



Charity Accounting & Regulation Update

Presented by:

Peter Herbert

5 November 2015



**BEEVER
AND
STRUTHERS**

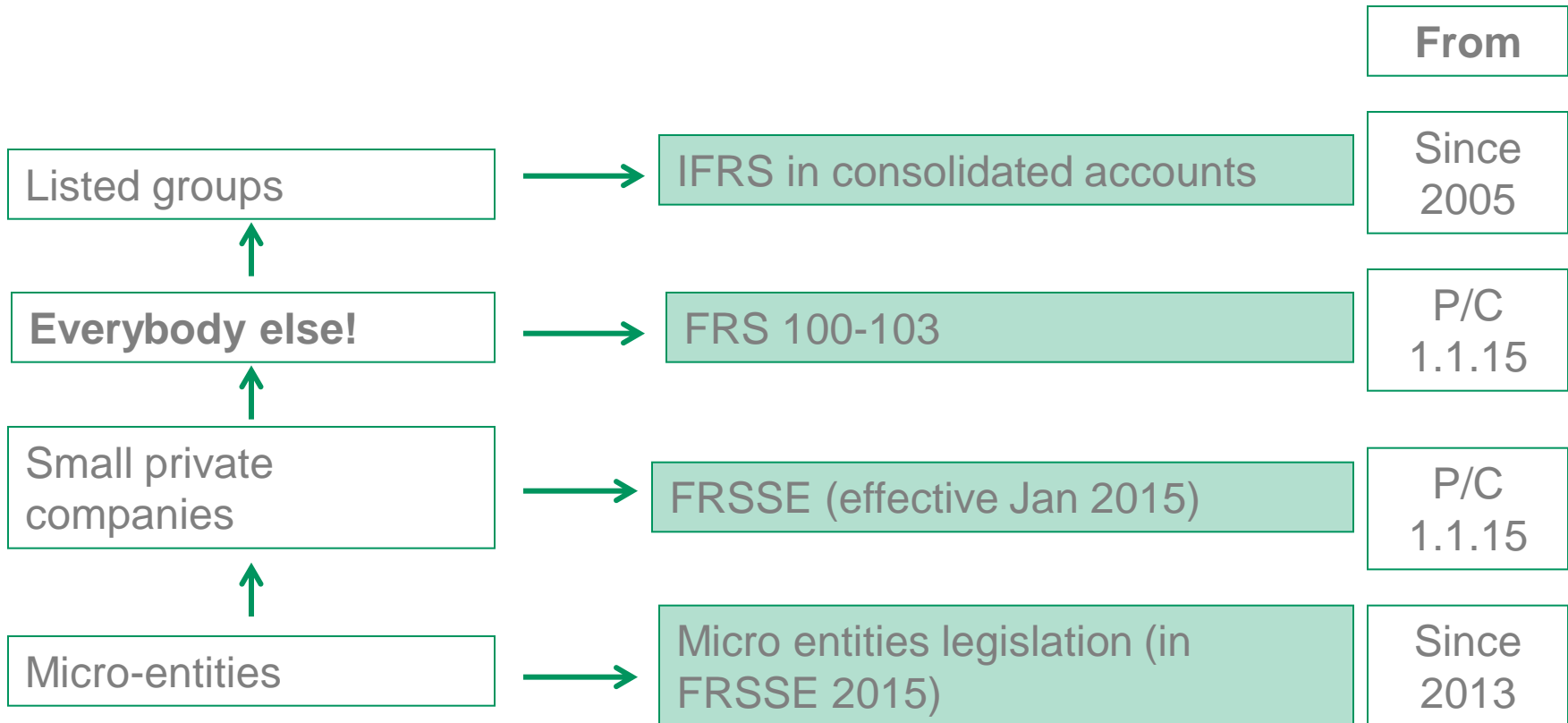
CHARTERED ACCOUNTANTS
AND BUSINESS ADVISORS

Programme

- The new accounting regime in overview.
- SORP (FRS 102) – the problem bits.
- SORP (FRS 102) v SORP (FRSSE).
- Problem areas under current SORP.
- The new charity scrutiny regime.
- Legal round-up.
- Charities Commission round-up.

THE NEW REGIME

The new regime...



Small company limits

	(Current 'micro' threshold)	Current 'small' threshold	Future maximum 'small' threshold
Turnover	£632K	£6.5M	£10.2M
Gross assets	£316K	£3.26M	£5.1M
Employee numbers	10	50	50
From when?	NOW	NOW	p/c 1.1.16

Small charities



- Small?
 - Per Companies Act definition (£6.5m income etc); or
- Small?
 - Per Charity law (audit threshold <£1m?); or
- Small?
 - Per charity law (unincorporated <£250k).

Two SORPs!

Charities SORP (FRSSE)

Accounting and Reporting by Charities: Statement of Recommended Practices applicable to charities preparing their accounts in accordance with the Financial Reporting Standard for Smaller Entities (FRSSE).

(Effective 1 January 2015)

Charities SORP (FRS 102)

Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting applicable in the UK and Republic of Ireland (FRS 102).

(Effective 1 January 2015)

**CHARITY
COMMISSION**

OSCr
Office of the Scottish Charity Regulator

FRS 102 SORP

- Drafted alongside FRS 102.
- Published July 2014.
- FRC approved.
- Comprehensive
 - Specialised ‘modules’.
 - ‘Devise your own SORP’.
- Consultation on minor revisions
 - Launched June 2015.

