2acd821e7b1/Guidance-on-the-Going-Concern-REVISED-WEB-READY-2016.pdf> The guidance has for several years proved helpful in understanding issues such as what represents material uncertainties, the appropriate assessment period (being at least 12 months from the date of signing financial statements), the nature of solvency and liquidity risks, and financial reporting requirements.
- Based on the above, assessment of possible material uncertainties, adequacy of disclosures concerning these circumstances, or where the conclusion is the charity is not a going concern, usual consideration of the break-up basis approach.

3 Accounting Considerations

The potential impact of Covid-19 is pervasive to all aspects of financial reporting – income, expenditure, assets, liabilities and funds. Hence no area should be ignored when assessing accounting considerations. **For example:**

- At present charities may be at differing stages of their reporting cycle. For those with year ends that have yet to finalise their financial statements this is quite likely to be a non-adjusting post-balance sheet event, that is most likely to affect disclosures. Whereas charities with a year-end of 31 March 2020 will probably need to treat this as a condition that existed at their year-end, with consequent considerations on reported results and the charity's financial position.
- The impact on defined benefit pensions schemes could be significant – both valuation of assets and liabilities as well as implication for future funding and hence contribution levels.
- Many charities will be considering statutory filing deadlines, so it is helpful that some flexibility should be available; Companies House have announced a 3 month extension to accounts filing - this is not automatic, and requires companies to apply; The Charity Commission have also stated that they would also be sympathetic and would consider filing extensions on a case by case basis.

4 Audit and External Scrutinies

The various accountancy bodies have issued guidance on undertaking scrutinies in the current environment. It is therefore helpful that the Guidance considers the practical implications for undertaking audits and independent examinations in the current environment.

This includes both practical and technical considerations:

- Implications of undertaking external scrutiny work in an environment of social distancing, and potential limitation in scope. In most cases at MHA have been able to either undertake our work using a normal approach, or have obtained alternative audit evidence where necessary, so often this is not a barrier to successfully completing our work. But we will want to identify any concerns as early as possible to seek to identify the best approach for us to adopt.
- Potential need for the audit opinion or independent examination report to make reference to the impact of Covid-19 – probably in the context of the going concern principle. Even before the pandemic we have had an increased focus on considering going concern matters, particularly following the revised auditing standard (ISA UK 570 Going Concern) issued in 2019, and the explicit reference to going concern in our audit reports.
- It should be noted that the Financial Reporting Council has recently published guidance to auditors regarding how they respond to the current challenges resulting from the Covid-19 pandemic, and an individualised approach is recommended. As noted above this is our firm's approach.
- Separately guidance for auditors and examiners on reporting on matters of material significance was reissued in April 2020 by the charity regulators to have regard to the pandemic, and specifically at times of national emergency. The revised guidance can be found here <https://www.gov.uk/government/publications/guidance-for-auditors-and-independent-examiners-of-charities> It notes that where scrutiny work is limited or an opinion is affected by a national emergency such as Covid-19 this does not require reporting. The guidance also clarifies that it is for external scrutineers and only on rare occasions will the issue of reporting a matter of material significance apply to internal auditors.

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Charity Reporting to Regulators

Initial Charity Commission guidance regarding Serious Incident Reporting (SIR) by charities was swiftly withdrawn and amended, which was appropriate as the approach was disproportionate.

Guidance now indicates that charities may need to consider reporting a SIR, but this is not obligatory and depends on trustee judgement regarding the severity of the matter that has occurred. It is clearly important that they fully document this process. It should be noted that where a charity makes a SIR this does not absolve auditors or independent examiners from also reporting to the charity regulator.

Conclusion

This briefing provides general guidance on the Charity SORP Committee guidance, but we shall consider the situation for each of our clients individually.

If you would like to discuss any matter arising from this please contact

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This article is designed for information purposes only. Whilst every effort has been made to provide accurate and up to date information, it is recommended that you consult us before taking or refraining from taking action based on matters discussed.

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