Grant Thornton

In-depth insight into the impact of COVID-19 on financial reporting in the charity sector

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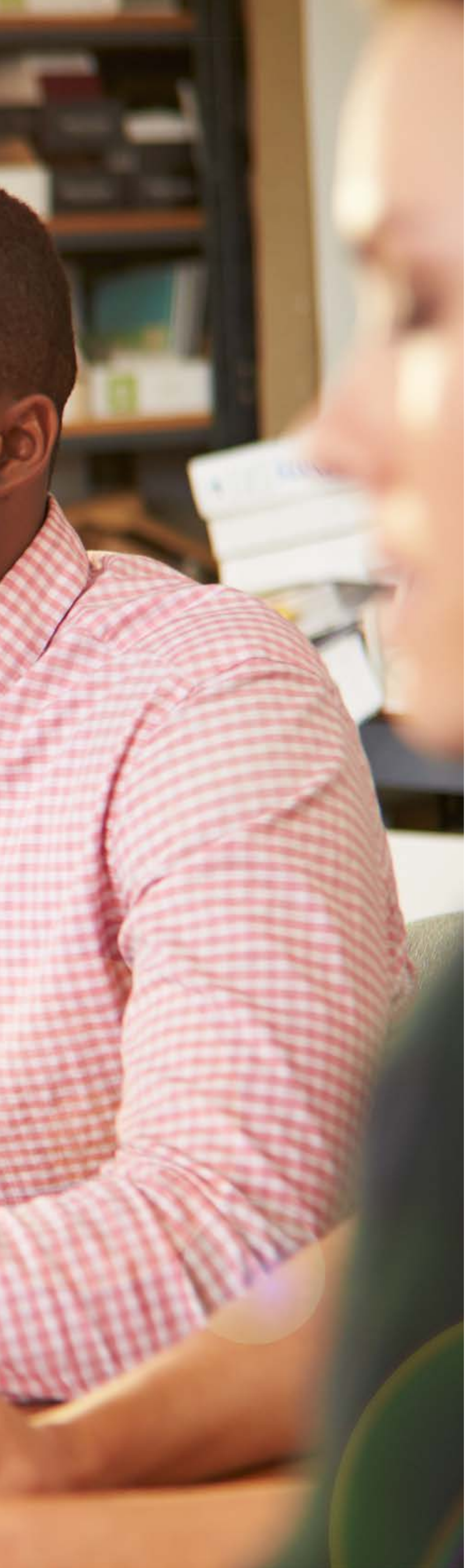

Foreword

Charities across the country are now working in an environment that is completely different to the one they were in just months ago as the Covid-19 pandemic continues to impact their daily operations. In such uncertain times, now more than ever communities will be looking towards charities to do what they do best and provide support to those in need, particularly the most vulnerable members of our society.

The virus and measures taken to contain it have undoubtedly impacted financial and economic activity. This has several accounting ramifications that charities will need to carefully consider when preparing their Trustees' Annual Reports and financial statements for 2019 and 2020 year ends.

For those charities with 31 December 2019 year ends (or earlier) the emergence of new information about Covid-19 and its impact is a non-adjusting event for the financial statements. However, disclosure of the nature of the events and their financial effect is still required. For those with year ends between December and March there will be significant judgement and uncertainties regarding what was known at the reporting date, however for reporting dates of 31 March 2020 onwards Covid-19 is an adjusting event and therefore the effects must be taken into account in measuring assets and liabilities wherever relevant. Further details are provided later in this report.

The aim of this report is to indicate key areas that management and trustees should consider when assessing and reporting the impact of Covid-19 on the charity. Every charity will be impacted in different ways and will need to make their own assessment of the impact on their financial statements. However, we have identified some of the key challenges for the sector, along with the potential financial reporting and regulatory impact, to support preparers of charity accounts navigate through some of these key issues. We have also included a number of useful links to other resources for charities.

We hope that you find our report insightful and helpful to preparing your charity accounts in this new reality.

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Financial reporting and regulatory impact of operational challenges

Operational challenge	Related financial reporting/regulatory impact
Ability to fundraise, including events being postponed or direct debits/ membership cancelled by donors	**Fundraising income and regulations** – charities will need to consider the likelihood of future events taking place and whether income/donations received in advance will need to be refunded. The fundraising regulator has issued detailed advice[1] on fundraising during the pandemic including information regarding refunds for any donations received in advance of events that have now been cancelled, for example a donation that was given to someone taking part in a marathon that has now been cancelled. Although unlikely that donors will request refunds, if they do and donations have already reached your charity, you may need permission from either the Charity Commission for England and Wales, Charity Commission for Northern Ireland or the Scottish Charity Regulator (OSCR) to issue a refund. Any decisions made should be clearly documented and reviewed in line with the Fundraising Regulator's Code of Fundraising Practice[2] to ensure that they are in line with the regulatory standards. Trustees should also be consulted on any significant decisions made. Section 2.3 of the Code of Fundraising Practice provides further advice on this matter.
Closure of charity shops	**Stock value** – With the UK in lockdown, charity shops have been temporarily forced to close down. Charities will need to consider whether at the reporting date the value of stock needs to be written down, particularly for those charities which sell items with shelf-lives or with conditions which might make it unsaleable or have a reduced value when shops re-open. Charities will need to assess the carrying value of this stock to determine whether any impairment loss should be recognised. **Onerous leases** – It is uncertain as to when the lockdown restrictions may be lifted and when charity shops can feasibly re-open, due to availability of staff and ability to implement any social distancing measures within the shops. Where the shop premises are not owned by the charity and are being rented, charities will need to consider whether an onerous lease provision is required. This is equally applicable to any other leasehold properties the charity might have that may not be in use for the foreseeable future. See section 7.35 of the Charity SORP for further detail.
Access to beneficiaries with social distancing measures in place	**Safeguarding, use of volunteers and good governance** - This is clearly a significant issue for charities, both due to lack of available staff and social distancing measures. It is essential that safeguarding is a priority when considering any new methods of serving beneficiaries, for example through using video calls or increasing the number of volunteers. Social distancing inevitably makes it harder to maintain effective governance and strong internal controls but tthis should remain a priority. Where necessary any physical checks should be replaced with virtual ones. Where charities are using an increased number of volunteers, in line with the SORP under paragraph 6.19, disclosures regarding the role played by volunteers and the nature of their contribution will need to be reviewed and updated to reflect this.

