

Charity Update September 2013



Accounting Update - SORP and FRS 102

Gift Aid and Digital Giving

Charitable Incorporated Organisations

Disclosure Requirements

CAF Bank

This briefing includes updates on how charities are expected to apply accounting rules, including Trustees reports (in the accounts) on the identification and management of risks. We also cover an update on Charitable Incorporated Organisations with some pointers on whether they might be right for you, details of the new Charities Aid foundation (CAF) bank and a reminder about Gift Aid and digital giving.

Accounting Update - The new SORP and FRS 102

A new SORP (Statement of Recommended Practice) has been developed by the Charity Commission for England and Wales, the Office of the Scottish Charity Regulator and the sector-based SORP Committee.

The purpose of the new SORP is to provide guidance for charities on how to apply either Financial Reporting Standard for Smaller Entities (the FRSSE) or the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS102). The Charities SORP is compulsory for all charities preparing accounts on an accruals basis.

The Financial Reporting Council published FRS 102 in March 2013. Charities must adopt FRS 102 for accounting periods beginning on or after **1 January 2015**. Early adoption is permitted for accounting periods beginning on or after 31 December 2012 as long as the requirements of the FRS are not in conflict with a relevant SORP.

FRS 102 also includes paragraphs specifically for public benefit entities, which have been prefixed with 'PBE'.

The FRSSE can be adopted by entities that meet the definition of a small company as defined by Companies legislation. In other words, entities that meet two out of three of the following conditions:

- Turnover not more than £6.5 million
- Balance sheet total not more than £3.26 million
- Number of employees not more than 50

The entity must also have met these conditions and qualified as small in the preceding year.

The consultation has been published on a SORP micro-site at charitycorp.org and includes an Invitation to Comment. The consultation will close on 4 November 2013.

Gift Aid and Digital Giving

HM Treasury have had a period of consultation on "Gift Aid and Digital Giving" with the intention of making it easier for charities to claim Gift Aid on donations made through digital, and other channels.

Charity Update September 2013

The document encourages feedback on three key areas:

- Simplification of the Gift Aid Declaration
- Increased involvement by non-charity intermediaries in operating Gift Aid
- Views on a Universal Gift Aid Declaration Database

Charities, intermediaries, donors and any other interest parties have been invited to comment on the consultation, by 20 September 2013, so this is your last reminder if you want to have your say!

For further details, please see our separate publication "Charity Update - Gift Aid and Digital Giving".

Charitable Incorporated Organisations

The Charity Commission started to accept applications for registering Charitable Incorporated Organisations (CIOs) in December 2012. The registration has been implemented in stages and applications will now be accepted for new or unincorporated charities with income over £25,000.

A recent search of the Charity Commission Register shows that Charities are gradually starting to take up this new opportunity, with just under 500 Charitable Incorporated Organisations having been registered with the Charity Commission so far.

The new CIOs potentially offer much greater protection to Trustees than has been the case with traditional trust arrangements and some streamlining of reporting, so Trustees may wish to renew the position now that the rules are clearer.

Disclosure Requirements - topical issues

Risk Assessment

The Charities (Accounts and Reports) Regulations 2008 require the trustees to include in their Trustee's Report "a statement as to whether the charity trustees have given consideration to the major risks to which the charity is exposed and satisfied themselves that systems or procedures are established in order to manage those risks."

The approach that many Charities take is to add a vague statement in the Trustees' Report that the Trustees have considered the risks and are satisfied with the procedures in place to manage those risks.

However, in accordance with best practise, Charities should consider disclosing further information on the risk assessment process including what they consider to be the major risks, their potential impacts and how these risks are mitigated.

It is also important that the Trustees are able to demonstrate that they have actually undertaken a risk assessment before they can make this statement in their accounts.

A good starting point for this is a Risk Register which should be used to identify all the strategic, operational, financial, reputational, regulatory and people oriented risks. These risks should be ranked by their impact or significance to the organisation. The risk management process would usually be dealt with by the day-to-day management of the charity and reviewed regularly by the trustees with particular focus on the key risks.

Risk management should not be thought of purely as an annual exercise, but should be an important tool in response to all opportunities that arise and consequently all decisions made to achieve the objectives of the charity.

The Charities Commission guidance, CC26 Charities and Risk Management, provides guidance on the basic principles and strategies charities can adopt to manage their risks

Charity Update September 2013

Reserves Policy

The Charities SORP (Statement of Recommended Practice) requires the Trustees' Report to describe the charity's policy on reserves stating the level of reserves held and why they are held..

It is not sufficient to merely state that the charity has a Reserves Policy. The charity must clearly explain the reserves policy and how they are implementing it. Charity law requires a charity to spend its income within a reasonable period. Therefore, disclosure of the reserves policy is important as it allows the trustees to justify the level of reserves they hold and provides confidence that the charity is not holding excessive reserves that could be put to better use. It also demonstrates that the charity's ability to manage its finances and plan for future funding.

Firstly, we need to consider what is meant by the term Reserves. The Charities SORP defines Reserves as "that part of a charity's income funds that are freely available". This would exclude endowment funds, restricted funds and any unrestricted funds that are not readily available for spending (for example, funds that can only be realised by selling fixed assets held for charity use or performance related investments).

The disclosure in the Trustees Report should:

- Explain why the charity needs reserves
- Quantify the level of reserves that the trustees believe the charity needs to operate effectively
- State the level of reserves held, including an explanation of how that figure has been calculated
- Explain how the level of reserves held compares to the reserves policy and the steps the charity is going to take to reach, or maintain the reserves at, the required level.
- Describe the arrangements for monitoring and reviewing the policy.
- Explain the amount and purpose of designated funds and the likely timing of the expenditure.

The reserves policy should be reviewed regularly to ensure that it is meeting the charity's needs.

The Charities Commission guidance, CC19 Charities and reserves, provides guidance explaining what reserves are, the trustees' responsibilities regarding reserves and how to develop a reserves policy.

The new draft SORP has been written so that it can be downloaded in full or as individual modules. The intention is that this will make it easier for charities to follow and identify the areas that are relevant to them.

An alternative source of finance? - CAF Bank

The Charities Aid Foundation have been around for quite some time, but in the past have concentrated mainly on taking deposits. At the beginning of the year, they took a change of tack, took on more staff from the banking sector and are now looking at lending opportunities to charities and not-for-profit entities (that are tax exempt). Further information on the options is available [here](#).

LONDON

10 Orange Street
Haymarket
London
WC2H 7DQ

T +44 (0)20 7312 0000
F +44 (0)20 7312 0022
E advice@shipleys.com

GODALMING

3 Godalming Business
Centre
Woolsack Way
Godalming
Surrey
GU7 1XW

T +44 (0)1483 423607
F +44 (0)1483 426079
E godalming@shipleys.com

www.shipleys.com

Specific advice should be obtained before taking action, or refraining from taking action, in relation to the above.



Shipleys is a member of AGN International, a worldwide association of separate and independent accounting and consulting firms.

Registered to carry on audit work in the UK and Ireland, and regulated for a range of investment business activities by the Institute of Chartered Accountants in England and Wales.

© Shipleys LLP 2013 09