

# Charities and Non-Profit Update - 9 March 2011



## Charitable Incorporated Organisations

There have been a number of changes in the Charities and Non Profit sector recently.

## Abolishing the cheque

## The future of financial reporting for Charitable Companies

### Charitable Incorporated Organisations

The Charities Act 2006 included the provision for the introduction of a new legal form of incorporation which has been specifically designed for charities, known as the Charitable Incorporated Organisation (CIO). The exact date of commencement for CIOs is still to be confirmed, but it is now expected that the CIO will be an option available for charities in the first quarter of 2011.

A decision is still to be made on whether the new CIO provisions will be implemented as a whole or whether implementation will be phased.

The purpose of the CIO is to combine the advantages of having a corporate structure (e.g. reduced risk of personal liability) without the burden of dual regulation (the Charities Act and Companies Act). They will be subject to the Charities Act and the Charities Commission only. CIOs will be required to register with the Charity Commission regardless of their level of income.

The CIO provisions enable an existing incorporated charity to convert to a CIO without the need to create a new corporate body. The existing form of incorporation is expected to continue.

However, an existing unincorporated charity will not be able to convert directly to a CIO. The CIO will need to be set up as a new corporate body, which will be

registered with the Charity Commission. The net assets and activities of the existing charity will be transferred to the new corporate body. The existing charity will then be wound up, in accordance with the provisions of the governing document.

## Abolishing the cheque

The Payments Council announced that they would be gradually phasing out the use of cheques, with the target of closing the Central Cheque Clearing by 31st October 2018. The final decision on the future of cheques is due to be made by 2016.

This decision was driven by a permanent decline in the use of cheques in the UK over recent years. The Payment Council want to manage this decline to ensure that there are alternatives in place for people and organisations who rely on cheques.

The Payment Council will be working over the next eight years, to promote existing alternatives to cheques and to develop new options where these are required.

Charities are set to be affected by this change and will be left with the decision of finding a alternative that best suits them.

The Payment Council have offered the following examples of options for charities and similar organisations:

- Debit and credit cards
- Direct Debit
- Third party services (i.e. Just Giving)
- On-line payments

# Charities and Non-Profit Update

## The future of financial reporting for Charitable Companies

The Accounting Standards Board (ASB) has published Financial Reporting Exposure Drafts 43 and 44, which address the proposals for the future of financial reporting in the UK and Republic of Ireland.

These Exposure Drafts develops a three tier system designed as a step to bring the UK into line with International Reporting Standards:

- Tier 1 - Publically accountable companies will apply the International Financial Reporting Standards (IFRS).
- Tier 2 - Small and Medium Sized Companies will apply the Financial Reporting Standard for Mid-sized Entities (FRSME).
- Tier 3 - Smaller companies will continue to apply the Financial Reporting Standard for Smaller Entities (FRSSE).

In response to feedback from previous consultations, the ASB has identified a need to develop a Public Benefit Entity Standard (PBE Standard), for public benefit entities (PBEs) including charities.

They have also suggested that there may be a need to retain the sector-specific Statements of Recommended Practices (SORP) as supplementary guidance to the PBE sector, but these would need to be updated.

An exposure draft on the PBE Standard is expected in 2011 and it is anticipated that it will contain the following proposals:

- The PBE FRS would be a supplement to the FRSME, not a substitute. It would be a 'differences only' standard highlighting areas applicable to PBEs that are not included in the FRSME.
- The standard would be applicable for all PBEs, not just those covered by the current SORPS.
- PBEs that fall within Tier 1 should also adopt the PBE standard where it does not conflict with the IFRS.

Specific advice should be obtained before taking action, or refraining from taking action, on any of the subjects covered

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