1 https://www.fundraisingregulator.org.uk/more-from-us/resources/coronavirus-covid-19-advice-fundraising
2 https://www.fundraisingregulator.org.uk/code

Operational challenge	Related financial reporting/regulatory impact
Increase in demand from beneficiaries both in the short and long-term	**Financial sustainability and use of reserves** - This is clearly the greatest challenge for the majority of charities, where their resources and funds are depleted but demands for their services are significantly increasing. Charities will want to support their beneficiaries as best as they can, however it is essential to consider the long-term future of the charity and ensure that reserves are not depleted to levels that put charities in danger of insolvency. Priorities need to be established and strategies will need to be re-worked to ensure that all available funds are being used as efficiently as possible and targeting priority areas. In extreme circumstances some charities may be considering using restricted funds for other purposes. There may be ways of amending these restrictions, for example by speaking to the original funder, however careful consideration needs to be made when doing this and legal advice may be required. Any changes in the charities reserves policies will need to be clearly documented in the Trustees' report. Charities may also consider selling financial investments. However due to Covid-19 these are likely to have reduced in value significantly and therefore charities may consider whether there are alternative solutions, for example by obtaining low interest loans or grants, collaborating with other charities or using some of the government support schemes, before drawing down on these. The Charity Commission has produced further advice[3] on this matter which we have discussed below in more detail.
Pausing in research and any other significant projects	**Grant income** - For any grants received or due to be received, charities will need to re-assess whether they can fulfill the performance measures or requirements of the grants, particularly where the charity's activities have had to be adapted to the current circumstances and resources re-allocated. These might include achieving certain levels of output or using the grant within a specified time period, which may no longer be possible. If this is looking unlikely, then charities will need to speak to funders to establish whether any extensions or amendments can be made to the existing agreements and if not then charities will need to re-assess the recognition of these grants in the financial statements.

3 https://www.gov.uk/guidance/manage-financial-difficulties-in-your-charity-caused-by-coronavirus

Significant financial reporting issues to consider

Covid-19 is likely to have a significant impact on a number of areas of the Trustees' Annual Report and financial statements, some of which we have highlighted earlier in this report. However, there are a number of other significant areas of consideration:

Trustees' Annual Report

Additional disclosure is likely to be required around Covid-19 in most areas of the Trustees' Annual Report, including the impact on main achievements, future plans, volunteers, fundraising, governance, principal risks and uncertainties, financial review, going concern and reserves.

Charities are not expected to predict the ultimate extent and duration of the pandemic or its wider impact on the economy. However, it is reasonable for stakeholders to look to charities to use best endeavours to explain the specific known impacts on their organisation to date as well as the anticipated future impacts under different scenarios. The specific areas affected by uncertainty are discussed below in more detail, however we would expect that many charities will have to reconsider their strategies and outlook going forward given the significant impacts of Covid-19. Further, the pandemic and various government measures imposed have likely put significant pressure of governance processes and on trustees in discharging their fiduciary duties.

Accordingly, apart from the specific areas of the Trustees' Annual Report detailed below, we would expect the report to include detailed and specific explanations of the current impact of Covid-19, how the trustees have responded and the resilience of the organisation in the face of longer-term uncertainty.

Future plans and activities

This is an area which will require significant consideration by charities as strategies are likely to have changed significantly from those previously agreed and planned for. As noted above charities are not expected to predict the ultimate long-term impact of the virus, however disclosure is required regarding the current impact as well as the anticipated future impact and how their strategies have had to change in light of the current pandemic.

Financial review

Consistency between the front-end narrative reporting and amounts recorded in the financial statements, as well as the adequacy of disclosures made in the financial statements, will be of vital importance. Charities will need to ensure that disclosure regarding significant movements in amounts recorded are explained clearly and identify what, if any part, of the movement is due to the impact of Covid-19.

Those with year-ends after December 2019, when the virus had taken hold, are likely to see a much greater impact on the amounts recorded in the financial statements. In line with paragraph 1.46 of the SORP larger charities are also required to explain any factors that might affect the financial performance or position going forward.

Reserves

Within the financial review the charity must explain their policy for holding reserves, state the amounts of those reserves and why they are held. This is an area which is likely to be affected quite significantly by the pandemic and some charities may have to reduce their reserves to below their original target level. Any reduction will need to be explained clearly with an explanation as to whether the charity is still financially viable with a lower level of reserves.

Principal risks and uncertainties

Stakeholders will be especially interested in the charity's risk assessment regarding the impact of Covid-19 and the actions the charity has taken or are planning in response to the pandemic. Reporting on the principal risks and uncertainties should be closely linked, and where possible referenced, to all areas of the financial statements where uncertainties around Covid-19 are likely to have an impact on the charity.

