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CHARITY NEWSLETTER

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CHARITY RESERVES: [Return to contents](#)

The Charity Commission has issued [updated guidance](#) on how to develop and report on a charity's reserves policy.

It highlights that is important for charities to have a policy explaining their approach to reserves. There is no single level or even a range of reserves that is right for all charities. Any target set by trustees for the level of reserves to be held, or decision that there is no need for reserves, should reflect the particular circumstances of the individual charity and be explained in the policy.

The guidance explains:

- What reserves are;
- The importance of having a reserves policy;
- How to develop a reserves policy;
- The legal requirements for publishing the policy and reporting on it; and
- What trustees should do to keep proper oversight of their charity's reserves.

Annexes 1 and 2 give practical guidance on creating a reserves policy for small and large charities.

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AMENDMENTS TO CHARITY SORP: [Return to contents](#)

[Update Bulletin 1](#) has been issued to the Charities SORP (FRS 102), which updates the Charities SORP (FRS 102) and withdraws the Charities SORP (FRSSE) with effect from periods commencing on or after 1 January 2016. The change to the FRS 102 SORP may be adopted from periods commencing on or after 1 January 2015 (but if any changes are adopted, all must be).

[Update Bulletin 1](#) highlights that the following amendments are being made to the Charities SORP (FRS 102):

- **“Accounting and Reporting by Charities: The Statement of Recommended Practice (SORP) - Scope and Application Module:** inserting from when the amendments in this Update Bulletin are effective and implementing the withdrawal of the Charities SORP (FRSSE);
- **Module 6: Donated Goods, Facilities and Services, including volunteers:** amending the measurement basis of the carrying value for inventories held for distribution at no or nominal consideration to require their measurement at the lower of cost adjusted, when applicable, for any loss of service potential and replacement cost. The bulletin offers a definition of ‘replacement cost’;
- **Module 10: Balance Sheet and Module 24: Accounting for Groups and the Preparation of Consolidated Accounts:** revising the maximum period over which goodwill and other intangible assets may be amortised from five to ten years in those exceptional cases where an entity is unable to make a reliable estimate of the asset’s useful economic life;
- **Module 12: Impairment of Assets:** prohibiting the reversal of impairment losses for goodwill;
- **Module 14: Statement of Cash Flows:** requiring larger charities to prepare a Statement of Cash Flows;
- **Module 17: Charity Mergers:** prohibiting merger accounting for charities that are companies and enter into a business combination with a third party; and
- **Appendix 1: Glossary:** amending the definitions of larger charities and related parties.”

The most important changes are that:

- The definition of a ‘larger’ charity is reduced 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 limits went up in March 2015); and
- Exempting charities which are not ‘larger’ from the need to prepare a Statement of Cash Flows.

Therefore it is sensible for charities which are not ‘larger’ (with income less than £500,000) not to apply the Charities SORP (FRSSE), as they can early adopt the changes set out in [Update Bulletin 1](#), and avoid presenting a Statement of Cash Flows.

An update to the [HAT Charities Manual](#), issuing a revised Disclosure Checklist has been issued, to assist the review of disclosures for any charity choosing to “early adopt” [Update Bulletin 1](#).

UPDATED CHARITY COMMISSION GUIDANCE ON GIFT AID FROM TRADING SUBSIDIARIES: [Return to contents](#)

The Charity Commission has reissued its guidance booklet CC35, “[Trustees, trading and tax: how charities may lawfully trade](#)”. The main reason for the amendment is to issue new guidance on the transfer of profits from a trading subsidiary to the parent charity, following the withdrawal of previous guidance in 2014. The revised guidance (which applies for accounting periods commencing on or after 1 April 2015) states:

“Can trustees expect their charity’s wholly-owned trading subsidiary to always Gift Aid all the profits shown in the profit and loss account to its parent charity?”

No. Company law makes it unlawful for any company to make distributions in excess of distributable profits. If the accounting profit is higher than the value calculated for distributable profits, only the lower figure can be paid across under Gift Aid.

A consequence of this is that when the taxable profits of the trading subsidiary are greater than its distributable profits, the trading subsidiary may have a tax liability. [HMRC’s guidance on charities and trading](#) contains advice on the tax treatment of this issue.

