

charity audits checklist

Demand for the audit of charities remains strong. Clive Howells examines some of the key areas to focus on when tackling this type of assignment.

■ **While recent increases in the audit exemption threshold for trading companies have reduced the number of audits ACCA firms conduct, the number of charity audits being conducted has not fallen.**

Although the audit threshold for charities for financial years beginning on or after 27 February 2007 has been raised, it is still only £500,000. In addition, many trustees and grant giving bodies appear to value the audit and decide not to dispense with it even when they have the opportunity. It therefore appears that the charity audit is here to stay.

Monitoring visits continue to reveal a number of common deficiencies on charity audits in addition to those occurring on non-charity assignments. Charities, by their nature, present challenges to the auditor in addition to those arising in the audit of owner-managed businesses, for instance when considering completeness of income and validity of expenditure.

audit programmes

Compliance officers are often asked which audit programme is most effective for dealing with charity clients. Certainly firms should use a programme developed for charities but which one is a matter of personal choice. Using a charity programme in itself will not ensure an effective and efficient audit. Audit programmes are a useful framework to control the audit work but the work must still be planned with care to ensure it is focused in the key areas. The work also has to be recorded properly.

Some of the key areas to focus on when conducting a charity audit are highlighted below.

completeness of income

Verifying the completeness of income is a key area for most clients but the variety of activities undertaken by some charities can present significant challenges to the auditor. If the sole income for a charity is a grant from a government body then this could be verified by reviewing the grant documentation or by contacting the funding body directly in order for it to confirm the grant.

However, many charities receive income which is less predictable, for example donations and legacies or street collections. In these situations the auditor will need to assess the charity's control procedures to establish whether they are adequate and consistently applied and test these in order to be able to conclude whether or not all income is properly reflected in the accounts. Often the charity will receive income from a variety of sources for which the auditor will need to devise a range of tests for all significant income streams. The best audit programmes are those which contain suggested tests for different streams of income.

validity of expenditure

Because of the custodial relationship between the trustees and the charity, the auditor must also consider the validity of the expenditure incurred by the client. This is a test which often appears to have been omitted on audit files.

It would be fair to say that many firms vouch expenditure and ensure that it is categorised properly in the accounts. However, they fail to consider whether the expenditure has been incurred for the charity's benefit and in accordance with its objectives.

For many charities the bulk of their expenditure is incurred on wage costs. There are two matters of concern for the auditor here. First, the existence of the employees must be considered. To this end a sample of employees could be seen or verified to third party documentation such as notices of coding etc. The auditor must then consider the nature of the employees' work in order to assess whether this is necessary and in line with the objectives of the charity.

disclosure requirements

Although it is the trustees' or directors' duty to ensure that the accounts are drawn up in accordance with current guidance, in practice it is often left to the firm to correct errors of disclosure in – or in many cases produce – the financial statements. In any case the auditor should consider the disclosures in the accounts before forming their audit opinion. An appropriate disclosure checklist should be used in order to review the accounts.

SORP 2005 applies to all accounting periods commencing after 1 April 2005. An updated version was published in June 2008 to reflect changes as a result of the Charities Act 2006. You can view SORP 2005 on the Charity Commission's website at www.charity-



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commission.gov.uk, where it also illustrates changes from the previous SORP 2000, as well as useful model sets of accounts.

whistle blowing

Legislation places a duty on the auditor to report matters of material significance to the Charities Commission. Exact obligations differ depending on the jurisdiction, and auditors should ensure that their audit programme includes a whistle blowing checklist and that all staff working on the audit are familiar with circumstances giving rise to notifiable events.

conclusion

Differences between the audit of a trading company and a charity often mean that the audit of a charity is a higher risk assignment. Careful planning must be undertaken to ensure appropriate testing is carried out in all key areas and that areas such as completeness of income and validity of expenditure are appropriately tested.

Firms should be mindful of the resources required to carry out an effective audit when negotiating their fees. If the trustees value the audit, they should ensure adequate resources

are available to meet the market rate for the service. A high quality audit is not only important for the auditor and the client but also for the sector as a whole because the availability of funds is often dependent upon the public's perception of the integrity of such organisations. ■

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