Charities SORP (FRS 102)

Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting applicable in the UK and Republic of Ireland (FRS 102).

(Effective 1 January 2015)

CHARITY
COMMISSION

OSCR
Office of the Scottish Charity Regulator

FRSSE SORP

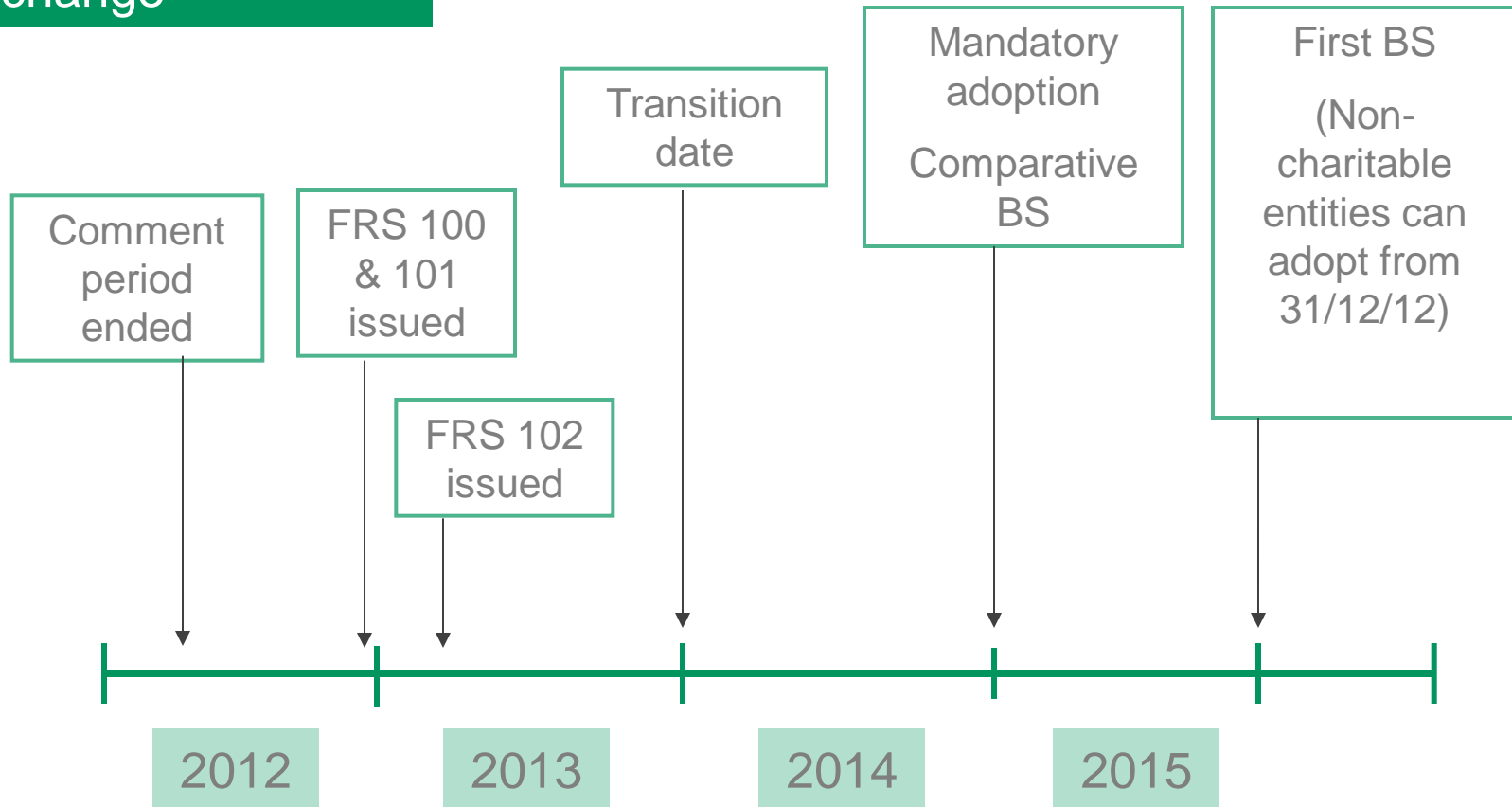


- Simpler.
- Aligns to current GAAP.
- Less sensitive disclosures.
- No cash flow statement.



- Limited shelf life – so two changes in two years!

Timeline for change



Which SORP?

- **Charity A**
 - Income £4.0M; Assets £2.0M.
 - Year end – 31 December 2015.
- **Charity B**
 - Turnover £0.4M; Assets £0.2M.
 - Year end – 31 March 2016.

Likely choice?

FRSSE SORP –
31/12/15?

2005 SORP –
31/03/15
FRSSE SORP –
31/03/16?

Early adoption?



- Charities (Accounts and Reports) Regulations 2008 not yet updated.
- Unincorporated charities/CIOs
 - Cannot early adopt SORPs (breach of regulations).
 - ‘True and fair override’ for p/c 1 January 2015.
- Incorporated charities
 - Can early adopt SORPs- governed by Companies Act.

Suggested statements

The accounts (financial statements) have been prepared in accordance with the Statement of Recommended Practice: Accounting and Reporting by Charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102) issued on 16 July 2014 and the Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland (FRS 102) and the Charities Act 2011 and UK Generally Accepted Practice as it applies from 1 January 2015.