Parent charities with wholly-owned trading subsidiaries must bring their operations into compliance with this revised position for any accounting period starting on or after 1 April 2015. Where wholly-owned trading subsidiaries have previously paid a higher figure of accounting profit under gift aid, they may need to take advice from a suitably qualified professional adviser on how to proceed.

The Institute for Chartered Accountants in England and Wales (ICAEW) has issued a ‘technical release’ [Guidance on donations by a company to its parent charity \[TECH 16/14BL\]](#) which provides a more detailed explanation. It is based on legal advice provided to them.

ICAEW’s technical release also provides guidance on potential ways of addressing likely accounting issues that may arise when rectifying the position. This includes an option to write off all or part of a loan made to a wholly-owned trading subsidiary in connection with this situation. If trustees are considering this option, they would need to be able to show that:

1. The decision is genuinely in the charity’s interests, using the principles in ‘[It’s your decision](#)’;
2. The only purpose of the write-off is to rectify a technical problem resulting from the need to align the arrangements with this clarified company law position;
3. The relationship with the trading subsidiary is itself a legitimate and justifiable arrangement that is clearly operating in the charity’s interests;
4. There has not been a previous history of the writing-off of loans advanced by the charity to its trading subsidiary due to the subsidiary’s non-performance in repaying loans; and

5. The trading subsidiary is otherwise financially viable and a going concern.

If the conditions listed are fulfilled then trustees do not need to seek any waiver or prior agreement from the Commission. If these conditions are not all fulfilled then the Commission will not issue any waiver or approval except under the most exceptional circumstances and only after the trustees have taken professional advice and made a case outlining all relevant facts including a reasoned justification for their request.”

DISCLOSURE OF GOVERNANCE COSTS IN CHARITY FINANCIAL STATEMENTS: [Return to contents](#)

The Charity Commission has published a report into how charities present their governance costs in their financial statements. The [Press Release](#) accompanying the report states:

“A report published by the Charity Commission suggests that many charities may be incorrectly overstating their governance costs in their public annual returns or their accounts.

The regulator identified 76 charities with an annual income of over £500,000 that appeared to have high governance costs according to their returns. The regulator defined this for the purpose of the review as reported governance costs of more than 20% of their total expenditure.

The results suggest that only 3 charities (4%) had a reasonable explanation for the figures they reported. The vast majority (87%) had incorrectly allocated costs to governance costs that should have been included in other categories of expenditure, including charitable expenditure. The most common mistake was to equate governance costs with general management and administration costs.

The remaining 9% of charities did not in fact have high governance costs in their accounts and had completed their annual returns incorrectly. A recent Commission report found similar errors in completing the annual return in charities which had reported low charitable expenditure.

Many charities in the sample seemed either not to understand the difference between support costs and governance costs or were not fully aware of the Statements of Recommended Practice’s (SORP’s) requirements for reporting their expenditure in the statement of financial activities (SOFA).

The Commission has said that that the findings from this review emphasise the importance of trustees having a good understanding of their charity’s activities and how these are reported in their annual reports, accounts and annual returns. It is essential for independent examiners and auditors who may prepare the accounts or may audit / examine accounts to check the basis of cost allocation used to guard against the accounts being materially misstated.”

ATOL GUIDANCE FOR CHARITIES: [Return to contents](#)

The Civil Aviation Authority (“CAA”) has [published guidance for charities](#) and fundraisers who wish to offer flights or flight-inclusive trips as part of their events or fundraising activities. The following are extracts from the guidance:

“Anyone, including charities, offering flights or flight-inclusive trips must comply with the ATOL Regulations. This means a charity offering a trip with a flight must hold a Air Travel Organiser’s Licence (“ATOL”) granted by the CAA, unless it is exempt from the need to do so. One way in which a charity would be exempt is by offering flights or trips as the agent of another business or organisation that holds an ATOL.

All documentation provided to participants, including invoices and receipts for money paid, must also clearly show how much of that payment is for an ATOL protected flight or trip and how much is a charitable donation or other payment, such as an administration fee, which is not ATOL protected.

