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Audit, accounting and general sector update

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Audit changes affecting December 2022 audits onwards

ISA 315 and 240

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Current changes to audit standards

- ISA 315
  - Systems and controls/IT controls
  - We have an IT questionnaire
  - Risk Assessments –more in depth dive on systems/controls and risks
- ISA 240 –fraud risk
- Spectrum of risk
- All have added to additional work required on audits
- December 2022 year end onwards

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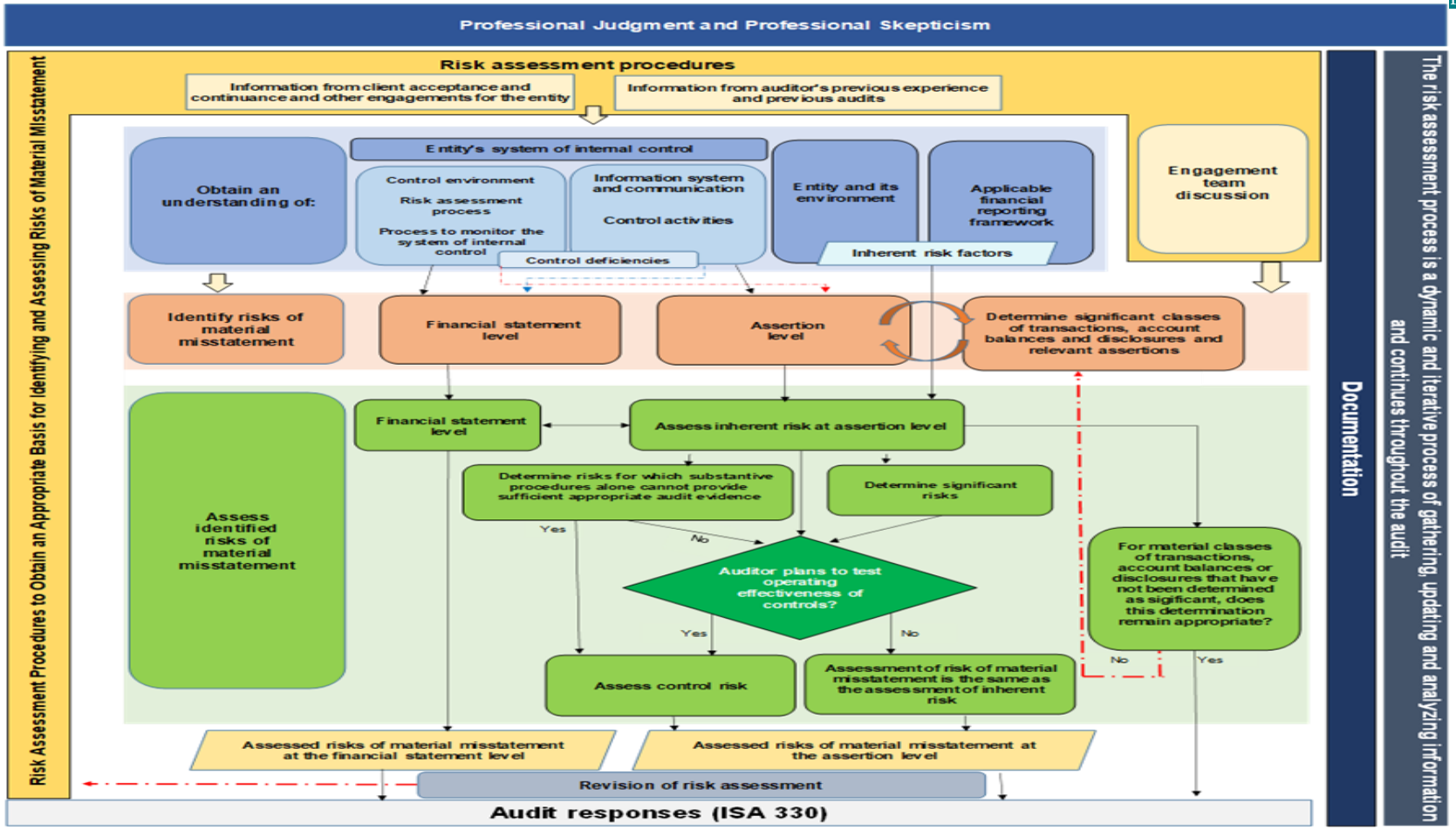
Extract from ISAAB guidance on new ISA 315

