

Internal audit for Charities and Not-for-Profit organisations



Gaining meaningful assurance over a Charity’s internal controls, risk management and governance processes is of critical importance in discharging the responsibilities of both Trustees and executive management teams. Both in meeting Charity Commission requirements and just as importantly, achieving the maximum benefits from resources and having a better focus on achieving outcomes; a valued internal audit function can help you to deliver your strategic objectives more efficiently and effectively.

Challenges to the internal control environment

In this period of austerity, the unprecedented economic challenges facing Charities and Not-for-Profit organisations are considerable with ever more organisations chasing a diminishing level of funding. We have seen how resulting budgetary constraints and cost savings can pose threats to the strength of a Charity’s internal control environment. We have also seen how the demand for services from the Charities and Non-for-Profit sector has continued to rise despite the funding crisis, which when combined with reductions in funding can really stretch organisations and adversely impact on their internal control framework.

Charities are facing additional challenges in terms of cost reduction programmes; working more with third parties (either partnering with or sub-contracting to) in the delivery of their services; and, having to place increasing reliance on complex technology solutions to manage and deliver their services. This creates new challenges that may impact on how the Charities operate, the controls they need to put in place and the way the resulting risks are managed effectively.

Figure 1. The scope of internal audit – Key growth areas

What are the key growth areas for the remit of internal audit?



Changing demands of the internal audit function

The purpose and remit of Internal Audit in Charities and Not-for-Profit organisations has continued to evolve. We have seen how the more dynamic Charities have started to demand greater value from their internal audit functions. From the development of Assurance frameworks through to proactive advice on risk, control and governance processes, we have seen a fundamental and welcome shift away from cyclical compliance auditing that dominated the sector in the past. Of course, Internal Audit should not stand still, and with the challenges facing Charities and Not-for-Profit organisations, Internal Audit needs to be focusing on giving meaningful assurance on the key risks that impact on Charities as they navigate through this unprecedented period.

But how should Internal Audit be utilising its scarce resources to deliver this concept of meaningful assurance? Following research we conducted in conjunction with the Institute of Internal Auditors in the UK, we concluded that there is increasing demand for the scope of Internal Audit to continue to work differently in the future, as shown in Figure 1.

This change in remit for Internal Audit functions, moving into areas which go beyond the more traditional compliance work undertaken in some organisations, requires a change both in the individuals within the function and the skills they have access to.

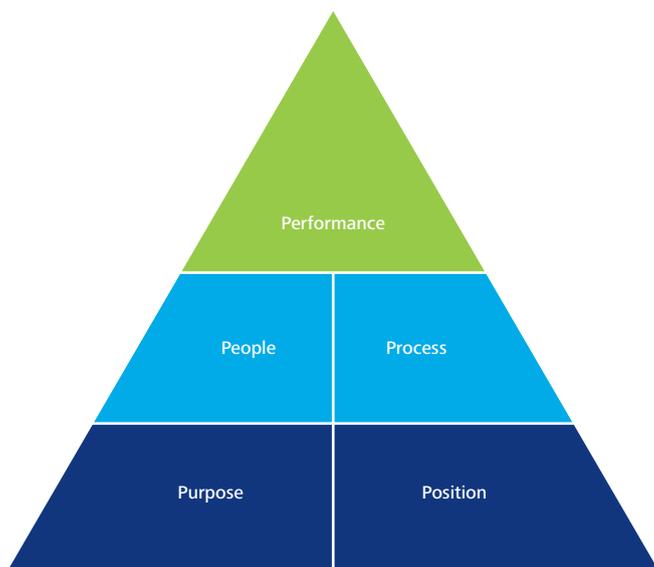
How we can help

We work with over 800 organisations within the sector, and have a dedicated Charities and Not for Profit group made up of 400 professional staff with expertise in the sector providing all aspects of audit, tax and advisory services. Our dedicated internal audit practice is one of the largest providers of internal audit and risk services in the UK, and has extensive experience of providing services to a many Charities and Not-for-Profit organisations.

Internal Audit effectiveness reviews

The Combined Code on Corporate Governance and the Institute of Internal Auditors require a regular quality assessment of the internal audit functions. We have developed a leading edge approach which enables us to not only evaluate the quality of the function and its compliance with professional standards, but also to assess the strategic positioning of the internal audit function as well as the effectiveness of engagement with the organisation. Our '5P' approach to assessing the effectiveness of an Internal Audit function allows us to provide independent and objective assessments of the quality, remit, positioning and performance of the function. Based on our assessment, we work with organisations to develop realistic action plans for further improvement.

Deloitte '5P' approach to assessing Internal Audit effectiveness



Internal Audit transformation

Keeping up with developments in what constitutes professional Internal Audit can be a daunting prospect for all hard working Heads of Internal Audit. Key challenges include how to make the most of finite resources; how to ensure that the Internal Audit function has the skills and experience to deliver meaningful assurance across the range of operations; and how to train and develop the team in new approaches and techniques. These are all challenges facing a profession which is looking to add value to the Charities who have invested in maintaining an Internal Audit function.

