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A No Nonsense Guide to the New 2015 Charities SORPs

A summary of the status and implications for charities in England and Wales

This Q&A is intended to give quick answers to some of the major issues regarding adoption of the new 2015 Charities SORPs as charities start to deal with preparing for first real sets of accounts for years ending 31 December 2015 onwards where the 2015 SORP are due to apply.

For Scotland and Northern Ireland please see later section after the Q&A.

The Q&A provides a summary only – and certain points where indicated are only a statement of Gareth Morgan's personal opinion. It only deals with 'normal' charities that would generally follow the Charities SORP – not 'special case charities' such as housing associations, charitable investment funds and further/higher education bodies where other SORPs apply.

Q1. What are the new SORPs?

A1: In July 2014, the Charity Commission/OSCR published two new Charities SORPs – both of these are generally referred to as "SORP 2015" as they are intended to take effect for 2015 financial years:

- **SORP 2015 (FRS102)** – for charities whose underlying accounting policies are based on FRS102 – *the Financial Reporting Standard in the UK and Ireland*
- **SORP 2015 (FRSSE)** – for charities whose underlying accounting policies are based on the FRSSE – *the Financial Reporting Standard for Smaller Entities.*

For background to the 2015 SORPs, see Kubernesis Bulletin 2015-02: www.kubernesis.co.uk/resources

Q2. When do the new SORPs take effect?

A2: The 2015 SORPs were *intended* to take effect for financial years *starting* on or after 1 January 2015. (For earlier years, stick to SORP 2005). So, assuming normal 12 month accounting years:

- Year ending 31 March 2015 – use SORP 2005 (as the year began *before* 1.1.15).
- Year ending 31 October 2015 – use SORP 2005 (as the year began *before* 1.1.15).
- Year ending 31 December 2015 – use one of the SORPs 2015.
- Year ending 31 March 2016 – use one of the SORPs 2015.

But see below (Q14) regarding the state of regulations which may delay the decision.

Q3: What about small charities doing receipts and payments (R&P) accounts?

A3: R&P accounts are unaffected. Non-company charities up to £250,000 income can continue to do R&P accounts if they wish. Non-company charities include CIOs. But charitable companies may never use R&P accounts, so they have to follow one of the SORPs whatever their income.

Q4: If they are not doing R&P accounts, which of the SORPs 2015 should a given charity follow?

A4: For most charities it is up to the trustees (though most will no doubt take the advice of their auditor/independent examiner). However, the small number of charities which are large in the sense defined in company law *must* use the FRS 102 SORP. But only a couple of thousand very large charities are affected by this: it only applies to those which are above *two or more* of these thresholds:

- £6.5M income
- £3.26M assets
- 50 employees.

So the vast majority of charities which need to follow SORP 2015, including virtually all those subject to independent examination (IE) have the choice of SORP 2015 (FRS102) or SORP 2015 (FRSSE). In most cases the income threshold is the one that matters, so below we speak about "charities under £6.5M" as shorthand for those who have the choice.

Q5. So if we have a choice, which is best: SORP 2015 (FRS102) or SORP 2015 (FRSSE)?

A5: It's not really a choice; it depends on your charity's underlying accounting standards. Remember the SORPs only take general purpose accounting standards and apply them specifically to charities. So:

- If your general purpose accounting is based on the FRSSE you must use the SORP 2015 (FRSSE).
- If your general purpose accounting is based on full accounting standards (formerly FRSs 1-30, SSAPs etc – but now all replaced by FRS102 for years starting from 1 Jan 2015) you must use the SORP 2015 (FRS 102).

However, if your charity is under £6.5M income you could if necessary decide to change your underlying general purpose accounting standards from one year to the next (so long as this is clearly explained in the notes to the accounts).

Q6. If we are willing to choose our underlying policies, which is easier: SORP 2015 (FRS102) or SORP 2015 (FRSSE)?

A6. In general the FRSSE SORP is a little simpler (but not much) as it omits some of the complications from FRS102. Also, if you follow the FRSSE SORP the accounts do not have to include a cashflow statement.

But see Q7 below as the FRSSE is only around for the first year of the 2015 SORPs. So some people reckon it is simpler to move directly to the FRS102 SORP.