Immediately a charity accepts any payment towards an ATOL protected flight or trip, either as an ATOL holder, the agent of an ATOL holder or an Accredited Body member, it must supply an ATOL Certificate to the participant in accordance with the ATOL Regulations. Where a charity is the agent for an ATOL holder, the ATOL holder might produce the ATOL Certificate for the charity to pass on to the participant when payment is received. Where this is the case, there must be a mechanism whereby the participant receives the ATOL Certificate immediately.

The following are examples of trips that would require the organiser to hold an ATOL:

- **A person raises money for a charity and some of the money raised is used to cover the cost of a trip including flights for that person:**
 - Often the organiser of the trip is a business that holds an ATOL and the charity acts as the ATOL holder’s agent;
 - Usually a minimum amount of money is required to be raised for the charity before the person is allowed to participate in the trip. Sometimes the person is required to pay an initial registration or administration fee, either to the charity or to the ATOL holder. Only the money used to cover the cost of the trip is ATOL protected. The charitable donations and any other fees would not be ATOL protected.
- **A person books and pays for a flight inclusive holiday, where one of the conditions of the holiday is that the person must raise and give (a minimum amount of) money to a charity;**
- **A person takes part in a flight inclusive trip to assist with a project:**
 - This type of trip is often organised by, or on behalf of, a voluntary group.
- **A flight inclusive trip is offered by a charity or other organisation to a person free of charge;**
- **A person wins a flight inclusive trip in a fund raising exercise for charity, for example, in a raffle;**

- The trip is often purchased by the raffle organiser from a tour operator that holds an ATOL. If the ATOL holding tour operator fails, the organisation that purchased the trip may make a claim for the cost of the trip if it can provide proof of payment.”

MANDATE FRAUD: [Return to contents](#)

The Charity Commission has issued a [Press Release](#) which urges charities to remain vigilant to the continuing threat of mandate fraud and the tactics that fraudsters are using to target charities. It states:

“Mandate fraud occurs when the fraudster tricks a victim into changing bank account details, in order to divert legitimate payments intended for a genuine organisation (for example, a charity supplier) to bank accounts instead controlled by fraudsters. This often involves the fraudster impersonating an organisation representative, either by email, direct mail or telephone communication. The fraudster may also use headed paper and/or the company logo to lend credibility and to gain the charity’s trust.

In recent months, the Charity Commission has become aware of mandate fraud attempts where the fraudster has been able to use the email address of a regular contact at the legitimate organisation to deceive charities into changing change bank details.

The Charity Commission recommends that trustees and charity professionals ensure that their charity has robust authorisation and monitoring procedures in place for changing bank details and managing payments. The advice is clear - any request to change bank account details is an unusual occurrence and should be treated with suspicion.

As a minimum, charities should:

- Remain vigilant to the continuing risk of mandate fraud and raise awareness amongst those staff and volunteers with responsibility for charity finances;
- Be suspicious of any change of bank detail requests until independently verified;
- Check and verify all requests for change of bank details using contact information held separately by the charity;
- Never rely solely on contact information provided in any form of external communication that requests a change of bank details;
- Check that a sample of payments has been received by the legitimate organisation after the change of bank details has been actioned; and
- Do not rely solely on the organisation to inform your charity that legitimate payments have not been received - by then it may be too late to recover the money.”

UPDATED CHARITY COMMISSION GUIDANCE FOR FEE CHARGING CHARITIES: [Return to contents](#)

The Charity Commission has issued a [Press Release](#) accompanying updated guidance on ways that trustees of fee-charging educational charities, including charitable independent schools, can ensure they run their charities for the public benefit. It states:

“The guidance has always made it clear that sharing facilities with local state schools is one way in which trustees of charitable independent schools can fulfil their public benefit duty by making provision for the poor to benefit. The updated guidance now encourages trustees of charitable schools, as a matter of good practice, to comment on their individual approaches to public benefit in sports, drama, music and other arts in their trustee annual report.

The Charity Commission has updated its example trustee annual report for a charitable school to reflect the recommendation in the updated guidance.

