



MEMORANDUM

To: Technical Representatives
From: Matthew Shaw
Date: 12 February 2016
Ref: TM 03/16

REVISION TO THE FRS 102 CHARITY SORP

Overview:

For accounting periods commencing on or after 1 January 2015 charities other than those adopting receipts or payments accounting or complying with the provisions of a more specific SORP, such as the Housing SORP 2014 must follow either:-

- The Charities SORP (FRS 102); or
- The Charities SORP (FRSSE (January 2015)), if they are eligible to do so.

HAT, together with many in the charity sector have recommended adoption of the Charities SORP (FRS 102) for all charities. However, the main disadvantage of this was the mandatory inclusion of a Statement of Cash Flows.

The Charity Commission have now released Bulletin 1 (available at <http://www.charitiessorp.org/media/642756/frs102-bulletin-1.pdf>) **This makes number of significant changes to charity financial reporting, and it is vital that clients are informed of this amendment promptly as those with December 2015 year ends could very well be currently redrafting their Annual Reports.** The key changes are:

- Confirmation that the SORP (FRSSE) will be withdrawn for periods commencing on or after 1 January 2016;
- Reducing the definition of a 'larger' charity from one which is audit exempt to one with income less than £500,000 (thus bringing disclosure thresholds broadly back to where they were before audit limits increased in March 2015); and
- Exempting charities which are not 'larger' from the need to prepare a Statement of Cash Flows.

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The changes are mandatory for periods commencing 1 January 2016. They may be early adopted for periods commencing 1 January 2015 onwards, but if so, all changes must be adopted.

Impact

In simple terms, all charities with income less than £500,000 will benefit from early adoption thus avoiding the need to produce a Statement of Cash Flows. However, charities with income of more than £500,000 but less than £1m will now have to reinstate disclosures they had either removed in the prior year or were intending to remove for the current period. These charities may be in the process of removing a significant amount of information from their annual reports which will need to be reinstated. It would again appear sensible if these charities have not already done so to simply retain the existing level of disclosure, rather than removing it for a year simply to have to restate it.

A summary of the additional disclosures required by a 'larger' charity are given at the end of this Memo.

It should be noted that the threshold to prepare consolidated financial statements is driven by charity law and not the SORP and therefore remains income of £1m.

Other Changes

The Bulletin also makes the following changes:

- Increasing in the write off period for intangibles and goodwill where their useful economic lives cannot be reliably assessed to a maximum of 10 years (this was previously 5 years);
- Banning corporate charities from merger accounting unless it represents a group reconstruction;
- Changing the valuation method for donated goods that are distributed to beneficiaries for free or nominal consideration; and
- Extending the definition of related parties to include entities which provide or receive key management personnel services for a charity.

If you have any questions about these changes, please contact the Technical Helpline.

Disclosures only Required for Larger Charities

These are the following key exemptions available to smaller charities which maybe now lost when preparing their Trustees' Report:

- An explanation of:
 - The charity's aims;
 - How the achievement of these aims will further fulfil its legal purpose(s);
 - The strategies for achieving these aims and objectives;
 - The criteria or measures used to assess success in the reporting period; and
 - The significant activities undertaken, giving an indication of the scale of resources used and explaining how they contribute to the achievement of its stated aims and objectives.
- An explanation of the charity's policy for the use of programme-related investments and mixed motive investments (where these are material);
- Regarding reserves:
 - The amount of the total funds the charity holds at the end of the reporting period;
 - The amount of any funds which are restricted and not available for general purposes of the charity at the end of the reporting period;
 - Any material amounts which have been designated or otherwise committed as at the end of the reporting period;
 - The likely timing of the expenditure of any material amounts designated or otherwise committed at the end of the reporting period;
 - The amount of any fund that can only be realised by disposing of tangible fixed assets or programme-related investments;
 - The amount of reserves the charity holds at the end of the reporting period after making allowance for any restricted funds, and the amount of designations, commitments (not provided for as a liability in the accounts) or the carrying amount of functional assets which the charity considers to represent a commitment of the reserves they hold; and
 - A comparison of the amount of reserves with the charity's actual reserves policy and an explanation, where relevant of the steps it is taking to bring the amount of reserves it holds into line with the level of reserves identified by the trustees as appropriate given their plans for the future activities of the charity.
- Details of significant events which have affected the financial performance and position of the charity, including:
 - The financial effect of significant events;
 - Where the charity holds material financial investments, the investment policy and objectives set;
 - A description of the principal risks and uncertainties facing the charity and its subsidiaries, as identified by the charity trustees, together with a summary of their plans and strategies for managing those risks; and

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- Any factors that are likely to affect the financial performance or position going forward.
- A summary of the charity's plans for the future, including its aims and objectives and details of any activities planned to achieve them.
- How the charity is constituted, its governance and management structures, and how its trustees are trained, including:
 - The charity's organisational structure and, where relevant, those of its subsidiaries;
 - How the charity makes decisions, for example which types of decisions are taken by the charity's trustees and which are delegated to staff;
 - The policies and procedures for the induction and training of trustees;
 - 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 arrangements for setting the pay and remuneration of the charity's key management personnel and any benchmarks, parameters or criteria used in setting their pay;
 - (If the charity is part of a wider network (for example if it is affiliated with an umbrella group)), how, if at all, this impacts on the operating policies adopted by the charity; and
 - Relationships between the charity and related parties, including its subsidiaries, and with any other charities and organisations with which it cooperates in the pursuit of its charitable objectives.
- The the name of any chief executive officer or other senior management personnel to whom the charity trustees delegate day-to-day management of the charity on the date the report was approved or who served in such a position in the reporting period given.
- The names and addresses of any other relevant organisations or persons providing banking services or professional advice to the charity, including its:
 - solicitors,
 - auditor; and
 - investment advisers.
- Details of funds held as a custodian trustee on behalf of others.