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Keeping on top of new financial regulatory changes in 2020

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It's crucial that charities keep up with the latest financial regulatory updates that have an impact on their audit and financial statements. However, for busy finance teams concentrating on everyday finances, it can be difficult...

This is apparent within The Charity Commission's 2019 review of charity accounts which says the Commission is concerned that so many account submissions did not meet their benchmark.
The review found that while three quarters of charities with income over £1 million met the external scrutiny benchmark, only 37% of those with income between £25,000 and £250,000 did. Some of the key failings included the incomplete reporting of related party transactions and not complying with the requirements around summary income and expenditure accounts.

On 15th January, the Fundraising Regulator published its review into compliance with the fundraising disclosure requirements set out within The Charities (Protection and Social Investment) Act 2016. The findings concluded that in the majority of cases, reports were not compliant, with only 40% of report disclosures deemed to be 'adequate'. Charities are subject to scrutiny with the bar often higher due to the protection of public funding.

These reports should be examples of best practice, showing how charities do everything they can to comply. For example, how they are protecting our most vulnerable members of society. So, what can charities do to improve their financial reporting?
Staying up to date is key. Last year there were several changes impacting the statutory accounting and reporting for charities. These included:

- The Charities SORP second edition, published in October 2019, incorporating update bulletins 1 and 2
- The latest SORP information sheets dealing with new company disclosure requirements and accounting for multi-employer defined benefit pension schemes

Looking at financial governance, charities should also be aware that there is some new guidance for charities working with non-charities. As funding relationships become more complex and collaboration with other organisations is often necessary to secure funding, relationships with other organisations can bring many inherent risk and challenges.

This means that trustees must ensure they understand connections with non-charities and control the use of funds to mitigate the risk of funding non-charitable purposes. This guidance helps trustees comply with their legal duties and ensures that charitable funds are always applied in the charity's best interests.

It is important that charities prepare effectively for an audit and that finance teams understand what level of information auditors need to conclude that the accounts are true and fair. They should focus on the recent updates to the auditing standards on going concern and accounting estimates, relevant to periods commencing on or after 15 December 2019.

Trustees and management should expect more robust challenges from their auditors on the charity's own assessment of going concern. Trustees may find they need to do more to explain and justify their assumptions and provide supporting evidence if they are predicting significant changes to the charity's future financial performance. An example of this would be if the accounts include any areas of estimate or judgement that may have a significant impact on future accounting periods.

Another key area for charities to focus on this year is serious incident reporting. This links closely to an auditor's requirement to report matters of material significance to The Charity Commission. Charities need to know when reporting a serious incident is required, the implications of this for their auditor and what tools are available to help them.

Some examples of financial-related incidents that need to be reported are actual or alleged instances of fraud or money laundering, theft and in relation to IT equipment holding personal data, suspicious donations or a significant financial loss of funds, including a sudden loss of a significant income stream.

Finally, there is now a newly appointed SORP committee, with a redefined role to better represent the sector. It is also in the process of recruiting engagement partners such as donors, funders and representatives of smaller charities. The focus will be on making charity accounts more user-friendly, so hopefully there are some exciting developments to come and something to keep on the radar for the near future.