The move follows concerns raised in Parliament during debates on the Charities (Protection and Social Investment) Bill that too few sports and arts facilities owned by charitable independent schools are accessible to students in state education.”

DIGITAL TAXONOMY LAUNCHED FOR CHARITIES' FINANCIAL STATEMENTS: [Return to contents](#)

A new digital taxonomy has been launched by the Charity Commission and the Financial Reporting Council which will enable charities which have prepared their financial statements in accordance with the SORP (FRS 102) to file these online. The following has been extracted from a [Press Release](#) issued by the Charity Commission:

- The taxonomy is the essential pre-requisite to charities choosing to file their accounts digitally with Companies House and the Charity Commission. In filing digitally, charities can make the tagged charity data more accessible;
- Over 70% of companies file digital accounts with Companies House but up to now this has not been an option for charities, and this creates the same digital playing field for 35,000 incorporated charities as for-profit companies making accounts filing easier and quicker for those charities that have to file with both the Charity Commission and Companies House;
- Anyone using digital accounts will be able to extract the tagged reporting and accounting information that they want and analyse it more efficiently, with those charities filing tax returns with HMRC also benefitting from having the option of digital filing when submitting supporting accounting information;
- Future benefits of the charity taxonomy might include simplifying the submission of the annual return to the Charity Commission by automatically using the computer readable information contained in the digital filing of tagged accounts; and

- The option to file accounts by PDF will remain. In order to encourage the take-up of digital filing, accounts templates would be needed to assist and support smaller charities in choosing to file digitally.

The taxonomy can be viewed / downloaded from the [FRC's website](#).

CHARITY COMMISSION ISSUES GUIDANCE ON GRANTS TO NON-CHARITIES: [Return to contents](#)

The Charity Commission has issued guidance for trustees of charities wanting to make grants to non-charitable organisations. Its [Press Release](#) states:

“The guidance brings together existing Charity Commission guidance that sets out the key principles that trustees must follow when making decisions about grant funding non-charitable organisations. It complements the Charity Commission’s existing guidance for charities on working with other charities.

The guidance explains that, while only trustees can decide how best to further their charitable objectives, they must be able to show how any grant to another organisation (whether it’s a charity or not) furthers their charity’s purposes. A charity can only make grants for activities that in principle it could carry out itself. Trustees must also comply with the powers and restrictions in their charity’s governing document and ensure that the recipient of the grant understands and agrees the aim of the grant, how this is expected to further your charity’s purposes, and what the grant can and can’t be used for.

Trustees have clear responsibilities when deciding where their funding goes, but it is particularly important that they recognise any risks that come with making grants to non-charitable organisations. This is why due diligence and risk assessment are so important. The number of charities that might want to consider grants to non-charitable organisations is likely to be a small proportion of the sector. But for those that do, this guidance will be essential reading.”

The guidance explains that trustees should:

- “Make sure they understand their own charity’s purposes;
- Have appropriate governance systems and procedures in place for making decisions about grants;
- Take reasonable steps to assess risks and carry out an appropriate process of assurance (or due diligence) on the organisation;
- Ensure that the organisation receiving the grant understands their charity’s purposes and their boundaries;
- Be aware that they remain responsible for grant decisions even if decisions are delegated, and understand where extra care may be needed;
- Set appropriate grant conditions and ensure that the organisation understands and accepts them;

- Put appropriate monitoring arrangements in place; and
- Know what to do if things go wrong.”

CHARITY COMMISSION PUBLISHES EXCUSES FOR NON-FILING: [Return to contents](#)

The [Charity Commission has published a list of excuses](#) which are provided by charities which did not file their on time. Included amongst these were:

- Joe does this, it is not my job;
- The person with the password is in Malaysia;
- The person with the password is in New York and isn't contactable because of a hurricane;
- I'm not involved with this charity's requirements, I am a trustee;
- The school provides us with office space but it's the school holidays and they are shut;
- I'm not a trustee, I'm on the committee;
- It's the accountants responsibility not mine;
- Our computer caught fire and we lost all the financial data;
- Deadline day falls on a religious holiday so we couldn't file;
- No-one told me when we registered; and
- My boot came open on the motorway and the papers went down the M1.