ISA 315 (Revised) Identifying and Assessing the Risks of Material Misstatement



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Revised ISA 315:

Identifying and assessing the risks of material misstatement

How does it affect me? Some are updates and some are new

Your auditor will need to document and understand several key aspects with you including:

- **Your Business model**: What are the scope of your activities? What is your structure? Do you operate in any risky areas or difficult scenarios?
- Understand **your operation** in detail including how your apply resources such as people and cash, and the outputs they create
- Understand the role of **IT and systems** within that model and how they contribute
- Understand what **risks** you see in your own model – going concern/reliance on key funders/use of brand or reputation/dwindling member numbers or customers..

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Revised ISA 315:

Identifying and assessing the risks of material misstatement

Your auditor will need to document and understand several key aspects with you including:

- **Your internal controls**: What is your control environment like – and the culture and training of your staff?
- How does you perform **risk assessments** and do you consider the risks in your controls?
- What is your **monitoring and oversight process**? Are Directors / Trustees involved at all?
- How do you **capture and store information**, records and details. Is your data secure and an easy to follow trail or process?
- Finally **specific key controls** themselves – need to know control and review points along your internal systems and how they work

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Revised ISA 315:

Identifying and assessing the risks of material misstatement

Your auditor will need to document and understand several key aspects with you including:

- **IT systems and controls:** Most significant new area with auditors expected to document in detail how your IT systems work and controls within.
- What **software** do you use? Is it off the shelf systems with 'ready made' controls and reporting? Or is it bespoke and needs much more detail for your auditor on how it works and how risks are managed?
- What **role does it play** in your business model? Are you reliant for example on a CRM system to identify and bill members? Or a donor database to ensure all your regular donations are complete and accurate?
- How **familiar** are your staff with the system and what **training** do they have? Is it a brand new system this year?

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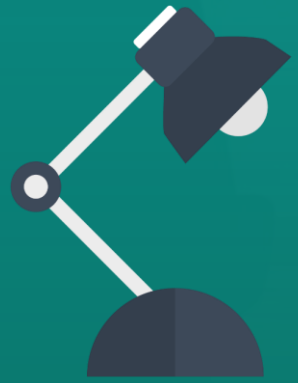
Revised ISA 240:

The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements



Attempts to clarify and improve audit work around:

- Understanding and identifying potential fraud risks
- Obtaining solid and appropriate evidence
- Responding appropriately if fraud identified during the audit

Evolution not revolution - builds and amends existing requirements

More discussion on fraud with management and Board. How do you identify fraud in your charity? How comfortable are you with current systems and controls? What is your history – any frauds in past and how did you react?

More careful evaluation of audit evidence including use of specialists to evaluate complex areas where required

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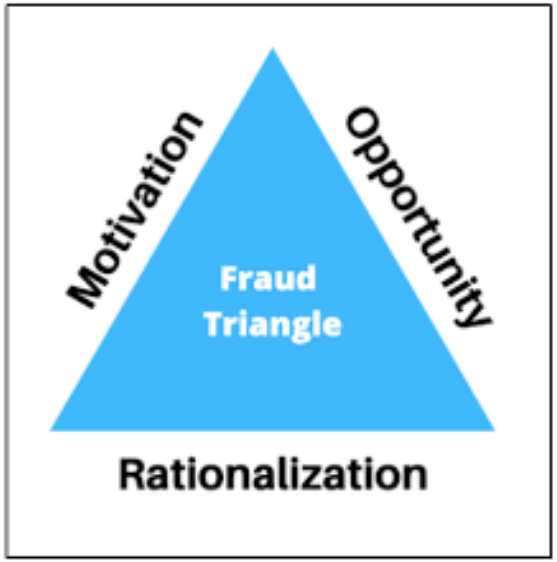
Fraud Triangle



Prevention measures include:

- Pledges
- Moral reminders
- Signatures and supervision

Increase risk of dishonesty:

- Ability to rationalise
- Conflicts of interest
- Creativity
- One immoral act
- Being depleted
- Others benefit from us being dishonest
- Watching others behave dishonestly
- Culture gives examples of dishonest

One step removed from cash – like office supplies/stock

Amount of money and probability of being caught have no effect

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Audit changes affecting December 2024 audits onwards