When disclosing principal risks and uncertainties, charities should consider the specific resources, assets and relationships that are most at risk and the mitigating steps being taken to protect them. The principal risks and uncertainties would be expected to include the aspects which may be crucial to a charity's ability to withstand the various market and operational disruptions and rebuild when the opportunity arises. For example, risks and uncertainties arising from the potential loss of key employees or key funders, or donors, who have a crucial role to play in ensuring the charity can sustain and rebuild.

Governance

Social distancing measures and staff absences are likely to have had an impact on how effective governance has been maintained. Charities will need to disclose how their governance has been affected and what mitigating actions they have put in place to address any risks identified.

Those charities which have chosen to adopt the Charity Governance Code are encouraged to explain if they have been unable to follow any of the principles of the Code, which is more likely in the current circumstances. Although the Code is not a regulatory requirement it uses a basis of "apply or explain" to encourage transparency and explain to stakeholders why they have either chosen not to follow a certain principle or where they have been unable to follow it.

Going concern and liquidity

Going concern and any associated material uncertainties will need significant consideration and may have an impact on both the audit report, narrative reporting and accounting policy disclosures in the accounts. In the most severe situations, the appropriateness of the going concern basis for accounting may need to be reviewed.

Some key areas to consider around going concern are:

- **Material uncertainties** - Section 3.38 of the SORP states: "All charities must explain if there are material uncertainties related to events or conditions that cast significant doubt on the charity's ability to continue as a going concern. In making their explanation, charities should provide:
  - a brief explanation as to those factors that support the conclusion that the charity is a going concern; and
  - a balanced, proportionate and clear disclosure of any uncertainties that makes the going concern assumption doubtful; or
  - if the accounts are not prepared on a going concern basis, this fact must be disclosed, together with the basis on which the Trustees prepared the accounts and the reason why the charity is not regarded as a going concern."

- **Forecasting** – any forecasts will need to be revisited in light of the current circumstances as well as a variety of sensitivities and stress testing performed. This stress testing should be done using a "reverse stress testing" strategy. This means that rather than starting with a scenario and looking for the outcome, charities should start with the outcome and look for severe, but possible, scenarios that might cause this outcome to occur. This will allow charities to identify their areas of focus and work on developing strategies to mitigate the severe scenarios from occurring. Charities should also ensure that these go beyond the 12 months after the date of approval of the financial statements and are based on cash flows. If any government support schemes are included in forecasts these should only be included up to the point that the government have committed to date.

- **Covenants** – for those charities with year ends at the start of the 2020 calendar year or at 31 December 2019, loan covenant breaches due to Covid-19 are unlikely. However the impact of the pandemic may result in covenants being broken in subsequent periods. This therefore needs to be taken into account when assessing going concern and ensuring that there is appropriate waiver documentation in place to support the going concern assumption as well as loan classifications, where relevant.

- **Financing** - Charities will need to consider whether any financing or refinancing will be impacted, and if so, what impact this may have on the accounts in terms of loan disclosures and also on any capital commitments which are dependent on finance from external sources.

Significant judgements and estimates

Many areas of the annual report involve management's judgements and assumptions as of the reporting date. It is a time of great uncertainty and therefore any disclosures on significant judgements and estimates will need to be sufficiently detailed and updated to reflect the current situation and any changes in underlying assumptions and sources of estimation uncertainty.

Careful consideration should be given to areas where management has made assumptions and taken judgements which are highly sensitive and could result in impairment of assets for instance.

Legacy income

For a period we are likely to see difficulties and delays in the valuation of legacies due to uncertainties in the investment and housing market as well as delays in the administration process of distributing the amounts included in wills due to social distancing measures and staff absences. This is likely to have a knock-on impact on the time it takes for charities to receive confirmation regarding the probability of receipt.

Any amounts accrued will need to be reviewed to ensure that the valuation and probability of amounts recorded has not changed. Those applying any mathematical modelling under the portfolio approach will need to pay attention to the key inputs and sensitives used in the modelling and that it reflects current conditions.

Charities will need to review their accounting policy for recognising legacy income to ensure that it remains appropriate in light of the current circumstances.

Income from donated goods, facilities and services

For charities receiving a significant amount of donated goods, facilities and services, the valuation of these will need to be reviewed to assess whether there has been any change in light of the current circumstances and that the valuation method used remains the most appropriate method. This will not impact those goods recognised on their sale as the income will be valued at whatever the sale value is.

Grant commitments

Charities may need to postpone grant commitments or change the amount of a grant already committed to at the year-end due to the impact of the pandemic. In terms of accounting for the grants, charities need to consider what was communicated to the grant recipient at the reporting date and what information management had at that point. Careful analysis and judgment is required depending on the facts and circumstances together with understanding the conditions that existed at the end of the reporting period.

Anything agreed to post year end is more likely to be a non-adjusting event. For example if a grant recipient confirmed after the year end that they were happy to receive half of the amount of the grant that had been communicated to them before the year end then the full amount of the grant liability should still be shown in the financial statements of the charity. This should be accompanied by a disclosure of a non-adjusting post balance sheet event note explaining that only half of that grant liability is payable after the year end, due to an agreement with the recipient.

During the year there may also be the situation where a grant offer may have been made but there is uncertainty as to whether the recipient charity will be able to carry out its project plan due to the impact of the virus. In line with SORP section 7.33. “If it becomes clear that the payment is possible but not probable, then a liability for the commitment should not be recognised. Instead, the funding commitment should be disclosed as a contingent liability.”

