



haysmacintyre

# Quarterly charities update March 2023

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14 March 2023



# General housekeeping

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- Welcome and introductions
- Questions...via the questions box
- Slides and recording to be circulated afterwards



# Agenda

## **Quarterly charities update – Spring 2023**

### **General charity update**

Vikram Sandhu, Director, haysmacintyre

### **Navigating the increased scrutiny of IT general controls in charity audits: are your systems and staff prepared?**

Rakesh Vaitha, Senior Manager, haysmacintyre

### **Recent legal developments for charities**

Oliver Hunt, Senior Associate, Bates Wells

### **Q&A**



# General charity update

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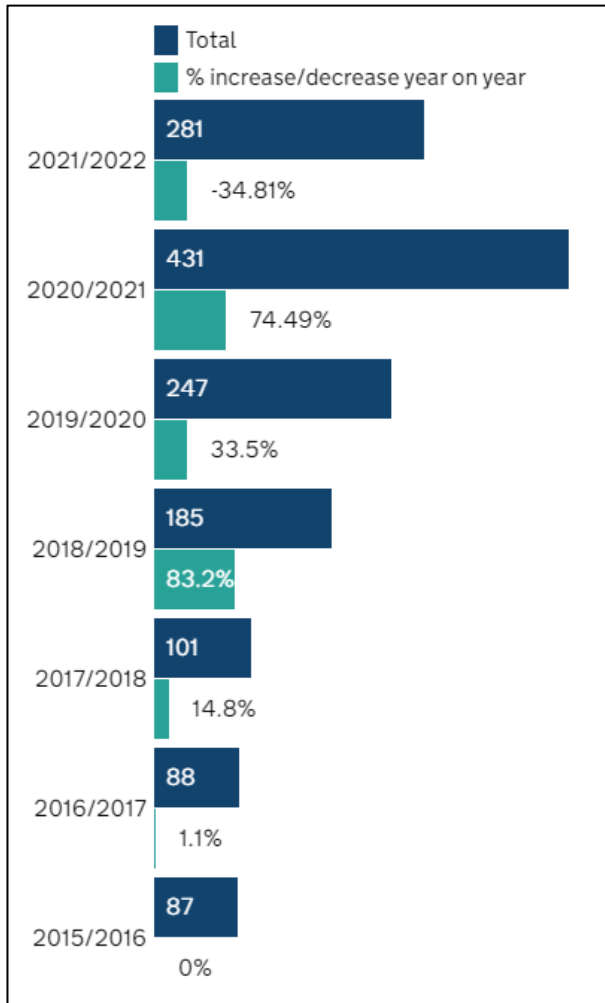


# Charity Commission: 5 minute guides

- <https://beingacharitytrustee.campaign.gov.uk/>
- The Charity Commission is launching the next stage of its campaign to raise awareness of core trustee duties and guidance available as the sector faces challenges ahead
- Useful 5 minute guides:
  - Drifting into unchartered territories
  - Conflicts of interest
  - Reporting information
  - Safeguarding
  - Effective decisions
  - Managing finances



# ESG – what is it all about?



- 281 whistleblowing disclosures in 2021 and 2022
- 35% reduction from 2020/2021: but second highest in the last six years
- Majority of disclosures are from employees (52%)
- Primary issues:
  - Governance
  - Safeguarding
  - Financial management



# Environmental, Social and Governance Reporting

- Defining ESG
- Opportunities
- Public benefit
- Reporting
- Further hurdles
- Looking forward



# Charity Governance Code – a reminder

- Organisational purpose
- Leadership
- Integrity
- Decision making
- Board effectiveness
- EDI
- Openness and accountability





# Fraud awareness week - recap

- Asset misappropriation
- Corruption
- Financial statements fraud
- Occupational fraud
  - Stealing cash
  - Payment tampering
  - Billing schemes
  - Payroll
  - Expenses
- Cost of living motivation



# Cyber-crime

## Protect your charity from the risk of cyber-crime

- The National Cyber Security Centre (NCSC) has released a new report detailing the risks from cyber-crime to charities. The vast majority of fraud is now committed online.
- To help you protect your charity, the NCSC has a range of tools, including an e-learning training package: 'Stay Safe Online: top tips for staff'. It's free, easy to use and takes less than 30 minutes to complete.
- The training explains why cyber security is important and how attacks happen. It then covers four key areas:
  - defending yourself against phishing
  - using strong passwords
  - securing your devices
  - reporting incidents

<https://www.ncsc.gov.uk/collection/charity/cyber-threat-report-uk-charity-sector>



# Charities Annual Return 2023

- The updated Annual Return will apply to charities' financial years ending on or after 1st January 2023
- Financial period
- Income and spending
- Activities outside of the UK
- Trading subsidiaries
- Addresses and property
- Structure and membership
- Employees and volunteers
- Governance
- Safeguarding and risk





# Other Charity Commission pleas...

## Tax avoidance: don't get caught out

- HMRC wants to help charities that use contractors to understand their pay arrangements to ensure they don't get any unexpected tax bills
- HMRC's 'Tax avoidance – don't get caught out' campaign helps contractors check what they're being paid, whether their contract could involve tax avoidance, and how to spot the warning signs
- HMRC is working with a range of organisations to give them the tools to educate the contractors who work for them on the risks of using tax avoidance schemes
- [https://taxavoidanceexplained.campaign.gov.uk/?utm\\_source=eng\\_doc&utm\\_medium=external&utm\\_campaign=upstream](https://taxavoidanceexplained.campaign.gov.uk/?utm_source=eng_doc&utm_medium=external&utm_campaign=upstream)





# Other Charity Commission pleas...

## **Have your say on our consultation on charities' use of social media**

The Charity Commission is consulting with charities, sector organisations and the public to develop new guidance for charities when they use social media.

