The Kubernesis Partnership

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End of Year Roundup of Charity Issues

This is a quick summary of a number of recent issues affecting charities as we move from 2014 into 2015.

The 2015 Charities SORPs

Just a reminder that the biggest change in charity accounting for a decade takes effect from 1 January 2015: this is the date from which the new 2015 *Statements of Recommend Practice on Accounting and Reporting by Charities* (Charities SORPs) take effect.

The Charities SORP is the standard applicable to all charity accounts throughout the UK which are prepared on an accruals basis. However, small non-company charities (up to £250,000 income) can continue to prepare receipts and payments (R&P) accounts – **the SORP does not directly apply to R&P accounts.**

Which SORP to Use?

As mentioned in other articles, if your charity prepares accruals accounts, there is a choice of *two* 2015 SORPs:

- the 'FRSSE SORP' which is for medium-sized charities whose underlying accounting principles are based on the Financial Reporting Standard for Smaller Entities; and
- the 'FRS102 SORP' which is for charities following the full Financial Reporting Standard 102 as their basis for financial reporting.

The FRS102 approach is generally only compulsory for charities over £6.5 million income, so it might be expected that most charities below this size would choose to follow the FRSSE SORP. However, the Financial Reporting Council will almost certainly be phasing out the FRSSE from 2016, and replacing it with some simplifications for smaller entities within FRS102. So those adopting the FRSSE SORP in 2015 will be faced with further changes in 2016. On the other hand, adopting the FRS102 SORP *before* FRS102 is simplified for smaller entities will be demanding. It's not an easy choice, and we would recommend discussing this with your auditor or independent examiner in good time.

Both SORPs – and various guidance notes and examples – are available from www.charitysorp.org. Printed copies can be ordered from www.cipfa.org/policy-and-guidance/publications (price £15 each plus postage).

What's the timescale?

The 2015 SORPs take effect from the first accounting year starting on or after 1 January 2015.

So, if your charity has a 31 December year end, you will now be rounding off your last year of accounts (year ending 31 Dec 2014) under SORP 2005 and preparing to use one of the SORPs 2015 from 1 January. If you have a 31 March year end, you will start following a 2015 SORP from 1 April 2015.

Of course, with a normal 12-month financial year, it will be a whole year after the commencement date before your first year end under the new rules and weeks after that before the accounts are finalised. But you may want to make changes to the structure of your accounting records from the *start* of the relevant financial year.

However, accounts should follow SORP 2005 for accounting years which *began before* 1 Jan 2015 – e.g. accounts for years ending 31 March 2015 should normally stick to SORP 2005.

What will actually change?

It's impossible to summarise all the changes in a couple of paragraphs, though we are holding a further Kubernesis seminar on the 2015 SORPs on Thursday 12 March – see www.kubernesis.uk/seminars.

Many of the changes relate to methods and principles, rather than major changes to the layout of accounts. The issues will affect important estimates and judgements – for example in deciding when to recognise anticipated income from legacies, or whether to include a value for donated goods held for sale (e.g. stocks held for charity shops). The SORP website (see above) includes a summary of what has changed (see Helpsheet 2) as well as a summary of the differences between the two new SORPs (Helpsheet 3).

Some of these changes may only require action at year end when preparing the final accounts, but some will require changes to operational procedures in a charity. For example, if you run charity shops and conclude that you need to include the value of stocks, you may need to institute some system of recording stock as received – not just as it is sold.

However, for many charities the most visible difference will be the changes to the headings on the SOFA – which – for many charities – may mean changes to the underlying accounting records. For example, if you use software such as our *Kubernesis Accounting System* (KAC) where nominal accounts are directly allocated to SOFA headings, or even if you use other methods such as a spreadsheet to generate your SOFA from the nominal accounts in your accounting records, it is worth planning changes to the structure of your accounts at the *start* of the year when you begin using SORP 2015. (We will issue some more specific advice to KAC users who belong to the *Kubernesis Charity Advice Service.*)

What about the regulations?

Accounting standards – such as the Charities SORPs – have no status on their own: charities only have to apply them as a result of relevant legislation. So it is important to understand which regulations apply. There are several cases to consider.

- For *charitable companies* it is a requirement under company law that the accounts must comply with relevant accounting standards (as approved by the Financial Reporting Council) and where the company is a charity, the Charities SORP is clearly a relevant standard.
- For *non-company charities in England & Wales* (including CIOs) the new regulations have *not* yet been made – so the Charities (Accounts and Reports) Regulations 2008 still apply (requiring SORP 2005 to be used). New regulations are expected during 2015, before the first expected year ends under SORP 2015 – it is safe to assume that the SORPs 2015 will apply, but this is not yet confirmed in law.
- For *charities in Scotland* (whatever the structure) the new regulations *are finalised to be in force from 1 January*. The Charities Accounts (Scotland) Amendment (No. 2) Regulations 2014 (SSI 2014/335) were made at the end of November 2014 and take effect from 1 January 2015. For accounting years starting from that date they amend the definition of "the SORP" in the Charities Accounts (Scotland) Regulations 2006 to refer to the new 2015 SORPs.
- For *charities in Northern Ireland* interim reporting requirements are in place for charities registered with the Charity Commission for Northern Ireland (CCNI) – although so far only 500 or so charities have been registered with CCNI and it is only these which have to follow the rules. However the SORP is good practice for all NI charities producing accruals accounts. Full regulations applying the 2015 SORPs are expected to take effect from some time in 2015 (and, under the Charities Act (Northern Ireland) 2008 these will apply to all charities over £100,000 income – not just those over £250,000 as in England, Wales and Scotland). Until then non-company charities are free to use any reasonable approach, but the 2015 SORPs are strongly recommended, and except for small charities using R&P accounts, funders are much more likely to be impressed by accounts which comply with SORP.