Impairment

There are many areas of the financial statements which will need to be assessed for impairment considering the financial impact of the pandemic. At each reporting date, a charity’s trustees must assess whether there is any indication that an asset may be impaired.

To put this into context for the charity sector we have highlighted some key areas below where impairment assessments may be necessary in the current climate.

- **Tangible fixed assets** - Many charities are currently going through a period of significant disruptions due to the lockdown as well as changes in the wider external economic and financial markets, which has resulted in significant changes to their operations, therefore undoubtedly charities may be holding assets which become less utilised.

  Further, it is important to note that where demand for a charity’s services significantly decreases or ceases, the assets used to provide those services may be impaired. Similarly, major social, demographic or environmental changes may have an impact on the number, nature or needs of a charity’s beneficiaries and may therefore also provide an indicator of impairment.

  Both FRS 102 and the SORP require non-financial assets such as tangible assets to be impaired if their carrying value exceeds their recoverable amount, with the recoverable amount being the higher of fair value less costs to sell (FVLCTS) and value in use (VIU). Recoverable amount is determined for the cash-generating unit (CGU) to which the asset belongs if it cannot be determined for the individual asset.

  It is not always necessary to determine both an asset’s FVLCTS and its VIU as, if either amount is equal to or exceeds the asset’s carrying amount, then the asset is not impaired. The method used to determine the VIU of an asset held by a charity will depend on whether the asset is primarily held to generate cash as a commercial return or for its service potential to the charity’s beneficiaries.

  It is important to note that many charities hold assets primarily to provide services to their beneficiaries rather than for generating cash flows. In such circumstances, it would be inappropriate to measure VIU by reference to the asset’s cash flow and appropriate to instead measure it as the present value of the asset’s service potential (VIU-SP).

  This is an area of significant management judgement and detailed consideration will be required for each charity given its own set of facts and circumstances. Further detailed guidance is contained within Section 12 of the SORP and Section 27 of FRS 102.

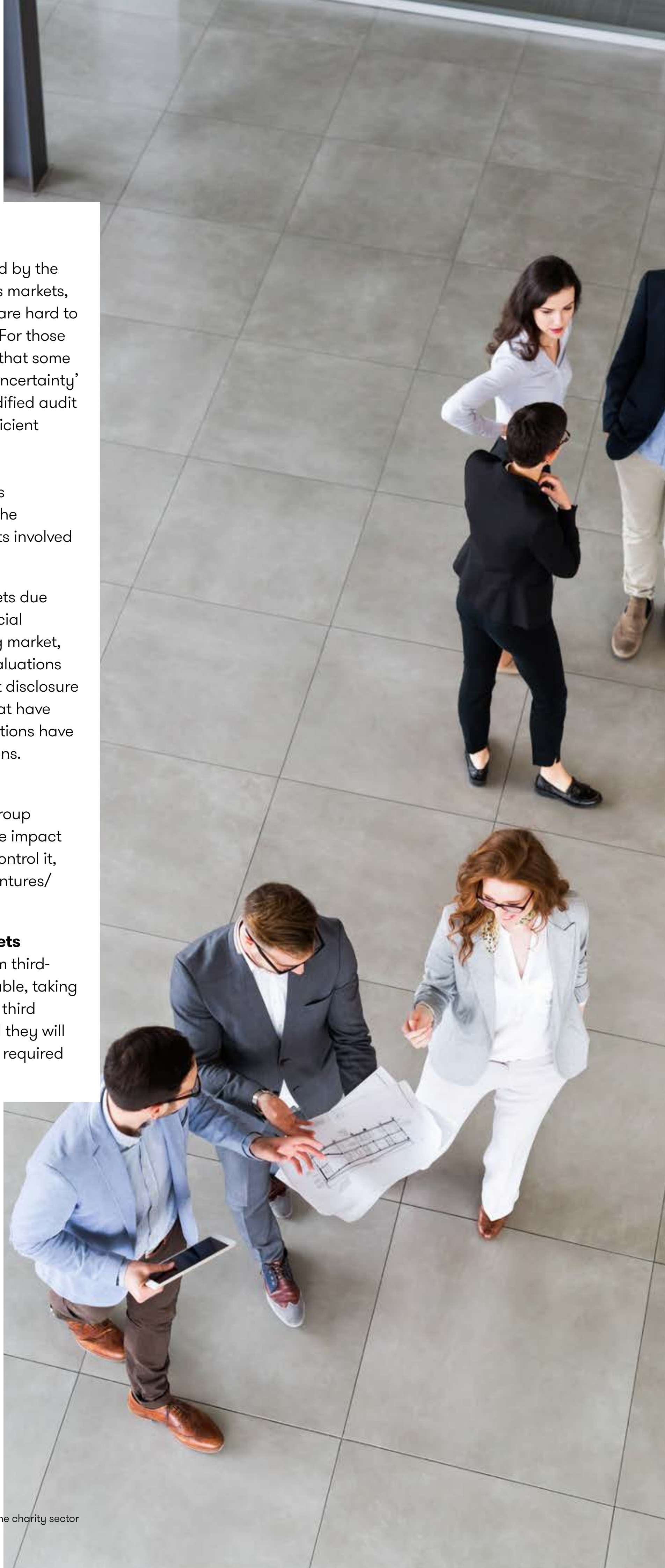
- **Heritage assets** – In line with Section 18 of the SORP heritage assets can either be recorded at cost or at valuation. Under both methods a heritage asset must be reviewed at the reporting date for impairment where there are indicators of impairment. Where the recoverable amount of an asset is less than its carrying amount, the charity shall reduce the carrying amount of the asset to its recoverable amount. Note Section 27 Impairment of assets of FRS 102 is equally applicable to heritage assets as it is to tangible fixed assets.