We are seeking views on draft guidance, which is intended to:

- Help trustees use social media appropriately and with confidence
- Understand their responsibilities and manage the risks
- Encourage them to adopt a social media policy
- Help trustees understand what to do if issues occur, for example if problematic content is posted either by the charity or by someone connected to the charity
- Have your say: [www.gov.uk/government/consultations/draft-guidance-charities-use-of-social-media](https://www.gov.uk/government/consultations/draft-guidance-charities-use-of-social-media)





# Other Charity Commission pleas...

- The regulator is seeking views on its new draft guidance, which is intended to help trustees use social media appropriately and with confidence
- The new resource is designed to help trustees understand their responsibilities and manage the risks; it encourages them to adopt a social media policy for their charity and outlines what can be included in the policy
- It also aims to help trustees understand what to do if issues occur, for example if problematic content is posted either by the charity or by someone connected to the charity



# Charity Commission: inquiries, warnings and announcements

- Middlesbrough Central Masjid and Community Centre
- Devon and Cornwall Autistic Community Trust, also known as ‘Spectrum’
- Organisation of Blind Africans and Caribbeans (OBAC)
- The Ashley Foundation
- The Macbeth Memorial Trust



# Safe giving

## Safer giving campaign - looking for the fundraising badge

- The Fundraising Regulator has been asking for people to “look for the (Fundraising) Badge” as part of their safer giving campaign for the public
- The regulator worked with nfpResearch to help measure the recognition of the brand
- A few of the key takeaways include:
  - 61% of respondents would be more likely to think positively of a charity showing the Fundraising Badge
  - 73% would be more confident in supporting a charity displaying the Badge
  - 51% were more likely to support a charity they had never heard of if it was displaying the Badge
  - 28% have checked if a charity is registered with the Fundraising Regulator before making a donation







# ISA 315 and ITGC

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- Setting the scene
- Two main areas:
  - Risk assessment
  - ITGC
- Audit responsibilities
- More to come...



# Events



## Not for profit events

Date	Event
28 March 2023	NFP VAT and Tax Exchange
30 March 2023	Trustee Training: What Every Trustee Should Know
10 May 2023	Catholic Charity Conference
6 June 2023	Quarterly Charities Update
5 September 2023	Quarterly Charities Update
6 December 2023	Quarterly Charities Update

[www.haysmacintyre.com/events](http://www.haysmacintyre.com/events)



# IT General Controls in charity audits

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# Agenda

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- Background - ISA 315 (revised)
- Use of IT in charities
- Understanding IT systems in your organisation
- IT general controls
- IT application controls
- Preparedness of IT general controls as part of your external audit





# ISA 315 (revised)

- The International Audit and Assurance Standards Board (IAASB) approved major changes to ISA 315 in September 2019
- In July 2020 Financial Reporting Council published extensions to ISA 315: Identifying and assessing the risk of Material Misstatement
- The changes are effective for audits of financial statements for periods beginning on or after 15 December 2021 i.e. year-end December 2022 onwards
- There are several areas that the ISA 315 (revised) focuses on, and IT general controls is one of many



# Use of IT in Charities

- COVID-19 forever changed the charity sector
- Service delivery changes moved to websites and videoconferencing platforms
- Fundraising shifted to online donations / many virtual events
- Donor engagement becoming almost digitised
- Remote working / hybrid working
- Many trends set to continue
- Charities around the world have experienced accelerated form of digital transformation – the trend is likely to continue
- 81% of charities changed how they use digital technology (survey by NCVO)
- The characteristics of manual or automated elements within the IT environment is relevant to the auditor's identification and assessment of the risks of material misstatement



# Understanding your IT systems and controls

- Data flow and storage - The aim is to gather information about the nature and characteristics of the IT applications used, as well as the supporting IT infrastructure
- The following areas will help determine the complexity of the IT systems:
  - The extent of automated procedures
  - The extent of the organisation's reliance on system generate reports
  - How data is input into the system
  - How IT facilitates communication between applications, databases or other aspects of the IT environment
  - The volume and complexity of data in digital form being processed by information systems
  - Inhouse versus outsourced IT provision
  - Number of feeder systems



# IT general controls risk assessment

- There are two focus areas when looking at the IT controls:
  - IT general controls
  - IT application controls
- IT general controls
  - IT security policy and procedures
  - Awareness and training
  - IT risk register
  - Access management (passwords, level of access, MFA)
  - Change management
  - Network security and patch management
  - Backup and continuity planning