The accounts (financial statements) have been prepared to give a 'true and fair' view and have **departed from the Charities (Accounts and Reports) Regulations 2008 only to the extent required to provide a 'true and fair view'**. This departure has involved following Accounting and Reporting by Charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102) issued on 16 July 2014 rather than the Accounting and Reporting by Charities: Statement of Recommended Practice effective from 1 April 2005 which has since been withdrawn.

FRS 102 SORP – THE PROBLEM BITS

More guidance

Charities SORP

Application guidance for charity accounting

Choosing the right SORP

The Charity Commission and the Office of the Scottish Charity Regulator, as the joint SORP-making body for charities, have developed two SORPs, one to support the Financial Reporting Standard for Smaller Entities (FRSSE) and one to support the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102).

[How to select the right SORP](#)

About the SORP

The Charities Statement of Recommended Practice (SORP): Accounting and Reporting by Charities provides guidance for charities preparing accounts on an accruals basis. In certain jurisdictions, the use of the SORP is mandatory under the applicable charity law and regulations for charities preparing their accounts on an accruals basis to give a 'true and fair' view.

[About the SORP & its key role to charity accounts](#)

Customise your SORP



Tailor your chosen SORP to reflect your charity's structure and activities

Choose SORP modules



Find, save and print specific modules of a SORP as individual PDF files

Download a full SORP



View, download or print a SORP as a single bookmarked PDF file



To see if a SORP applies to your charity, answer the following question:

Does your charity prepare accounts on an accrual basis?

[Yes](#) [No](#)

[Helpsheets](#) | [Why 2 SORPs](#) | [Events and useful information](#) | [SORP Committee](#) | [SORP Archive](#) | [Why the SORP had to change](#)

Developed by  and 

Office of the Scottish Charity Regulator

Trustees Annual Report



- Common format – whether FRS 102 or FRSSE SORP.
- Distinction between requirements for all charities and those requiring statutory audit.*
- Main changes to content requirements: -
 - All trustees names – including ‘de facto’ trustees.
 - Activities to further public benefit.
 - Achievements/performance – positives and negatives.*
 - Must disclose if no reserves policy with reasons.
 - Risk disclosure modelled on ‘Strategic Report’.*
 - Remuneration policy for senior staff.*

NCVO Inquiry

Charities with audited accounts already publish the number of staff whose remunerations is £60,000 or more, in salary bands of £10,000. The Inquiry recommends that these charities go further, and develop and publish a remuneration statement explaining their pay strategy and stating the individual remuneration of their highest-paid staff by position and name. The Inquiry believes that giving trustees the tools and confidence to agree and explain the pay of their senior staff will improve public understanding and confidence in charities.

The Inquiry's report and findings are supported by the Charity Commission.