ISA 600

Future auditing standards changes: Groups

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- It covers:
  - Shared service centres
  - **Branches and divisions**
  - Non-controlled entities (eg associates/JVs)
  - Subsidiaries
- Its now all about the spectrum of risk
- Group engagement partner responsible for direction and supervision of audit team
  - Parent audit team AND
  - Component audit team
  - More communication and oversight of whole audit – complicated where another firm used
  - Must comply with FRC ethical standards
- Aggregation risk for division's and branches in audit approach and component materiality

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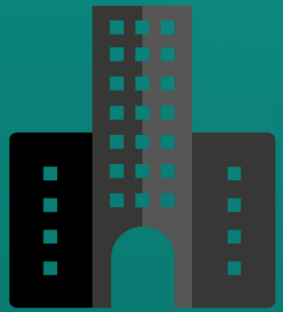
Defined benefit pension schemes

Audit of FRS102 asset/liability of Defined Benefit Pension Schemes:

Requirement to obtain better and more detailed evidence



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In its recent monitoring reports, ICAEW has drawn attention to audit of defined benefit pension schemes and how auditors obtain sufficient and appropriate evidence. Key areas include:

- Your auditor needs direct access to communicate at an early stage with your actuaries or custodians of scheme
- More evidence needed around the underlying assets of scheme and evidence of their existence
- More evidence needed around asset allocation and how your actuary calculated balance on your scheme
- More evidence about make-up of your employees, such as salary, age and gender profile in order to check accuracy against those used in scheme valuation
- Need to question assumptions and rates used directly with the actuary

Overall more complex and time consuming so early access to actuaries is crucial

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Next FRS 102

FRS 102 update

FRED 82 issued and consultation closed in April 2023

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Main changes:

- New section 23 - 5 step model on income recognition
- New section 20 – on balance sheet model for leases
- Revised section 2 on concepts and pervasive principles
- New section 2A on Fair value measurement that replaces Appendix 2 and updates to IFRS 13

Income recognition

1. Identify the contract with customer
2. Identify the promises in the contract
3. Determine the transaction price
4. Allocate the transaction price to the contract promises
5. Recognise revenue as the promises are satisfied

Five step process for contract income

Special rules for royalties etc

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- **Next Charities SORP**
- Expected in 2024
- For periods beginning on or after 1 January 2025? Or now 2026?

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Some areas of change which would affect you

- Greater focus on the report and accounts together telling the story of the charity, including reporting reserves To reinstate a definition of reserves in SORP. Noted that larger charities abandoning reserves for a liquidity statement
- ‘It is important that it is understood that reserves are not about winding up a charity but about how the charity operates and manages its resources from a risk-based approach. Reserve information is about the charity operating on a going concern basis and reporting.
- Likely to have compulsory impact reporting requirements
- Summary information/key facts - encouragement rather than the introduction of additional reporting requirements

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- Charities Act 2022

Charities Act 2022

Changes which were passed in October 2022

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Paying trustees for providing goods to charity

- May already have statutory power to pay trustees for services in governing document
- Now under Charities Act 2022, charities will be able to pay trustees in certain circumstances for the provision of goods
- No need to amend governing document to allow this BUT if governing document prohibits paying for goods and services then still not allowed
- CC11 –Trustees expenses and payments guidance has been updated by Charity Commission to reflect this
- Must still avoid conflicts of interest

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Charities Act 2022

Changes which were passed in October 2022

Fundraising appeals that do not raise enough or raise too much

- Appeals can raise too much or too little and charities were not able to repurpose such funds.
- Now the Charities Act 2022 allows repurposing of such funds if not more than £120 per donor for a similar purpose.

If no similar purpose available than:

- In a surplus position - if donations that can be spent on new purposes (different to the purposes you raised them for) are less than £1000, trustees can act without the Commission's involvement if they comply with new legal requirements
- In a deficit position – MUST follow donors wishes unless below £120 each, from cash collections or lotteries/competitions. Follow process

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Charities Act 2022

Changes which were passed in October 2022 – other more specific changes

- Power to amend Royal Charters
- Charity Tribunal power to make “authorised costs orders” for proposed/ongoing Tribunal proceedings out of the funds of the charity
- Commission’s scheme-making powers include making schemes for charitable companies
- confer trust corporation status automatically to existing/future corporate charities in respect of any charitable trust of which the corporation is (or, in the future, becomes) a trustee
- update provisions relating to giving public notice to written consents and orders of Charity Commission under various sections of Charities Act 2011
- changes to governing document by parliamentary scheme, under section 73 of the Charities Act 2011, will by default always be under a lighter touch parliamentary process (negative parliamentary procedure)