  The SORP states that impairment may be due to physical deterioration, breakage, new evidence giving rise to doubts as to its authenticity, or other factors. In the current climate the indicators of impairment are likely to be much wider and manifest in a number of ways through the external and internal sources of information.

Furthermore, the reliability of valuations is affected by the volatility of the economic environment and various markets, including the property market. On-site valuations are hard to achieve with social distancing measures in place. For those under the revaluation model, there is a possibility that some valuations will be issued with 'material valuation uncertainty' declarations, which could potentially result in modified audit opinions, where auditors are unable to obtain sufficient appropriate audit evidence.

Charities therefore need to ensure that disclosures regarding valuations are sufficient for readers of the accounts to understand any estimates/judgements involved in determining the valuation at the year end.

- **Investment properties** – As with heritage assets due to the current government advice regarding social distancing and uncertainty around the housing market, charities will need to ensure that all property valuations are using the best estimates possible. Sufficient disclosure should be given regarding any assumptions that have been used, particularly in cases where assumptions have been used as an alternative to on-site inspections.
- **Investment in joint ventures/investment in subsidiaries** – Some charities have complex group structures and will need to consider whether the impact of Covid-19 including any measures taken to control it, are an indicator that the investments in joint ventures/ subsidiaries are impaired.
- **Debtors and other short and long-term assets** - Charities will need to review amounts due from third-parties to assess whether they are still recoverable, taking into consideration the financial situation of the third party. If issues with recoverability are identified they will then need to establish whether any provision is required against these balances.



Employee benefits such as holiday pay accruals, sick pay and termination costs

Charities will need to consider whether additional provisions and disclosures are necessary due to employee layoffs and other employee related items as a result of Covid-19.

Termination costs - Under FRS 102 paragraph 28.34 – 28.35 termination benefits should only be recognised when the charity has a detailed formal plan in place and this plan has been communicated to those affected. Any plans communicated after the reporting date should be treated as a non-adjusting post-balance sheet event in line with paragraph 13.7 of the SORP.

Sick pay - Sick pay is likely to increase during this period and charities should recognise a liability for sick pay in the period in which the employees are off, even if it is paid post year-end.

The government have announced that they will cover Statutory sick pay for up to two weeks for entities fulfilling certain criteria[4]. If this is claimed, the liability should still be recognised with a corresponding government grant to match the amount paid by the government.

Related Party disclosures

At times like this, there may be increasing support provided to charities from related parties, particularly if they are struggling financially and/or have increase demand from beneficiaries. An example of this may be where a trustee chooses to give additional financial support to the charity. Charities should ensure that they follow good governance around any transactions with related parties and follow the disclosure requirements in line with section 9 of the SORP.

Under paragraph 9.18 of the SORP donations from trustees, that do not have conditions attached, do not need to be disclosed individually, however there is still a requirement for charities to provide disclosure of the aggregate amount of donations received from trustees without conditions.

Investments

Financial markets across the world have been very volatile due to the current uncertainty surrounding the economic impact of the pandemic. Many charities hold significant financial investments and the value of those is likely to be reduced. This will have a knock-on effect on total net assets and any charities with loan finance will need to consider whether this has an impact on any of their covenants. It will also have an impact on the valuation of defined benefit pension schemes as discussed below.

Pensions

The fall in the value of investments will affect the valuation of defined benefit pension schemes overall and in some cases, charities may see a noticeable increase in their defined benefit pension deficit. Some actuarial methodologies may also traditionally use 'estimated' investment valuations to determine the year end fund asset position, however due to the volatility of the financial markets, where possible actual investment values (i.e. the asset valuation as at the year-end) should be used. Using any estimated asset valuations increases the likelihood of a significant misstatement in the overall defined benefit pension scheme position at the year end.

Distributions paid (via Gift Aid) to charitable parent association from trading subsidiary

Where charities have trading companies it is important to consider the company law requirements for the directors of the trading company making the distributions both at the time of proposing a Gift Aid payment and at the time it is paid. Directors should ensure there are sufficient distributable profits to make such a payment and also whether any distribution would put the company into financial difficulty going forward.

In accordance with FRS 102 29.14A the tax relief associated with the gift aid payment can only be recognised if it is probable that the gift aid payment will be physically paid within 9 months of the reporting date. Charities will need to consider this point carefully, particularly in light of the current circumstances and if payment is not probable then the corporate tax liability will need to be recognised.

Post balance sheet events

As at 31 December 2019, there were a limited number of cases of a virus reported to the World Health Organisation (WHO). The subsequent spread of the virus, its identification as Covid-19 by the WHO and actions taken by Governments after 31 December 2019 do not provide additional evidence about the situation that existed at 31 December 2019. Therefore, for entities with a reporting date of 31 December 2019 (or earlier) the emergence of new information about Covid-19 and its impact is a non-adjusting event. This view is in line with guidance published by the FRC. In line with section 13.8 of the SORP, disclosure is still required for non-adjusting events regarding the nature of the event and estimate of the financial effect if possible.