SOFA

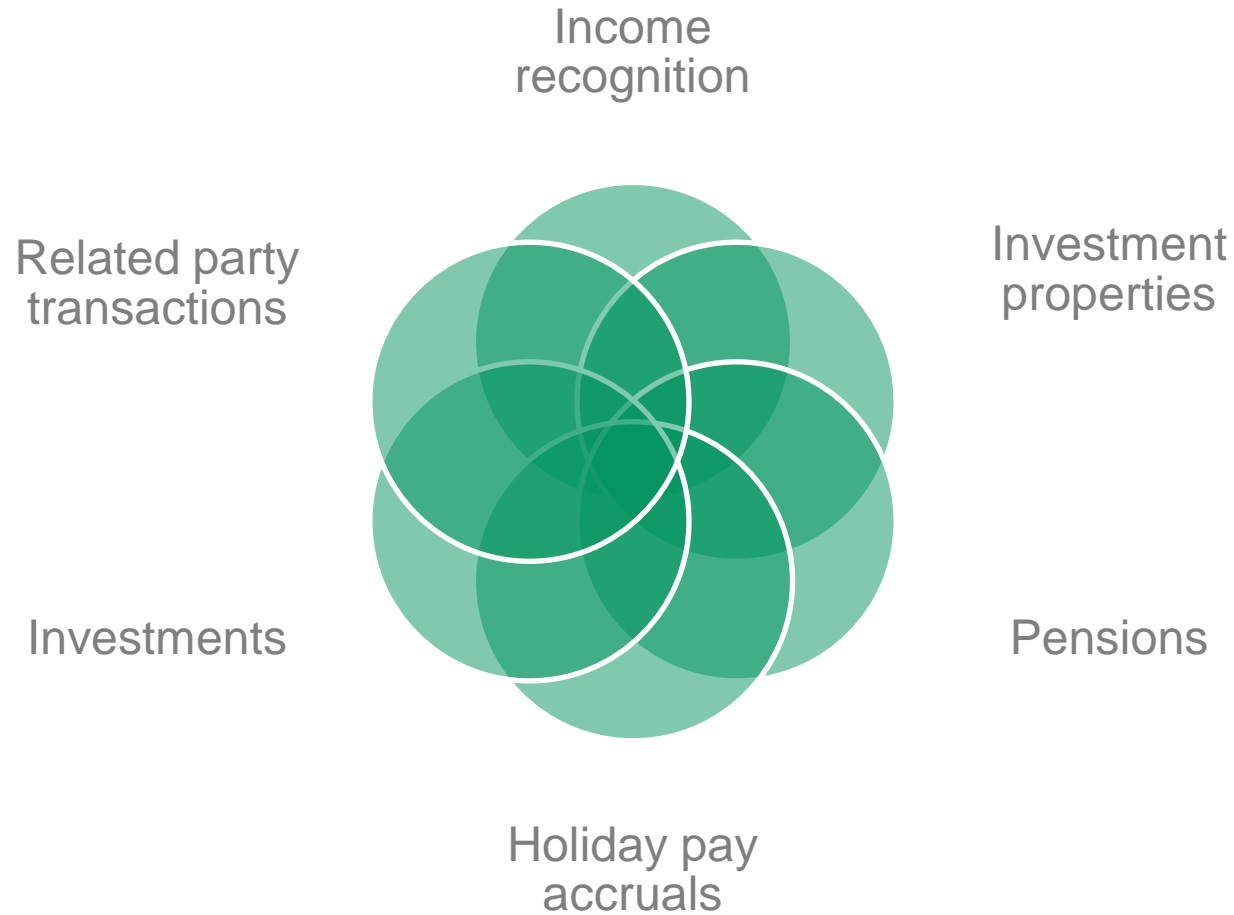


- Basic structure retained
 - Simplified headings
 - Five for income; three for expenditure.

Table 2: Statement of financial activities

	Unrestricted funds	Restricted funds	Endowment funds	Total funds	Prior period Total funds	Further details
	£	£	£	£	£	£
Income and endowments from:						
Donations and legacies						A1
Charitable activities						A2
Other trading activities						A3
Investments						A4
Other						A5
Total						
Expenditure on:						
Raising funds						B1
Charitable activities						B2
Other						B3
Total						
Net gains/(losses) on investments						B4
Net income/(expenditure)						

Key issues



Income recognition

Criteria

- Entitlement
- Probability
- Measureability

Possible impact

- Legacies
- Donated goods and services

Legacies

- Three point test.
 1. Grant of probate.
 2. Sufficient assets in estate.
 3. Conditions within charity's control.
- Portfolio approach for multiple immaterial legacies.
- Potential issues on transition.

Goods for resale



Goods for resale and goods for distribution.



Fair value on receipt unless impractical to measure fair value, in which case when sold.



Value inventories held for distribution at lower of cost, adjusted for loss of service potential and replacement cost (June 2015 proposal).



Formula-based approach for goods sold under UK Retail Gift Aid scheme.

ICAEW blog

Immaterial

- Need to estimate the value to justify this.
- Unadjusted error on audit file?
- Accounting policy note.

Impractical

- Cost benefit analysis needed.
- Consider need for transparency.
- Isn't an inventory system important for retailers?

Investment property - definitions

Paragraph 16.2 FRS 102

Property (land or building or part of a building or both) held by the owner or by the lessee under a finance lease to earn rentals or for capital appreciation or both, rather than for:

- a) Use in the production or supply of goods and services or for administrative purposes; or
- b) Sale in the ordinary course of business.

Investment property - definitions

Paragraph 16.3a FRS 102

Property held primarily for the provision of social benefits shall not be classified as an investment property (IP) and shall be accounted for as property, plant and equipment (PPE).

Investment Property - Treatment

Initial measurement



Cost (purchase price and
directly attributable
costs)

Subsequent measurement



Fair value reliably
measurable without
undue cost or effort



Fair value
(changes in SOFA)



Fair value not
reliably measurable
without undue cost
or effort



Cost – depreciation
model

Scenarios

1. A property is rented by a charity to a women's refuge.
2. A charity rents a property to its own subsidiary.
3. A charity rents out one of its five floors to another company.

Multi-employer pension schemes



Paragraph 28.11A

Where an entity participates in a defined benefit plan which is a multi-employer plan that in accordance with paragraph 28.11 is accounted for as if it were a defined contribution plan, and it has entered into an agreement with the multi-employer plan that determines how it will fund a deficit, the entity shall **recognise a liability for the contributions payable that arise from the agreement** (to the extent that they relate to the deficit) and the resulting expense in profit or loss....

Multi-employer pension schemes

Paragraph 28.13A

When contributions to a defined contribution plan (or a defined benefit plan which, in accordance with paragraph 28.11, is accounted for as a defined contribution plan) are not expected to be settled wholly within 12 months after the end of the accounting period in which the employees render the related service, **the liability shall be measured at the present value of the contributions payable using the discount rate specified in paragraph 28.17.** The unwinding of the discount shall be recognised as a finance cost in profit or loss in the period it arises.

Example

- On implementation of FRS 102, a charity has discounted obligations in respect of past service to pay to a multi-employer scheme of £500K (applying 5% discount rate).
- Payments of £100K and £80K are made in 2015 and 2016 respectively.

Multi-employer pension scheme

Year 1

Dr Opening reserves	£500,000
Cr Pension liability	£500,000
Dr Interest payable ($£500K \times 5\%$)	£25,000
Dr Pension liability	£75,000
Cr Cash	£100,000

Multi-employer pension scheme

Year 2

Dr Interest payable $[(£500K - £75K) \times 5\%]$	£21,000
Dr Pension liability	£59,000
Cr Cash	£80,000

Short-term compensated absences

Paragraph 28.6 FRS 102 (SORP paragraph 7.41)

The entity shall measure the expected cost of accumulating compensated absences at the undiscounted additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the end of the reporting period. The entity shall present this amount as falling due within one year at the reporting date.

Holiday pay accruals



- Employees of charity A are permitted 24 days annual leave.
- The holiday year commences on 1 April. Charity A's financial year end is 31 December.
- **How is the required holiday pay accrual calculated on transition to SORP (FRS 102)?**

Current thinking

Holiday year ends

Employment terms –
carry forward?