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Charities Act 2022

Changes introduced in Spring 2023

- Simplification on how charities sell, lease or transfer land:
  - wider category of designated advisers
  - Trustee/officer or employee ca advise on disposal in certain circumstances
  - Trustees discretion on how to advertise proposed disposal of land
  - grant employee residential lease without Charity Commission consent for short periods
  - clarifying legal requirements that apply
  - updating statements and certificates needed on a disposal or mortgage

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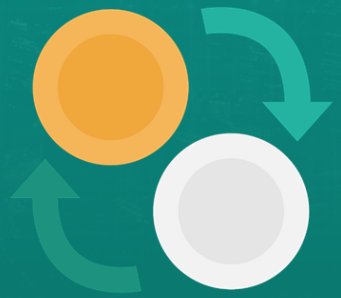
Charities Act 2022

Changes introduced in Spring 2023



Using ‘permanent endowment’

- Spend £25K or less smaller fund without Charity Commission approval in certain circumstances
- Borrow up to 25% of fund without Charity Commission approval

- Total return approach – can invest in social investments which may have negative or uncertain financial return
- More powers for Charity Commission on charity names including working names if too similar
- Connected person language updated to remove outdated language

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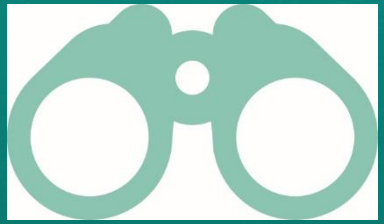
Charities Act 2022

Changes to be introduced in Autumn 2023



- Unincorporated trusts can amend governing document without Charity Commission approval;
- Changes to objects for charitable companies - minor changes will be allowed without Charity Commission approval. Major changes will require the Charity Commission to consider specific factors so may be more difficult.
- Charity Commission can disregard technical defects in Trustee appointment process if best interest of charity
- Charity Commission can allow trustee remuneration for work done to be paid or kept if already paid in certain circumstances
- Legacies on mergers and incorporation will follow new entity if on mergers register

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- Internal financial controls CC8

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Updated in Apr 23

https://www.gov.uk/government/publications/internal-financial-controls-for-charities-cc8/internal-financial-controls-for-charities#internal-financial-controls-checklist

There are now sections which cover:

1. Internal financial controls for banking
2. Internal financial controls for income
3. Internal financial controls for expenditure
4. Internal financial controls for payments to related parties
5. Internal financial controls for assets and investments
6. Internal financial controls for loans
7. Internal financial controls for hospitality, including gifts

Checklist at back with expected controls

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New guidance includes:

- Using a mobile payments system such as Google Pay and Apple Pay (you should have the same controls as debit, credit and charge cards
- Considering donations of crytoassets including cryptocurrencies and non-fungible tokens (NFTs)
- Other updates to related parties, fundraising and working overseas
- New section on hospitality

Use guidance from the National Cyber Security Centre for advice on keeping your charity protected online. UK Finance also has useful guidance on online payments.

24% of charities experienced a cyber attack in the last 12 months

(Department for Science, Innovation and Technology)

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Updated in Apr 23

Main updates concern digital payments systems, cybercrime and crypto assets

Digital payments systems

- Googlepay, Applepay, card payment wallets stored information
- Needs clear policy in place with spending and authorisation limits
- Consider risks of leaver where have stored card details on their device – so cancel and reissue card is safest
- Card holder should not be recipient of statements
- Dual authorisation and segregation of duties

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Updated in Apr 23

Main updates concern digital payments systems, cybercrime and crypto assets

Cybercrime

- Biggest risks are lack of awareness, use of volunteers and software defences
- Training and review of procedures

Crypto assets

- Aware of guidance in area if offered by donors
- Understand risks of holding and using such assets

You need to consider:

- how it helps you deliver your charity's work
- whether it is reasonable
- whether it gives rise to more than incidental personal benefit
- whether it poses any risks to your charity's reputation, including if it could be viewed by others as excessive or unnecessary

Also new Section 10: Accepting hospitality including gifts

You should have a policy which:

- sets out acceptable limits on hospitality
- prohibits accepting hospitality, which either is, or could be seen to be, a bribe, a corrupt payment or to secure preferential treatment
- requires records to be kept of hospitality given, accepted or refused. This should also be noted on your charity's register of interests if it relates to trustees
- applies to everyone
- is understood by everyone

Why you need internal financial controls

- Protect your charities assets
- Make informed decisions
- Meet your legal duties, e.g. manage charity's resources responsibly

Identify and manage risks with finance and assets

Keep good quality accounting records

Prepare timely and relevant financial information

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Mismanaging your charity's finances or assets can damage:

- Your Charity's financial viability
- Your staff and volunteers morale
- Your charity's reputation
- Public trust and confidence in charities

Financial reporting complies with the relevant legal requirements

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Economic Crime and Corporate Transparency Bill

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Manage your charity's assets responsibly:

'failure to prevent fraud, false accounting or money laundering' could become a criminal offence

New corporate criminal liability brings responsibility onto the entity and thus its key management for failings in the internal control environment that allowed fraud, false accounting or money laundering to occur

Currently: if there is a failure in the control environment that allows a fraud to take place, there is a requirement for prosecution to demonstrate that management were fully aware of the weakness in order to be able to take proceedings

In future: This would completely change the onus of proof to just the weaknesses existing in the control environment that allowed the activity to take place.

Size limit – applies to large (as company act criteria) organisations

Act now: organisations need to demonstrate that they have documented potential fraud, false accounting and money laundering opportunities and how these will be managed through preventative measures.

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Online safety bill

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Bill introduces new rules for firms which host user-generated content, i.e. those which allow users to post their own content online or interact with each other, and for search engines, which will have tailored duties focussed on minimising the presentation of harmful search results to users

- Platforms which fail to protect people will need to answer to the regulator, and could face fines of up to ten per cent of their revenues or, in the most serious cases, being blocked
- All platforms in scope will need to tackle and remove illegal material online, particularly material relating to terrorism and child sexual exploitation and abuse
- Freedom of expression will be protected because these laws are not about imposing excessive regulation or state removal of content, but ensuring that companies have the systems and processes in place to ensure users' safety. Proportionate measures will avoid unnecessary burdens on small and low-risk businesses
- With regards to private chat services, it requires the providers to proactively scan messages and so charities need to be aware of this aspect and the implications on them as a result if the bill remains as currently drafted

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Martyn's Law

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On 2 May 2023, the Government published draft Terrorism (Protection of Premises) Bill, also known as Martyn's Law

- Applies to premises accessible to the public with capacity of 100 individuals or more
- Entertainment and leisure, retail, food and drink, museums and galleries, sports grounds, public areas of local and central Government buildings, visitor attractions, places of worship, health, and education establishments
- Include buildings and permanent outdoor premises and events (e.g. festivals) with public capacity of 800 or more where access is by payment or ticketed entry
- New requirements to increase preparedness for and protection from terrorist attack and take proportionate steps driven by size/nature of the activities (tiered model)
- A standard tier undertake simple yet effective activities to improve protective security and preparedness up to 100. Enhanced tier have additional requirements that apply to capacity of 800 or more

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Charitable rates relief

London Borough of Merton v Nuffield Health)

See: https://www.supremecourt.uk/cases/uksc-2021-0138.html

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- Supreme Court gave judgment confirming test for eligibility for mandatory charity rates
- Looked at the two areas of law (charity law and rating law) and gives clear interpretation of how to apply. In summary two stage test:
- Stage 1 – is entity a charity? Which is factual yes or no for registered charities. For non registered charities must fulfil the public benefit test
- Stage 2 again factual - are premises used for charitable purpose? ‘Must be wholly or mainly used directly for activities which constitute carrying out of charitable purposes of charity or, by a modest extension, for activities which directly facilitate or are wholly ancillary to carrying out of those purposes’.

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Charity Commission updates

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Charities' new 'front door' into Charity Commission digital services

- My Charity Commission Account service went live on 31st July
- 'front door' into the Commission to submit all Annual Returns and engage with the regulator's wider digital services
- the service will be extended to all individual trustees. This will facilitate a more direct relationship between the regulator and trustees, helping to ensure they are supported in their role and equipped to run their charities well

Annual public trust report issued Jul 23

Trust in charities has marginally increased when trust in other institutions has flatlined or fallen. Charities continue to be the second most trusted social institution of those that we benchmark against.

