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Charity Update

There have been recent legislative and administrative changes that will affect charities and non-profit organisations

New Charity SORPs

Two new SORPs (Statement of Recommended Practice) have been published. One provides guidance for charities applying the Financial Reporting Standard (FRS102) and the other for those applying Financial Reporting Standard for Smaller Entities (the FRSSE 2015).

The new SORPs will come into effect at the same time as FRS 102, for accounting periods beginning on or after **1 January 2015**; and will replace SORP 2005.

The Charities SORP is compulsory for all charities preparing accounts on an accruals basis. Charities with income below £250,000 may produce accounts using the receipts and payments basis instead.

FRS 102 includes paragraphs specifically for public benefit entities, which have been prefixed with 'PBE'. These are mandatory for all charities applying FRS 102 and are best practice for those applying the FRSSE.

The new Charities SORPs uses a modular format designed to allow charities to select the areas relevant to them.

The new SORPS can be downloaded from the SORP micro-site at charitysorp.org. This website also includes some useful helpsheets about the key changes from SORP 2005 and the differences between the FRS102 SORP and the FRSSE SORP.

Although the changes take effect for accounting periods commencing on or after 1 January 2015, there is a transitional period from 1 January 2014 to ensure comparative financial information conforms to the new standard. Therefore, charities should already be thinking about how these new SORPs will impact them. Obviously we can help!

Are you FRS or FRSSE?

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.

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Fraud and Charities

Fraud and other financial crimes can be just as much issues for charities as they are for other entities. As well as the obvious financial impact, it can also cause reputational damage.

Charities can be attractive targets to fraudsters for many reasons. Cash donations can create opportunities for fraud; and fraudsters can take advantage of the high public trust placed on charities and their representatives.

It is important, therefore, that charities are aware of the risk of fraud and put internal controls in place to mitigate the risk of it happening to them.

Trustees have a legal responsibility to protect the funds of the charity, including compliance with general laws on fraud, money laundering, terrorist financing and bribery. Good governance and financial controls will improve confidence that the funds are being put to the intended charitable purpose.

The Charity Commission have published "Ten Top Tips for Trustees" which have been reproduced below:

1. Review your financial controls at appropriate intervals and do so critically, keeping them up to date. Just because you have not been a victim of fraud, do not assume that it will never happen.
2. Segregate duties – do not allow one or two people to be in charge of and unchecked for all aspects of your charity's financial controls.
3. Make sure all of the separate parts of the financial records agree with each other. Always ask for and keep receipts. Reconciling bank statements with invoices, receipts, purchase and payment authorisations will often help to identify fraud at an early stage, and may discourage potential fraudsters.
4. Never weaken your financial security for the sake of short cutting or time saving. For example, do not pre-sign blank cheques, even if a second signature is required. Doing so reduces your cheque security by 50% - or, to put it another way, doubles the risk!
5. Keep a list or register of valuable fixed assets and key charity property, and periodically inspect them.
6. Ensure that electronic or online banking arrangements are secure and are protected with dual-level authorisation.
7. When recruiting staff – especially those who handle the charity's finances - make appropriate background checks and take up references.
8. If your charity makes grants to beneficiaries or other organisations, carry out appropriate due diligence checks on applicants.
9. Ensure as trustees you receive and consider regular reporting information about the charity's finances. If you are a trustee or manager, make sure that you understand the financial summaries and reports that are presented to you, and if you do not, ASK for an explanation that you CAN understand.
10. If you suspect or become aware of fraud, make sure that you know what to do and who to inform. Make sure it is part of the culture of your charity. Prompt and appropriate action will help to protect your charity and limit any financial damage.

Source: Charity Commission- Compliance Toolkit: Protecting Charities from Harm, Chapter 3: Fraud and Financial Crime

Is your Risk Register up to date?

The Charity Commission guidance recommends the use of a Risk Register to identify all the strategic, operational, financial, reputational, regulatory and people oriented risks.

We have identified the following areas that are commonly missing from the Risk Registers we see:

- Cash flow sensitivities
- Compliance with relevant regulations
- Fraud, money laundering, terrorist financing and Bribery Act

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- Reserves policy
- Credit control
- Pension commitments and auto-enrolment
- Compliance with restrictions imposed by donors
- Board composition
- Prolonged engagement of advisors and suppliers

The Charities Commission guidance, CC26 Charities and Risk Management, provides further guidance on managing fraud and other risks.

Changes to Income Tax 6 April 2015

Future changes to income tax rates and bands could result in some donors no longer paying sufficient tax to cover the gift aid claimed on their donations:

The band of savings income (reduced by the excess of non-savings income over the personal allowance) which is currently charged at 10% will be increased to £5,000 from 6 April 2015 and charged at 0%. In addition, the personal allowance for 2014/15 is increased to £10,000.

A donor makes a statement on a Gift Aid Declaration confirming that they have paid or will pay an amount of income tax and/or capital gains tax for the current tax year (6 April to 5 April) that is at least equal to the amount of associated tax that the charities will reclaim on their donations for the current tax year.

When the changes apply, donors will need to ensure that they are still paying enough tax to make the above statement or to cancel any gift declarations that are no longer valid.

Auto enrolment – a reminder

Charities are not excluded from the auto enrolment pension rules which are now being phased in. Just about all employers will have to provide a workplace pension for their staff – there is no choice. The process of selecting and setting up a scheme and notifying staff is length. Action is now required to ensure you understand your obligations and have the correct processes, systems and resources in place to deal with the set-up phase and the ongoing administrative burden.

When is your staging date?

The date by when workers must be enrolled depends on the size of your entity. It is being rolled out over a six year period (called a staging date), starting with the largest first, and has already begun.

If you have not already done so, contact your payroll provider or use The Pensions regulators website as soon as possible to confirm your staging date.

Don’t leave it until the last minute

Our advice is to establish your staging date and to develop a plan straight away. If you leave it till later you may well struggle to get the help you need - many providers won't consider smaller schemes or those due to start within 6 months. Those who fail to comply risk fines and legal action.

For more information, see our website here.

Annual Return 2014

The Charity Commission have updated their annual return for 2014. It now includes additional questions and the responses will be displayed on the Charity Commission register:

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- Does it raise money from the public?
- Does it own a trading subsidiary?
- Does the charity make grants?
- Does the charity have written policies on risk management, investment, safeguarding vulnerable beneficiaries, conflicts of interest, volunteer management and complaints handling?
- Is the charity regulated or registered with a body other than the Charity Commission?
- Does the charity pay its trustees?
- What has the charity achieved during the year?

In addition, the Summary Information Return has been discontinued. This was previously required for charities with an annual income exceeding £1million.

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

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