Historical trends (are b/f
amounts actually taken?)

Immaterial? Prove it!

Offset of pre-
payments?

(CT implications)

Financial instruments

Basic v Other

- Unlikely to be 'other' instruments in a charity.

Social investment

- Programme-related and 'mixed motive'.
- Fair value through SOFA if it can be reliably measured.

Concessionary loan

- Do not adjust the carrying amount of the loan to reflect the below prevailing market rates of interest being charged.

Total return investment

- Detailed disclosures required (accounts/trustees report).

(Heritage assets)

- Explicit link with objects of charity dropped in FRS 102.

Total return investment

The investment fund and application of total return to permanent endowment funds:	Endowment	Unapplied Total Return	Total
	£'000	£'000	£'000
Opening value of endowment:			
Gift component of permanent endowment	1,542		1,542
Unapplied total return		18,681	18,681
Total:	1,542	18,681	20,223
 Movement in unapplied total return and endowment in the year:			
Investment return: dividends and interest		931	931
Investment return: recognised and unrecognised gains/ (losses)		315	315
Investment management costs		(96)	(96)
Total:		1,150	1,150
 Unapplied total return allocated to income		(980)	(980)
Net movement in the reporting period	-	170	170
 Closing value of permanent endowment			
Gift component of permanent endowment	1,542		1,542
Unapplied total return	-	18,851	18,851
Total:	1,542	18,851	20,393

'Natural person' related parties



- A. Charity trustees and custodian trustees.
- B. Donors of land.
- C. Any person who is:
 - 1. A child, parent, grandchild, brother or sister of A or B.
 - 2. An officer, agent or member of the charity's key management personnel.
 - 3. The spouse or civil partner of A, B, C1 and C2.
 - 4. Carrying on business in partnership with A, B, C1, C2 and C3.
 - 5. A person or close member of that person's family, who has control or joint control over the charity.
 - 6. A person or close member of that person's family, who has significant influence over the charity.

Key management personnel is a term used by FRS 102 for those persons having authority and responsibility for planning, directing and controlling the activities of the charity, directly or indirectly, including any director (whether executive or otherwise) of the charity.

This definition includes trustees and those members of staff who are **senior management personnel significant authority or responsibility in the day-to-day running of the charity** to whom the trustees have delegated.

'Entity' related parties

- The entity and the reporting charity are members of the same group.
- One entity is an associate or joint venture of the other entity.
- Both entities are joint ventures of the same third entity.
- One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity.
- An entity that is controlled or jointly controlled by a person, or two or more persons, identified in A, B or C (above).

Remuneration

- Aggregate employee benefits of key management and trustees.
- Voluntary disclosure of amounts by individual encouraged.

Staff banding disclosures (>£60K) for all charities.

Redundancy/termination payments and contributions to pension fund.

Trustee expenses include costs reimbursed and costs paid direct to third parties.

The disclosures required for trustees equally apply to de-facto trustees

Other RPTs

Disclosure of total amounts donated by trustees and other related parties.

Related party definition extends to close family members of key management personnel.

Names are needed!
(limited exceptions).

The disclosures required for trustees equally apply to de-facto trustees

Related party/remuneration FAQs



1. I act for a church. They've heard that they need to disclose individual donations from trustees. Is this true?
2. If the Chief Exec's remuneration is invoiced by a company controlled by the Chief Exec, would this require disclosure?
3. What about donations from close family members of trustees? Do they need to be disclosed?

More...

4. The spouse of one of the 'key management personnel' works for the charity and is paid a modest salary. Does this require disclosure?
5. One of our charity's trustees is a partner in a law firm which acts for the charity? Does this need to be disclosed in the charity's accounts?

Proposed refinements

Measurement basis for inventories held for distribution at no or nominal consideration

Maximum life for goodwill – 10 years 'in exceptional circumstances'

DRAFT Update Bulletin 1

Prohibition of reversal of impairment losses for goodwill

Prohibition of merger accounting for company charities

SORP (FRS 102) v SORP (FRSSE)

SOFA - FRSSE SORP

	Unrestricted funds	Restricted funds	Endowment funds	Total funds	Prior period total funds
	£	£	£	£	£
Income and endowments from:					
Donations and legacies					
Charitable activities					
Other trading activities					
Investments					
Other					
Total					
Expenditure on:					
Raising funds					
Charitable activities					
Other					
Total					
Net income/(expenditure)					
Transfers between funds					
Other recognised gains/ (losses):					
Gains/(losses) on revaluation of fixed assets					
Gains/(losses) on investment assets					
Actuarial gains/(losses) on defined benefit pension schemes					
Net movement in funds					