From assisting in the development of an Audit Charter or risk based methodology, to the development of an organisational wide Assurance framework or implementation of a full transformation programme, Deloitte have unrivalled experience in helping internal audit functions transform the quality and delivery of its services.

Case study: A UK based charity

We helped a major UK charity review its retail management processes. This focused on the retail management strategy and its alignment with the charity's overall corporate strategy, as well as more operational aspects of outlet management such as the processing of Gift Aid. We made recommendations to improve how the charity uses management information on performance, costs of sales, and stock movement to manage performance and support strategic retail decisions.

Provision of Internal Audit resources

With the changing demands being placed on Internal Audit functions, we have recognised the necessity and value of providing tailored solutions to individual organisations. From the provision of IT assurance specialists with a Business Continuity or Security background to accessing our wider Deloitte practice for Subject Matter Specialists that can provide invaluable advice and support, we have extensive experience of supporting organisations with the provision of high quality Internal Audit services.

Our Enterprise Risk Services practice can support Charities and Not-for-Profit organisations in the following ways:

Staff secondments

We can respond quickly to ad hoc requests for staff to work on secondment to an in-house Internal Audit function, driven by your resource constraints and skills requirements. This approach works most effectively where Internal Audit functions require access to specialist skills not held within your organisation or where it is too expensive or uneconomic to employ staff full time to deliver.

Co-sourcing arrangements

The case for Internal Audit functions to enter into partnership with a leading provider of high quality internal audit services is compelling. Not only can organisations access some of the leading professionals in the field of Internal Audit, but they can expand their existing team on a flexible basis, bringing in the skills, experience and Subject Matter Specialists on an ad-hoc basis to support the in-house team.

A common misconception about co-sourcing is that it is an expensive solution. In fact, our clients have found that we can reduce overall costs for the following reasons:

- the move from fixed cost to variable costs brings in greater flexibility;
- access to resources when they are needed eliminates auditor down-time;
- no recruitment, management or training costs;

Case study: A UK based charity

We undertook an audit which assessed the extent to which this charity had established adequate and effective processes to ensure it was financially sustainable.

The work helped to identify process improvements which would reduce the charity's reliance on membership income.

Case study: A UK based charity

We supported a large UK charity to develop new processes to underpin a change to how they accounted for legacy income. The Finance Committee had approved the change in accounting policy to recognise income on a full receivable basis provided a methodology could be developed that would satisfy the external auditors and be approved by Trustees. Timing of the change was critical as the new methodology needed to be designed and implemented prior to the interim external audit.

We helped the charity to understand the risks and controls associated with the change and develop a process which would adequately manage the identified risks.

We liaised with the charity's external auditors throughout the work to ensure it was in line with their expectations.

- we use highly skilled, trained and experienced professionals who are matched to the task we are asked to undertake; and
- access to tools and methods at a significantly discounted rates.

Outsourcing

For smaller Charities and Not-for-Profit organisations, it is often uneconomic or impractical to maintain an in-house function which is able to provide the full range of services required from a modern professional Internal Audit function. In this case, it is often cheaper and much more effective to engage a professional services firm to provide these services on an outsourced basis.

Deloitte provide outsourced Internal Audit services to many Charities and Not-for-Profit organisations, we understand what an effective Internal Audit function looks like and we have a track record of providing meaningful assurance to senior management, the Audit Committee and to Trustees of many organisations.

Whichever Internal Audit solution is selected, you can be assured that you will deal with people who are leaders in the field.

Further information on our commitment to the Charities and Not-for-Profit sector, and our services can be found at:

http://www.deloitte.com/view/en_GB/UK/industries/Charities-not-for-profit/index.htm

Contacts – Internal audit

Reza Motazed

Partner

020 7007 7646

rmotazed@deloitte.co.uk

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited (“DTTL”), a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.co.uk/about for a detailed description of the legal structure of DTTL and its member firms.

Deloitte LLP is the United Kingdom member firm of DTTL.

This publication has been written in general terms and therefore cannot be relied on to cover specific situations; application of the principles set out will depend upon the particular circumstances involved and we recommend that you obtain professional advice before acting or refraining from acting on any of the contents of this publication. Deloitte LLP would be pleased to advise readers on how to apply the principles set out in this publication to their specific circumstances. Deloitte LLP accepts no duty of care or liability for any loss occasioned to any person acting or refraining from action as a result of any material in this publication.

© 2014 Deloitte LLP. All rights reserved.

Deloitte LLP is a limited liability partnership registered in England and Wales with registered number OC303675 and its registered office at 2 New Street Square, London EC4A 3BZ, United Kingdom. Tel: +44 (0) 20 7936 3000 Fax: +44 (0) 20 7583 1198.

Designed and produced by The Creative Studio at Deloitte, London. 34065A