For reporting dates in 2020 more information about Covid-19 and its impact will be known for reporting dates but very significant uncertainties remain, particularly for those with January or February 2020 year ends. For year-ends of 31 March 2020 onwards Covid-19 is an adjusting event and the effects of the pandemic must be taken into account in measuring assets and liabilities wherever relevant, based on facts and circumstances at year-end. However, new information about the likely severity and duration of the effects of Covid-19 will continue to emerge. Careful analysis and judgement, with reference to Section 13 of the SORP and Section 32 of FRS 102, will be required to determine whether this information is 'adjusting' on the basis that it provides new evidence about the year-end situation, or is a non-adjusting event that should be disclosed.

We would encourage all organisations to consider all these points when preparing their financial statements to ensure that they have considered all relevant points.

4 https://www.gov.uk/employers-sick-pay/help-with-sick-pay

Government Support Schemes - considering the accounting implications

The government has announced a £750 million package of support for frontline charities. £360m will be allocated to charities providing 'key services' and supporting vulnerable people during the crisis. £370m will be provided to 'small and medium-sized charities' (mainly those with under £1m income) through the National Lottery Community Fund and the government will also match public donations to the BBC's Big Night In charity appeal, which took place on 23rd April 2020.

All of the above will be in the form of 'grant funding' and should be accounted for as a government grant. Please see the table overleaf where we have included some detail regarding accounting for government grants.

Some of the business support schemes provided by the government are also available to charities and / or their trading subsidiaries depending on the nature of their operations and funding. We have discussed some of these below and how they should be accounted for.

Note, the government support provided is changing regularly and the details of entitlement and how any claims will be settled are still being developed. However, if a charity believes that it can benefit from any of these support schemes, the trustees will need to determine when and how any such benefit should be reported in the financial statements.

Government scheme	Accounting considerations
Coronavirus Job Retention Scheme Under this scheme the government will reimburse 80% of the wages of employees who have been furloughed, but who are being kept on the payroll.	**Government Grants** In line with the SORP Government grants "represent the assistance by government in the form of a transfer of resources to a charity in return for past or future compliance with specified conditions relating to the operating activities of the charity (or its subsidiary)." As this scheme involves a transfer of resources from government to the charity, it meets the definition of a government grant. Section 24 of FRS 102 gives guidance regarding the accounting treatment for government grants. However, it is important to note that the SORP under paragraph 5.10 does not allow the use of the 'accrual model' for the recognition of income from government grants. Therefore all government grants should be accounted for using the performance model. The government grant income should be recognised when there is evidence of entitlement to the grant income, receipt is probable, and its amount can be measured reliably. Evidence of entitlement is likely to be when the charity has made a claim and the charity has reasonable assurance that it can comply with any terms or conditions attached, for example the employees being furloughed remain on the payroll for the period that the grant relates to. Whilst this scheme is designed to reimburse the staff costs, the government grant should not be netted off against the related expense in the income statement, and therefore the grant should be presented gross. Further disclosures are required for charities in respect of government grant income which are outlined in paragraph 5.58 of the SORP.
Donations and Gift Aid claims If a charity event is cancelled due to Covid-19 HMRC will accept that where a person due a refund decides to donate this to the charity[5], the charity can accept the donation and will also be able to retain the Gift Aid element.	In line with the SORP "Donations comprise gifts that will not provide any economic return to the donor other than the knowledge that someone will benefit from the donation." Therefore, the event needs to have been cancelled and it has to be clear that the donor will not receive any benefit from their donation. Charities will need to keep some form of communication from the donor that demonstrates that they are willing to donate the cost of their ticket and the donor will need to complete a gift aid declaration where relevant. Once the confirmation is received from the donor, the charity then have entitlement to the income and can recognise the donation within the Statement of Financial Activities under "Income from donations and legacies".
Coronavirus Business Interruption Loan (CBILS) This scheme supports small and medium-sized businesses, with an annual turnover of up to £45million, to access loans, overdrafts, invoice finance and asset finance of up to £5 million for up to 6 years. For entities satisfying this criterion, the government will cover the first 12 months of interest payments and any lender fees.	Under CBILS the government will cover interest and other fees so that element would fall into the definition of government grants and thus the accounting for the government grant income will be similar to the Coronavirus Job Retention Scheme as described above. Note, the grant interest income will also need to be recorded separately from the interest expense, as netting off is not permitted by the SORP or FRS 102. The government will also provide lenders with a guarantee of 80% on each loan and therefore charities might be able to access finance that previously has not been possible due to this additional guarantee. FRS 102 requires that this loan is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument. The government support to obtain this finance could be seen as another form of government grant. However quantifying the value of the grant element (if any) could be extremely challenging as it would involve determining the current market interest rate for the loan without the benefit of the government guarantee. This is an area of development so charities should watch out for more guidance on this issue. We suggest early engagement and discussions on this matter are held with your advisors and auditors where relevant.

5 https://www.gov.uk/guidance/processing-ticket-refunds-for-cancelled-charity-events-during-the-coronavirus-covid-19-pandemic

Government scheme	Accounting considerations
Expanded Retail Discount – 100% business rates relief There will be 100% relief from business rates for the tax year 2020/21 for certain entities operating in the retail, hospitality, leisure and nursery sectors. Examples of charities, which this could apply to include those with charity shops, sports clubs, shops within museums and galleries, theatres and tourist attractions.	In this situation the government is waiving the charge that is usually made for business rates and there is no transfer of resources. Therefore, this should not be accounted for as a government grant but disclosure will need to be made as it will represent a form of government assistance in accordance with paragraph 5.58 of the SORP. Note, the Expanded Retail Discount should be made after any charity reliefs have been applied.
Retail Hospitality and Leisure Grant Fund One-off cash grants may be available to those charities in receipt of the expanded retail discount to help them to meet their ongoing business costs.	These should be treated as government grants and recognised as soon as the criteria for recognition have been met.
VAT Deferral UK VAT registered charities that have a VAT payment due between 20 March 2020 and 30 June 2020 will be able to defer the payment until 31 March 2021. No interest of penalties will be charged on amounts deferred. VAT returns should still be filed.	Note that this is only a deferral and therefore any liability for VAT should remain. If the deferral results in the liability being due after 12 months of the year end then it should be moved from current to non-current.