FRSSE SORP v FRS 102 SORP

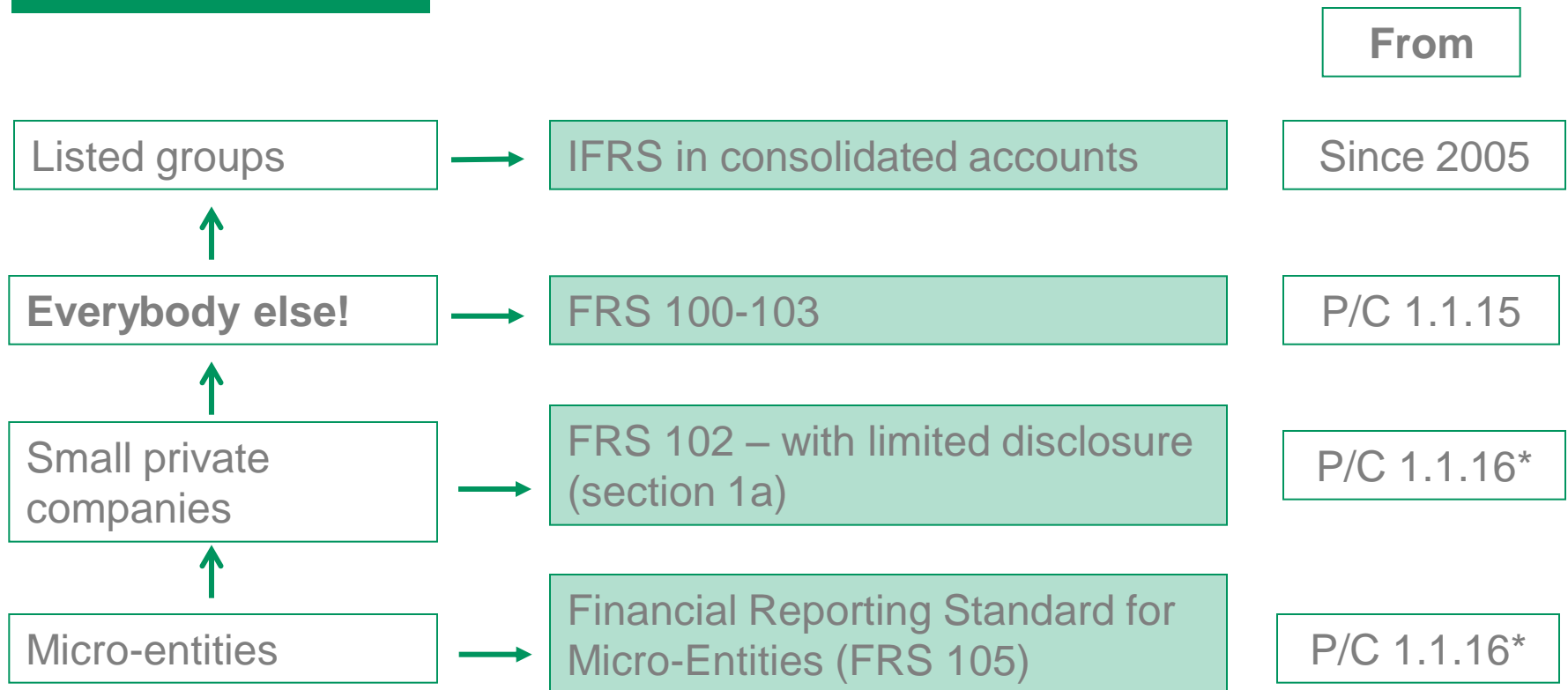
	FRSSE SORP	FRS 102 SORP
Statement of cash flows	Optional (old format)	Mandatory (new format)
Income recognition	Same approach in both SORPs	
Investment property	'Old GAAP' definitions and accounting	New definitions and accounting
'Short term compensated absences'	No explicit requirement for accruals	Requirement for accruals
Multi employer DB schemes	'Old GAAP' accounting	New accounting requirements
Financial instruments	'Old GAAP' accounting – less requirement for fair value; less disclosure	New accounting requirements

Trustees' remuneration/related party transactions

Disclosures in FRS 102 SORP, not FRSSE SORP

- Aggregate value of unconditional donations made by trustees.
- Charity contributions to a pension fund for the benefit of employees.
- Terms and conditions of transactions with, and the details of any guarantee given or received from, related parties.
- Information on the nature, accounting policy and funding of termination payments.
- Total amount of employee benefits received by key management personnel.

UK GAAP in 2016...



* Early adoption allowed

Charity Commission Consultation



INVITATION TO COMMENT

Withdrawal of the Charities SORP (FRSSE) and Proposals to widen the scope of Charities SORP (FRS 102)

Charity Commission Consultation

Option 1

Guide (SORP Update Bulletin) to accompany Charities SORP (FRS 102) interpreting FRED 59 section 1A for 'small entity' charities.

Option 2

Dedicated Charities SORP FRS 102 (Small Entities) to replace Charities SORP (FRSSE).

Option 3

Amending Charities SORP (FRS 102) to permit charities that meet the definition of a 'small entity' not to prepare a statement of cash flows.