HAT COURSE DATES: [Return to contents](#)

To ensure that all members of your team who deal with the preparation and audit of charity financial statements are fully trained, [HAT will be running the following CPD course:](#)

- Charities Update ~ the new Charity SORPs and FRS 102 ~ Tuesday 12 April 2016

This CPD course will be running in Central London. This and our “Introduction to Charities ~ A Practical Guide” course may alternatively be run, “in-house” at firm's offices on a mutually convenient date during 2016.

For details of our charges and availability, please contact Roger Morris at the HAT Office at roger@hatgroup.co.uk.

HAT AUDIT MANUALS: [Return to contents](#)

HAT Charities Manual:

The HAT Charities Manual was updated in the autumn of 2015 to reflect the changes to financial reporting for charities preparing financial statements on an accruals basis for periods commencing on or after 1 January 2015.

The Charity Commission (together the Office of the Scottish Charity Regulator (OSCR)) have released two SORPs:

- Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102) (effective 1 January 2015) (“SORP 2015 (FRS 102)”); and
- Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard Smaller Entities (effective January 2015) (“SORP 2015 (FRSSE)”).

This Manual is based on the SORP 2015 (FRS 102), and it can also be used when auditing, independently examining or preparing the financial statements of a charity adopting the SORP 2015 (FRSSE).

Subsequent to this, on 9 March 2016, a revised Disclosure Checklist was made available to reflect the changes made in [Update Bulletin 1](#). When a charitable company adopts these changes and an audit opinion is given under the Companies Act 2006 (as opposed to charity law) it will be necessary for the auditor to provide an explicit opinion as to whether the trustees’ report (including Directors’ Report and Strategic Report) complies with company law. The FRC has not yet issued guidance regarding this and therefore the Charities Manual does not currently cover this point. Further guidance on this area will be issued in due course.

Please note that the Manual has been prepared for use for charities which operate in England and Wales. Charities which also, or only, operate in Scotland or other jurisdictions may be subject to additional law and regulation which is not covered within the Manual.

HAT Registered Social Housing Providers’ Manual:

The HAT Registered Social Housing Providers (RSHP) Manual was updated early in 2016 to reflect the changes to financial reporting for an RSHP preparing financial statements for periods commencing on or after 1 January 2015.

In a change to the scope of the previous ‘Housing SORP’, the ‘Housing SORP 2014’ states that it applies to all RSHP, regardless of how they are constituted, **except** ‘alms-houses and Abbeyfield societies not governed by the Landlord and Tenant Act 1985’,

instead these should (if relevant) apply the Charities SORP – this potentially represents a **significant** change in the format of the financial statements of such entities.

The other main changes introduced by the ‘Housing SORP 2014’ are:

- The formats and accounting practices introduced by FRS 102 are reinforced by the SORP – in reality there is little difference in the interpretation of FRS 102 for an RSHP compared to any other entity;
- The SORP requires a single Statement of Comprehensive Income to be presented, removing the option in FRS 102 to retain a separate Profit and Loss Account;
- Instead of netting grants against the cost / value of the underlying property, such grants are shown within liabilities (as any other entity would). If the property is held at cost less depreciation, the accruals model of grant accounting in FRS 102 is adopted and the grant amortised over the life of the asset. However, if the property is held at valuation, the performance method is adopted (and the grant is released to reserves once construction is complete);
- The rules about impairment have changed, and there is concern in the sector that these could result in properties being written down (normal consideration of value in use through cash flows is not relevant as properties are let out below market value). However, the impact at present is unclear; and
- Where an RSHP obtains loan financing, the terms of the loan(s) should be carefully reviewed to establish whether they are basic or non-basic financial instruments under FRS 102.

It should be noted that as letters of engagement explicitly refer to both the SORP and the Accounting Direction, it is recommended that these are updated to reflect the revised documents.

Important Note

With regards to the technical articles in this newsletter, every care has been taken by HAT in the preparation of these articles, HAT does not guarantee the accuracy or veracity of any information or opinions. No responsibility for loss occasioned to any person acting or refraining from acting as a result of material contained within these articles can be accepted by the editor, HAT, its officers or employees.