# IT application controls risk assessment

- IT application controls (for example CRM or payroll applications)
  - Data input and flow of information
  - Application access rights (web based access management)
  - Application support
  - Change management
  - Security update and patch management
  - Systems interface





# IT risks (observations from risk assessments)

- Corporate risk registers and IT risks
- Lack of IT risk awareness and limited training / refresher courses
- System and data owners not clearly identified
- Lack of understanding on information flows (automated v manual)
- Access rights - Systems and application access rights are not controlled in line with individual's role
- Significant changes to IT infrastructure not being authorised
- Backup arrangements are not fully tested to confirm effectiveness
- Limited testing around network security



# Case study

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- Charity with £8m revenue
- Systems used: finance, CRM, payroll, legacy system
- System owners identified
- Access control managed
- Change control – CRM update
- Data backed up
- Impact and root cause
- Outcome





# Preparedness for IT general controls

- Are the IT security policy and procedures in place?
- Is there IT training and regular awareness on IT risks?
- Are the IT systems documented, including applications? (network diagram)
- Is there an understanding of data flows between applications and what checks are in place for integrity of the data?
- Is there an application / system owner?
- Are password requirements aligned to best practice and is there MFA?
- Do the right people have access to the correct level of data? (access control)
- Are only authorised people able to make changes to data?
- Is there sign off for major IT projects? (including testing and outcomes)
- Is data backed up? Has it been tested?
- Cyber essentials



A group of five young people (three women and two men) are huddled together, smiling broadly. They are wearing casual clothing, including a red top, a blue shirt, and a grey hoodie. The image has a purple overlay. The text "Thank you" is centered in the middle of the group.

Thank you



# Charities: Legal Developments and what to expect in 2023

Oliver Hunt

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14 March 2023

# Agenda

1. Charities Act 2022 – what comes next?
2. Charity law cases
3. Other developments and Horizon scanning
4. Charities and ESG

# Charities Act 2022 headlines - Spring 2023

- **Charity land**

- More flexible, improved rules for formalities on disposals

- **Charity names**

- Rules will apply to working names

- **Permanent endowment**

- Revised thresholds
  - Charity Commission consent needed for funds worth over £25k
- Power to borrow up to 25% of endowment
- Power to invest in loss producing social Investments



- **Ex-gratia**

- Note from Autumn 2022 tranche - Delayed whilst government considers implications for statutory charities.



# Charities Act 2022 headlines – Autumn 2023

- **Constitutional changes**
- Charitable companies and CIOs
  - Regulated alterations
    - New more stringent criteria apply to Charity Commission consideration of new objects
    - Public notice
  - Timing of CIO amendments
- Unincorporated charities
  - Statutory power of amendment (with Charity Commission consent in some cases)
    - Schemes less likely to be needed
  - Repeal of s 275 and 268
    - Act now for smaller funds
- **Mergers**
- **New Charity Commission powers**



## Charity law cases

- **Mermaids v Charity Commission for England & Wales & LGB Alliance, First tier Tribunal (Charity) (CA 2021/0013)**
  - Judgment expected soon
- **London Borough of Merton Council v Nuffield Health Ltd, Supreme Court (2021/0138)**
  - Hearing on 7/8 March
- **R (Batmanghelidjh) v Charity Commission for England and Wales [2022] EWHC 3261)**
  - No date but expected to be this year

# Other Developments and Horizon Scanning

## New at the Charity Commission

- **Annual Return 2023**

- 26 questions that all charities must answer
- Some simply reworded, some are new:
  - Policies
  - Exceptional events that impact sector
  - Donations

- **New online portal**

- Spring 2023 – My Charity Commission Account
- Early summer 2023 – AR filing portal will open via this platform

# Other Developments and Horizon Scanning

## New at Companies House

- **New identity verification regime**
- **Economic Crime and Corporate Transparency Bill 2022**
- Proposes new ID verification requirements for:
  - All existing directors and PSCs
  - All new registered company directors and PSCs
  - Those delivering documents to the Register
- Companies House will have new, broader powers
  - Check, remove or decline information submitted to / already on register

# Other Developments and Horizon Scanning

- **DCMS review of financial thresholds**
  - Due to begin in 2022
- **Charities (Regulation and Administration) (Scotland) Bill**
  - Power for OSCR to remove charity with no connection to Scotland
  - New register of mergers
  - Current consultation – legislation not before summer 2023
- **Social investment tax relief**
  - The social investment tax relief (SITR) scheme is due to end on 6 April 2023, having been extended by two years in 2021. It is expected that HM Treasury will consult soon on SITR's future.

# Charities and ESG

- **Charitable objects with/vs “ESG”**
  - Investment
  - Cost of living
  - Equality, Diversity, Inclusion
  - Environmental impact
- Where do the legal requirements end and strategy/ethics begin?
- Where should ESG sit on Board agendas?
- Political campaigning – when to speak out?



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# Q & A





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