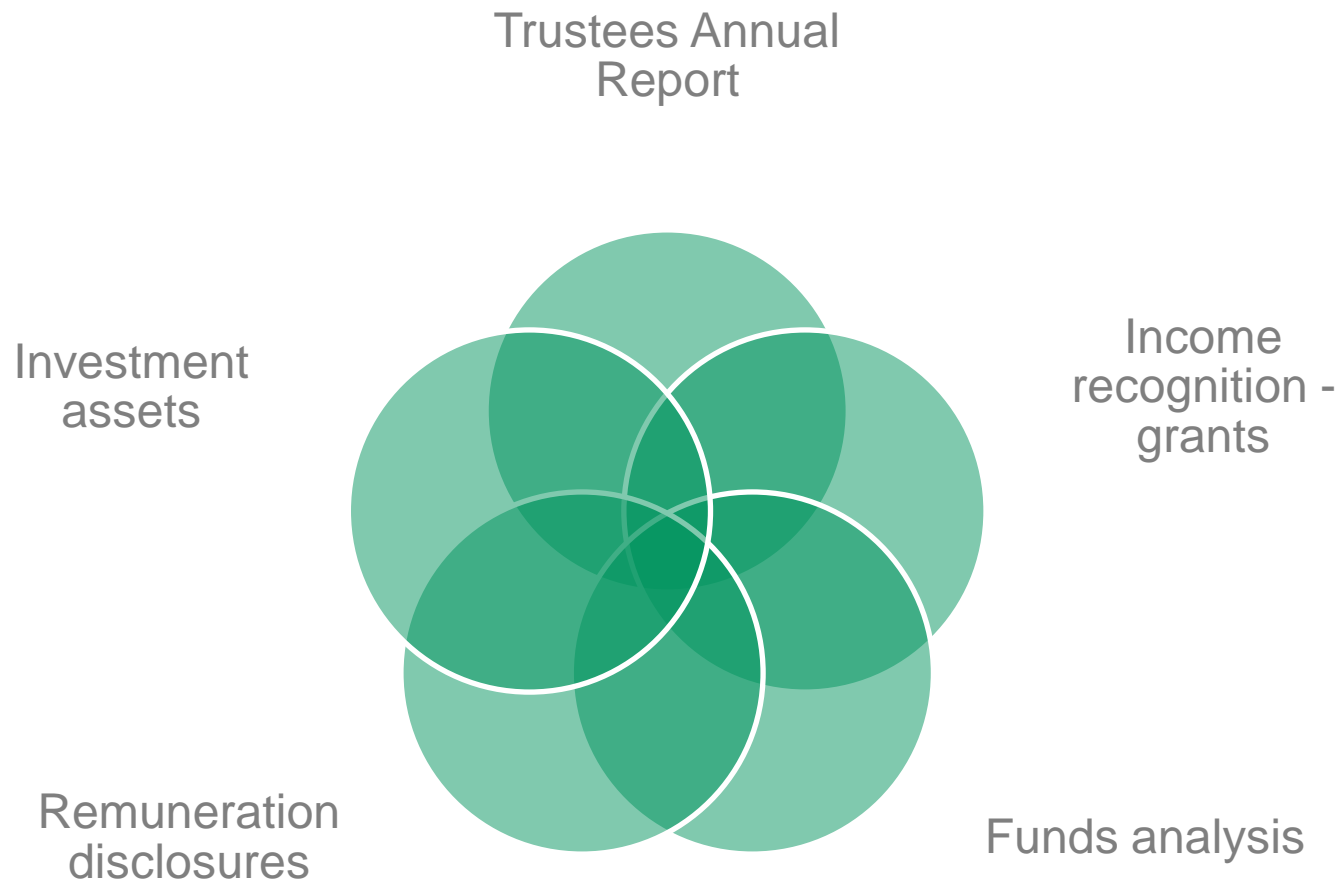
Option 4

Amending Charities SORP (FRS 102) to only require charities that the SORP defines as 'larger charities' to prepare a statement of cash flows.

Closing date for comments – 18 September 2015

PROBLEM AREAS UNDER THE CURRENT SORP

Problem areas



Frequently asked questions



1. My charity has received a donation to buy a minibus. **Will this restricted fund ever become unrestricted?**
2. SORP 2005 requires disclosure of employee numbers. **How is this figure calculated?**
3. Just before the year end my charity received notification of a successful grant application. It will receive the money next year. **What's the double entry?**

Grants

"Grants don't exist! They are either contractual/trading arrangements or gifts"

Source: Don Bawtree (BDO) - ICAEW webinar 'Charities: Audit Challenges'

Another one...

- My charity has received a grant to employ a member of staff for two years.
When do I bring this into the SoFA?

Charity Commission monitoring reports



Low charitable expenditure



Net current liabilities



Reductions in permanent endowment



Pension schemes in deficit

THE NEW CHARITY SCRUTINY REGIME

Incorporated charities

£1m

Limit	£0-£5K gross income	>£5K gross income	>£25K gross income	>£250K gross income	> 500 K gross income or >£250K + BS >£3.26M
Reg'n with Ch Comm	No	Yes			
Acc'g records	Proper accounting records must be kept				
Acc'g basis	Accruals				
Reports & Accounts	Cos House CC may request		Cos House + Must be submitted to CC (within 10 months of y/end)		
Scrutiny	Not required		Independent examination	Independent examination (qual'd acct)	Audit

Unincorporated charities

£1m

Limit	£0-£5K gross income	>£5K gross income	>£25K gross income	>£250K gross income	>500K gross income or >£250K + BS >£3.26M
Reg'n with Ch Comm	No	Yes			
Acc'g records	Proper accounting records must be kept				
Acc'g basis	Receipt & Payments			Accruals	
Reports & Accounts	CC may request		Must be submitted to CC (within 10 months of y/end)		
Scrutiny	Not required		Independent examination	Independent examination (qual'd acct)	Audit

The Statutory Instrument

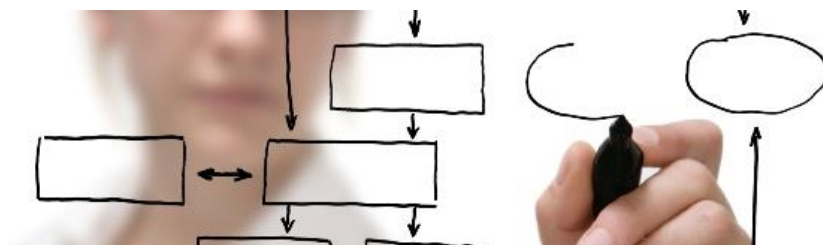
Amendments to the Charities Act 2011

2. The Charities Act 2011 is amended as follows.
3. In section 144(1)(a) (audit of accounts of larger charities) for “£500,000” substitute “£1 million”.
4. After section 145(4)(j) (examination of accounts etc), insert—
 - “(k) the Institute of Financial Accountants;
 - (l) the Certified Public Accountants Association.”

