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Charities Alert
Information sheet 1: implementation issues

June 2017

Information sheet 1: implementation issues is available at http://www.charitiessorp.org/about-the-sorp/helpsheets/

In a nutshell
The Charity Commission published in April 2017 its first information sheet to provide additional clarity on some of the new SORP implementation issues. The sheet covers 14 topics. Key clarifications include:

- Charities need not produce a parent-only or subsidiary cash flow statement where the charity or parent is included in a consolidation.
- Comparative figures are required for fund disclosures including the analysis of net assets by fund and the movements on material funds.
- Aggregate disclosure of non-conditional donations from trustees is only required where it is material in the context of total income from donations and legacies.
- Employers NIC should be included as part of employee benefits when making the disclosures regarding key personnel.
- Losses on the disposal of tangible fixed assets should be apportioned over charitable expenditure.

Clarity has also been provided over which grant making bodies may be considered part of "government" – for government grants disclosures.

The definition of a larger charity, a charity which is required to give additional disclosure in accordance with the SORP, as one with income over £500,000 is clearly separated from the audit threshold.

Background
Following the issue of the SORP and SORP bulletin 1 updating the SORP for changes to FRS 102, the Charity Commission has issued its first information sheet which covers a number of implementation issues. A number of key points have been discussed in more detail below.

Cash flow statement exemption
Parent only cash flow statement not required in consolidated accounts

The guidance clarifies that a parent charity or subsidiary can take advantage of the disclosure exemptions, including the exemption from preparing a cash flow statement, provided they meet the definition of a "qualifying entity" where they are a member of a group where the parent prepares publicly available consolidated financial statements which are intended to give a true and fair view and that member is included in the consolidation.

To qualify for this exemption, the charity is required to disclose a narrative summary of the disclosure exemptions adopted in the notes to the accounts. Charities cannot take the qualifying entity disclosure exemptions relating to trustee and key management remuneration and related party transactions.

Fundraising disclosures required for October 2017 year ends

Fundraising disclosures

Under the provisions of section 13 of the Charities (Protection and Social Investment) Act 2016 ('the Act') charities must include extra information on their fundraising practices in the trustees' annual report. This applies to all charities who must have their accounts audited for periods beginning on or after 1 November 2016. Early application is permitted. Disclosures include:

- the fundraising approach taken by the charity, or by anyone acting on its behalf, and whether a professional fundraiser or commercial participator carried out any fundraising activities;
- details of any fundraising standards or scheme for fundraising regulation to which the charity has voluntarily subscribed;
  - details of any fundraising standards or scheme for fundraising regulation to which any person acting on behalf of the charity has voluntarily subscribed;
  - details of any failure by the charity, or by any person acting on its behalf, to comply with fundraising standards or scheme for fundraising regulation to which the charity or the person acting on its behalf has voluntarily subscribed;
  - whether the charity monitored the fundraising activities of any person acting on its behalf and, if so, how it did so;
  - the number of complaints received by the charity, or by a person acting on its behalf for the purposes of fundraising, about fundraising activity;
  - what the charity has done to protect vulnerable people and other members of the public from behaviour which:
    - is an unreasonable intrusion on a person's privacy;
    - is unreasonably persistent;
    - places undue pressure on a person to give money or other property.

The Charity Commission has updated CC20 Charity fundraising: a guide to trustee duties to cover the new regulations.

Disclosures required for funds notes

Comparative figures for fund disclosures

Comparative figures are required for fund disclosures including the analysis of net assets by fund and the movements on material funds. This means that most charities will provide an analysis over 2 years.

A charity should separately disclose material amounts clawed back by funders which relate to funding recognised in previous years

Treatment of grant funder claw back

Where a funder has requested the return of funding that has been received or recognised in the accounts as a result of funding being unspent or ineligibly spent by the charity, the charity must consider the appropriate treatment of this 'claw back'. Treatment could vary depending on the circumstances. For example, if it is considered that the income was claimed incorrectly (based on the information available and that could reasonably be expected to have been obtained at the point at which the income was recognised) then a prior period adjustment may be appropriate if the claw back is material. However, it may be reasonable to recognise the claw back in the subsequent accounting period.

If the request from the funder is before the accounts have been issued then the charity will need to consider whether it is an adjusting or non-adjusting post balance sheet event.

Where a provision or liability for claw back is recognised the debit side entry should be an adjustment to the fund where the income was initially recognised, where possible. A charity should separately disclose material amounts clawed back by funders which relate to funding recognised in previous years.

Key management pay disclosures include employer's NIC

Key management personnel aggregate pay disclosure

When calculating employee benefits for the disclosure of remuneration and benefits received by key management personnel, employer's national insurance contributions (NIC) should be included.

When identifying numbers of employees paid over £60,000 for the banding disclosures employer's NIC should be excluded.

Other clarifications

- The larger charity definition (charities with a gross income exceeding £500,000 (UK) or 500,000 euros (Republic of Ireland) should be used throughout the SORP and SORP Update Bulletin 1 in place of a reference to statutory audit.

- Governance costs can be allocated to cost of raising funds where appropriate.

- Where trustees, chief executive officer or senior staff members have elected to withhold their names due to personal danger and have made disclosures to that effect, then the disclosures of related party transactions involving that individual may be modified to disclose their role.

- Disclosure of the total amount of donations received without conditions from trustees or other related parties is only necessary if the total amount of donations received is judged to be material in the context of the total income from donations and legacies.

- The loss on disposal of tangible fixed asset should be treated as additional depreciation and allocated between cost categories using the same principles as depreciation and other costs prior to disposal.

- UK Charitable companies should not account for the fair value of financial instruments and assets in a separate reserve, except for in relation to those financial instruments accounted for as a hedging instrument or where the change relates to an exchange difference arising on a monetary item that forms part of the charitable company's net investment in a foreign entity.

- Further detail is provided on bodies that should be identified as 'government' for disclosure of government grants.

- Thresholds for Northern Ireland charities are updated for 2015 accounts and reports regulations effective from 1 January 2016.

- Additional information for charitable companies reporting in the Republic of Ireland in relation to the directors' report and a summary income and expenditure account has been included to reflect the new Republic of Ireland Companies Act 2014.

Next steps

These clarifications apply now and therefore charities should make sure that the accounts being prepared reflect the matters discussed.

Contacts

If you would like further, more detailed information or advice and to discuss how this will affect you, please contact your local Deloitte partner or:

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Designed and produced by The Creative Studio at Deloitte, London. J12594