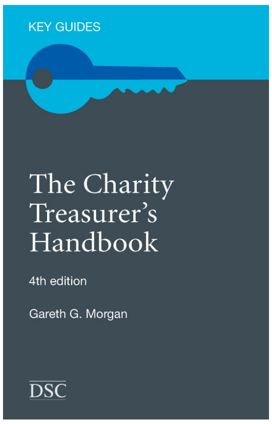
Charities registered in more than one jurisdiction need to consider *all* the relevant rules!

Further help

As always, clients who belong to the *Kubernesis Charity Advice Service* are welcome to get in touch for help with specific queries on SORP 2015, and for more detailed guidance you may wish to consider our seminar on 12 March 2015 "Unpacking the SORPs 2015" (see above).

Charity Treasurer's Handbook – 4th edition now published

During the autumn a complete new edition of Gareth Morgan's popular *Charity Treasurer's Handbook* was published by the leading charity publishers, Directory of Social Change.



This is the first update to the book for four years, and the changes are more extensive than with any previous edition. Many sections have been completely re-written, and many legal and technical issues are fully updated. Major updates include:

- accounting under the new Charities SORPs 2015
- the Charities Act 2011
- a complete new section on gift aid, including gift aid small donations scheme
- more on electronic banking, contract funding, the latest VAT concessions for charities, and accounting rules for CIOs.

Copies of the book are available from Kubernesis and can be ordered online for £18.90 including postage from www.kubernesis.uk/publications.

Gareth's other book on *Charitable Incorporated Organisations* (DSC 2013) is also available, price £22.40 including postage from the same web address.

The Draft Protection of Charities Bill (England & Wales)

The Cabinet Office has published a *Draft Protection of Charities Bill* which – if it becomes law – will give a number of additional powers to the Charity Commission though various amendments to the Charities Act 2011. This is currently being scrutinised by a Joint Committee of both Houses of Parliament, as mentioned in the Kubernesis Bulletin issued on 24 Nov 2014 (this was labelled as "Bulletin 2014-05" but should have been "2014-06": apologies for the confusion).

As mentioned, Gareth Morgan was invited to give evidence in person to the Committee (in relation to his work as *Professor of Charity Studies at Sheffield Hallam University*) on 25 November. The written evidence which he submitted is now available on the Kubernesis website. The full transcript of the session is available on the Parliament website: http://data.parliament.uk/writtenevidence/committeeevidence.svc/evidencedocument/draft-protection-of-charities-bill-committee/draft-protection-of-charities-bill/oral/15870.html (he was giving evidence alongside Prof Debra Morris of Liverpool University, following earlier questions by the Committee to Sir Stuart Etherington of NCVO.)

In general terms we agree that the extra powers in the Bill make sense to strengthen some existing gaps in the CC's powers – for example it is daft that someone about to be disqualified as trustee (which would mean they would be disqualified to be a trustee of *any* charity) can escape disqualification simply by resigning as a trustee of the charity concerned. However, Gareth has raised concerns that some of the powers may go too far and give the CC too much scope to intervene in a charity's day to day activities – particularly on the overlaps with terrorism legislation.

Gareth also commented that there are many much bigger issues to address if Parliamentary time can be found for new legislation on charity regulation.

The Chancellor's Autumn Statement – Charity Issues

This year, George Osborne's Autumn Statement to Parliament (on 3 December 2014) was clearly focussed on preparing for the 2015 General Election. We did not feel there was enough technical content of direct relevance to charities as a whole to justify a special Kubernesis Bulletin as in previous years, but here are a few points.

There were some significant announcements of *VAT refund schemes for certain health-sector charities*, specifically hospices and air ambulances. These will clearly be very welcome to charities in those sectors – taking the concept of charity VAT refund schemes beyond the issue of repairs to listed places of worship. But it seems we are still a long way from the Government agreeing a general scheme to refund all irrecoverable VAT paid by charities.

In terms of broader charity-specific issues, the full "green book" issued as part of the Autumn Statement made reference to some *consultations in progress regarding gift aid* – for example, making gift aid declarations easier through digital media such as phones and clarifying the rules on gift aid linked to admissions. But there were no substantive announcements as yet on these issues.

There was a significant announcement extending *social investment tax relief* (SITR) to £15M per organisation (previously £5M) but the number of charities able to jump all the hurdles to win social investments is still relatively few. In most cases it is much simpler and more effective for individuals wishing to support charities to make donations under gift aid. However, where a charity has significant trading activities, SITR may sometimes be worth considering – do get in touch if you would like to discuss a specific situation.

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