Transitional provision

5. This Order applies in relation to any financial year of a charity ending on or after 31st March 2015.

Key considerations....



1. No 'years rules'.
2. Does the charity's constitution require an audit?
3. Impact on requirement for group accounts.
4. Impact on definition of 'larger charities' under review.
5. Are your independent examinations up to scratch?
6. No secondary threshold change – but watch this space!

LEGAL ROUND UP

Legal round up

- Cooperative and Community Benefit Societies Act
 - Affects Industrial & Provident Societies.
 - Impact on accountants and audit reports.
- Charities (Protection & Social Investment) Bill
 - More power for CC to tackle abuses of charities.
 - Extension to disqualification rules.
 - New powers for charities to make social investments.
- Charities Act 2011 (Accounts and Audit Order 2015) and Charities Act 2011 (Group Accounts) Regulations 2015
 - Changes to audit and consolidation thresholds.



Technical Release

ICAEW Technical Release

TECH 16/14BL

Guidance on donations by a company to its parent charity

(Guidance on the status under company law of charitable donations by a company, formed and registered under the Companies Act 2006 or predecessor legislation, to the company's parent that is a registered charity, issued on 31 October 2014 by ICAEW)

- CC35 withdrawn
 - Allowed 'excess' dividend payments from subsidiary to parent charity = > not 'distributions'.
- ICAEW has sought legal advice
 - Dividend payments are legally 'distributions'.
 - Thus excess payments owed back.
- Release provides guidance on steps to take in respect of past and future illegal dividends.
- Need to approve gift aid payments pre-year end?

Charitable Incorporated Organisations

Pros	Cons
No dual registration (CC and Cos House)	Trustees have management responsibility – potential liability for breaches of trust
Trustees benefit from limited liability	Exempt charities cannot convert
No minimum registration threshold	Untried and untested
Every CIO will have a reg'd charity number	Where CC registration lost, the charity will fold
No fines will apply for administrative errors	Returns & accounts required irrespective of size
Receipts and payments accounting where income < £250K	Harder for CIOs to offer security for borrowing

FAQs

Is it worth converting?

For an unincorporated charity, potentially yes

Are incorporated charities able to convert yet?

No

What should a CIO audit report look like?

Like an audit report for an unincorporated charity

How does accounting work on conversion?

Day one gain/loss
Merger method under FRS 102 SORP (reconstruction)

CHARITIES COMMISSION ROUND-UP

Charities Commission round up

The Essential Trustee (CC3)

Annual Return

Double defaulters

Fraud check

Accounts submission

Tackling abuse and mismanagement



News

CC News 51 - September 2015

Contents

- Managing financial difficulties and insolvency
- Have you read 'The essential trustee' yet?
- Are your contact details up-to-date?
- New research on trust and confidence in the Charity Commission
- Annual report and strategic plan
- Fundraising: CC20 consultation
- Does your charity own or rent property?
- Charity fraud event: 30 October 2015
- Lessons for the wider sector from our case work
- Regulatory alerts: funding of non-charitable organisations
- Safer giving
- Professional advisers can file your accounts for you
- Honorary treasurers: be aware of changes affecting the SORP from 2016
- Are you thinking of the future of your charity?

Thank you for attending.

Please complete and return your feedback form.

Contact us

Chris Porritt

chris.porritt@beeverstruthers.co.uk

Maria Hallows

maria.hallows@beeverstruthers.co.uk

Suzanne Lomax

suzanne.lomax@beeverstruthers.co.uk

Sue Hutchinson

sue.hutchinson@beeverstruthers.co.uk



SOLUTIONS TO EXAMPLES

Related party/remuneration FAQs

1. I act for a church. They've heard that they need to disclose individual donations from trustees. Is this true?
 - No - aggregate donations only
2. If the Chief Exec's remuneration is invoiced by a company controlled by the Chief Exec, would this require disclosure?
 - Probably yes - applying substance over form?
3. What about donations from close family members of trustees? Do they need to be disclosed?
 - As part of the aggregate total - yes

More...

4. The spouse of one of the 'key management personnel' works for the charity and is paid a modest salary. Does this require disclosure?
 - Quite possible – as this transaction is not specifically exempted from disclosure
5. One of our charity's trustees is a partner in a law firm which acts for the charity? Does this need to be disclosed in the charity's accounts?
 - It depends whether the trustee has control or joint control over the law firm. Is he/she an equity partner?

Frequently asked questions

1. My charity has received a donation to buy a minibus. Will this restricted fund ever become unrestricted?
 - It depends on the terms of the donation – potentially as soon as the minibus has been purchased!
2. SORP 2005 requires disclosure of employee numbers. How is this figure calculated?
 - Based on monthly averages – include FTE employees figure as well, if material (para 253 SORP 2005; para 9.29 SORP FRS 102)
3. Just before the year end my charity received notification of a successful grant application. It will receive the money next year. What's the double entry?
 - Dr Debtors; Cr SOFA.