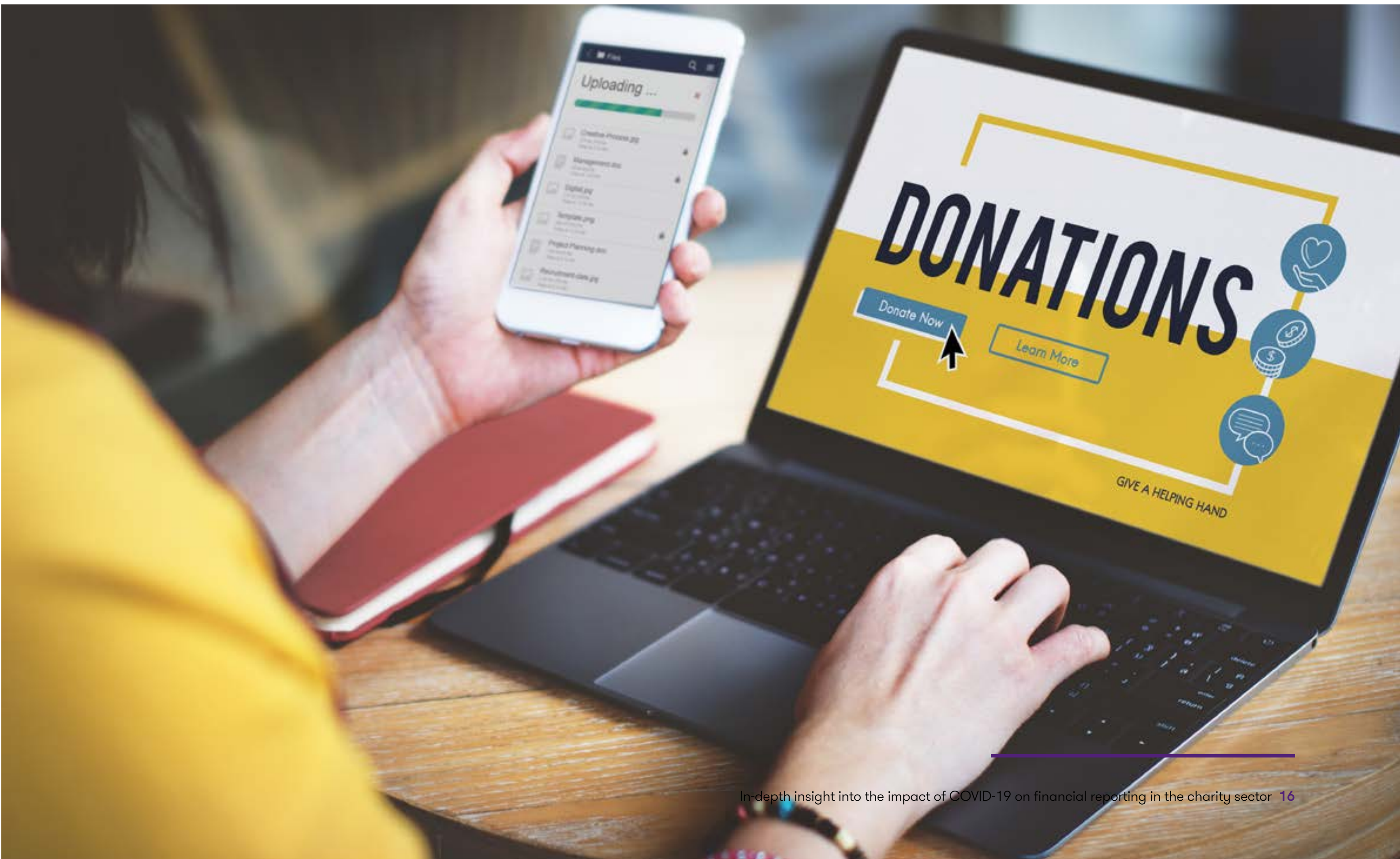
Cyber-crime issues to consider in the current climate

Sadly more instances of cyber-crime are occurring as fraudsters are taking advantage of an increase in on-line activity, and in some cases a weakening of controls. The charity commission have issued some guidance[6] as to the types of attacks that are occurring, as well guidance on how to prevent these type of attacks. The most common methods currently are:

- Procurement fraud - companies claiming to sell PPE and then not delivering the goods
- Phishing emails - with links leading to fake website which can cause viruses or steal personal details/passwords
- Mandate/CEO fraud – these involve official looking emails requesting changes to bank details for either suppliers/employees; and
- Unsolicited goods/services/financial support – these goods are never delivered and often require advanced fee payment

As the majority of staff will be working on-line it is of utmost importance that charities make all employees aware of the type of cybercrimes that are prevalent, to be particularly vigilant, and to maintain strong internal controls.