It's easier for the public to trust charities that are small and local, and causes that they feel personally connected to

Most trustees continue to feel they understand how public expectations around finances, impact and values should influence charities

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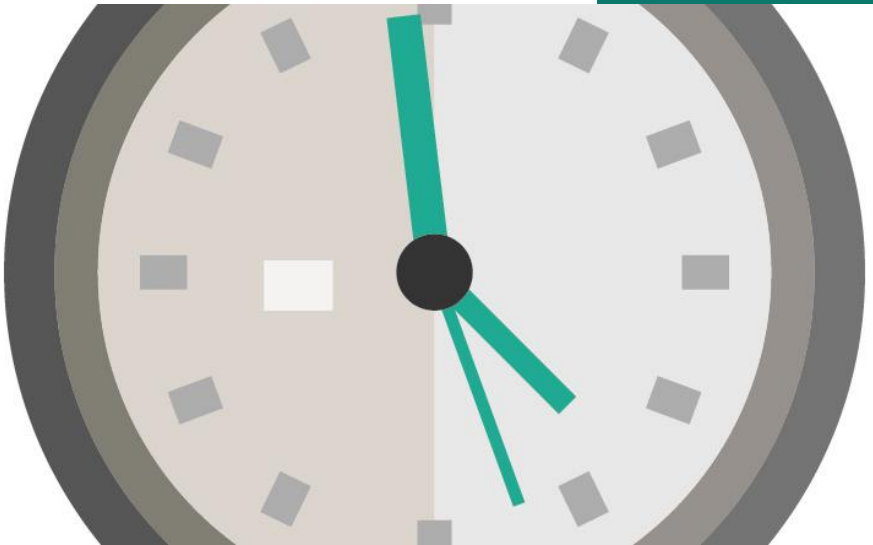
The public want charities to manage funds responsibly and show how they make a difference



Trustees' awareness of the 5-minute guides has increased since last year

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CC14: Refreshed guidance for trustees on investing charity money

Aug 2023

Shooter clearer and easier to use

- various issues that may be relevant for trustees to consider when making investment decisions like reputational impact or potential for investment to conflict with charity's purposes
- lists steps trustees 'must' take to be legally compliant and those trustees 'should' do as best practice
- personal views, opinions and motives of trustees not to affect decision making
- Reflects the Butler-Sloss decision. Discretion to choose how to invest and investment options but act in best interests of the charity to further its purposes
- incorporates previously separate guidance on social investment and no longer uses terminology that could be prone to misunderstanding ('responsible investment', 'ethical investment', 'mixed motive investment' and 'programme related investment')

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HMRC and other updates

Charities: detailed guidance notes on how the tax system operates

Aug 23 – updated to remove programme related and mixed motive and replace with social investments

Jul 23 – update for waiving of a refund or loan repayment by an individual can be considered a donation if certain conditions are met

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Mar 23 - updated re charities based in *the* EU, Iceland, Liechtenstein or Norway can no longer apply to get tax relief

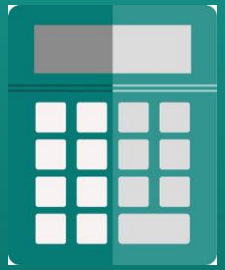
https://www.gov.uk/government/publications/charities-detailed-guidance-notes?utm_medium=email&utm_campaign=govuk-notifications-topic&utm_source=be0c6bff-d5be-4e86-b5ef-29b6fb0a7008&utm_content=immediately#full-publication-update-history

Jan 23 - Gift Aid updated to clarify when donations may incur an administration fee and when these fees are treated as charitable expenditure

The Community Organisations Cost of Living Fund

You can get funding to pay for:

- costs of delivering, expanding or adapting your existing critical service(s) from the date you are funded until 31 March 2024
- retrospective costs of running existing critical service(s) between 24 July 2023 and the date you are funded



Funding is for organisations that support people and communities in England under severe pressure because of the increased cost of living

£10,000 to £75,000 available for charities with income up to £1M

To apply must already run critical services around at least one of the following:

- food and emergency supplies – like food and baby banks or the provision of hot meals, clothes or toiletries
- emergency shelter – like night shelters or other accommodation for people experiencing homelessness
- safe spaces – like domestic abuse services and youth services
- warmth – like warm rooms and spaces
- financial and housing advice – like giving people advice because of the increased cost of living

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