6 https://www.ncsc.gov.uk/guidance/suspicious-email-actions



Impact on audit work and the external scrutiny process

- **Audit approach** - Planned audit approaches are likely to change due to logistical issues as well as a heightened risk in several areas of the financial statements, resulting in additional testing being required. Social distancing will have a significant impact on how auditors obtain the evidence they require as well as how they communicate. You may see an increase in use of technology as well as more substantive testing, particularly if the operation of internal controls has been affected. Auditors and associations will need to work together to identify what alternative measures are possible in the current environment without reducing the quality of audit evidence.

  The amount of audit work and length of audits are therefore likely to increase significantly due to the impact on financial reporting and it should be anticipated that additional scrutiny will be there over key estimates and significant judgments made by management.

- **Audit reports** - Due to the uncertainty of the long-term impact of the pandemic there is a greater likelihood of audit reports being modified.

- **Audit Committee meetings and other significant meetings** - Audit Committee meetings may be impacted if physical meetings are still prohibited/advised against at the timing of the meeting. Audit committees will need to discuss with their auditors how best to communicate, holding virtual meetings where possible.
  There also might be the case where AGMs and other significant meetings have to be held virtually, postponed or cancelled. The Charity Commission has advised that trustees should ensure that any decisions made in this regard should be clearly documented with the reasoning behind the decision.

- **Filing deadlines** - Companies House are accepting applications for filing extensions[7], as are the Charity Commission [8] and OSCR. If you expect there to be a delay in submitting your annual return or financial statements then the Charity Commission/OSCR has requested that you contact them.

- **Reporting to the regulator** - If there is a significant financial and/or operational impact charities will also need to consider whether a serious incident needs to be reported to the regulator, and if so, auditors are likely to also need to report a matter of material significance. However, the Charity Commission have amended their guidance for auditors/examiners where a modified opinion, an emphasis of matter, or a matter identified by the auditor/examiner is solely due to the exceptional circumstances of the national emergency affecting the conduct of the audit or the independent examination then this is not considered to be reportable as a matter of material significance to the Charity Commission.

7 https://www.gov.uk/government/news/coronavirus-if-your-company-cannot-file-accounts-with-companies-house-on-time
8 https://www.gov.uk/government/news/coronavirus-covid-19-guidance-for-the-charity-sector

Early engagement with key stakeholders

In uncertain times, it is particularly important to be in constant dialogue with all key stakeholders. Some examples include:

- **Major funders** – For those organisations who are funded principally via grants that have restrictions and/or performance measures it is definitely worth having a conversation with those funders to see whether any restrictions could be lifted or performance measures could be relaxed during these uncertain times. There are examples in the sector of this happening and this flexibility can really help organisations use all available resources to where they are most in need.
- **Valuation experts** - These should be contacted as soon as possible to establish how they will obtain the most accurate valuation method, in light of the current uncertainty and with social distancing methods in place. RICS have issued some advice [9] to its members on that matter, including highlighting the possibility that some valuations may need to be issued with 'material valuation uncertainty' declarations.
- **Lenders** - Early conversations should be held with lenders to discuss the possibility of amendments to covenants if in danger of being breached.
- **Actuaries** - Discussions with actuaries, engaged to support with defined benefit pension schemes, should be held regarding updates to the assumptions used and timing of their report, in order to obtain the most accurate valuation possible.

9 https://www.rics.org/uk/upholding-professional-standards/sector-standards/valuation/valuation-coronavirus/

Further resources and guidance

The amount of information and constant updates can be overwhelming and therefore we have included some key websites for guidance on both the operational and financial aspects that are being updated regularly so that you have these to hand.

Grant Thornton Covid-19 Hub

Grant Thornton have a dedicated Covid-19 hub[10], which covers a number of topics including: navigating government support, cyber security, contingency planning, impact on businesses and option to join weekly webinars which provide practical steps to dealing with the impact of the pandemic.

NCVO

The National Council for Voluntary Organisations (NCVO) have a dedicated page[11] on the pandemic, which is being updated regularly. This covers a variety of topics including: protecting staff, volunteers and beneficiaries, contingency planning, and financial implications.

Charity Commission

The Charity Commission have published a page of FAQs regarding Covid-19, which may be a useful resource for those charities with similar concerns[12]. Some of the key topics covered are around support for paying staff, use of restricted funds, alternatives to face-to-face meetings and key contact details for reporting to the Charity Ccommission.

OSCR

For those charities who are registered with OSCR, or who are cross-border, please also refer to the guidance issued by the Scottish Regulator[13]. It covers a range of topics including details of government and other funding available, advice on how to deal with governance issues, guidance on volunteering and fundraising as well as when and how to report to the regulator.

SORP

The SORP-making body have issued guidance[14] on the financial reporting ramifications of Covid-19 covering some key areas including the impact on the Trustees' Annual Report, Post Balance Sheet Events and Going Concern.

FRC

Although not specific to the charity sector, the Financial Reporting Council (FRC) are continuously updating their advice on the impact of the pandemic on financial reporting and audits. This is relevant for both companies and auditors[15].

Please note that this is a constantly evolving situation and therefore information included within this report may change over time.

10 https://www.grantthornton.co.uk/en/insights/responding-to-coronavirus-covid-19/
11 https://www.ncvo.org.uk/practical-support/information/coronavirus?carousel
12 https://www.gov.uk/government/news/coronavirus-covid-19-guidance-for-the-charity-sector
13 https://www.oscr.org.uk/guidance-and-forms/covid-19-guidance-for-charities/
14 https://charitysorp.org/about-the-sorp/covid-19/
15 https://www.frc.org.uk/about-the-frc/covid-19/

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