Q7. So what's this about the FRSSE being withdrawn?

A7. The Financial Reporting Council (FRC) is withdrawing the FRSSE for financial years starting on or after 1 January 2016. This is because many of the fundamental principles in the FRSSE do not tie up with the IFRS principles which are the basis of FRS102. The FRC thinks (understandably) that in the long run it is just too confusing to have two different sets of accounting principles used by UK entities which both supposedly lead to accounts giving a true and fair view.

Q8. For how long can we use SORP 2015 (FRSSE)?

A8. Based on a normal 12 month year, a charity below £6.5 M can use the SORP 2015 (FRSSE) for:

- the year ending 31 December 2015
- the year ending 31 March 2016
- the year ending 30 November 2016

but not for the year ending 31 December 2016 or later.

Q9. So, does that mean that even quite small charities (if not doing R&P accounts) will have to use full FRS102 basis after the FRSSE is withdrawn?

A9. Not quite. The FRC are alleviating the issue somewhat by introducing some simplifications in FRS102 for smaller entities (up to £6.5M). In summer 2015, FRS102 was re-issued with a new "Section 1A" which makes a number of simplifications which can be used by entities up to the £6.5M level.

Q10. So, is the SORP 2015 (FRS102) itself being simplified to take advantage of these simplifications in FRS102 Section 1A?

A10. The SORP Committee issued a consultation on this in summer 2015, and we don't yet know the official outcome. They are definitely planning to issue an "Update Bulletin" in spring 2016 which will clarify SORP 2015 (FRS102) in the light of this.

But early indications suggest that that the SORP Committee *do not* feel the simplifications in FRS102 Section 1A should be allowed for charities. For example, the indications from their minutes suggest that cash flow statements in the published accounts will become compulsory for all charities over £500K income (less than the current limit of £6.5M income which usually applies). See www.charitysorp.org for the latest announcements.

Q11. So, are we talking about three versions of SORP 2015?

A11. In effect, yes! Within a short space of time, charities are switching between:

- SORP 2005
- SORP 2015 (FRSSE)
- SORP 2015 (FRS102) – in full
- SORP 2015 (FRS102) – as slightly simplified by the Update Bulletin – though early indications suggest that the only likely simplification to the full requirements is saying that charities under £500K income do not have to include cash flow statements.

Q12. So, if *SORP 2015 (FRS102) – as slightly simplified by the Update Bulletin* – is likely to be the way forward for smaller charities not doing R&P should we move to this immediately?

A12. That might be worth considering, but it will still be more demanding than SORP 2015 (FRSSE). So it might be simpler to use SORP 2015 (FRSSE) for the first financial year starting after 1.1.15 and wait for the regime to settle down (see my opinion in Q16). And there is still the issue of waiting for the new regulations (see Q14 below) – if they don't come through, some people would argue for sticking to SORP 2005 for non-company charities!

Q13. What about the new micro-entities standard, FRS105?

A13: This is a new simplified accounting standard for "micro-entities" as defined under EU law – it is intended to simplify accounting requirements for smaller companies and other entities – generally those up to £632,000 income. But the micro-entities regime is ***not allowed for charities***, so FRS105 should be ignored.

Q14. This is jolly confusing! What do the regulations say about which standards should now be used?

A14. Good question! The issue depends on the legal form of the charity.

- In the case of charitable companies, the accounts are required to give a true and fair view, following applicable accounting standards (as issued/approved by the FRC, which has a formal status of issuing accounting standards under company law). Since the 2015 SORPs are endorsed by the FRC, they can be taken as fully-approved accounting standards for charitable companies, for years starting 1.1.2015 onwards – it is simply a question for what version of SORP 2015 to use: see above.
- But in the case of *non-company charities* (charitable trusts, associations, CIOs etc) that are not doing R&P accounts, the form of the accounts is directly prescribed in regulation made under charity law. The current regulations are the Charities (Accounts and Reports) Regulations 2008. The 2008 regulations still apply under the Charities Act 2011. *And these still refer to **SORP 2005**!*

The Minister for the Cabinet Office is due to be making new regulations for the 2015 SORPs, but although they were expected to be made before the end of 2015, it seems they have been delayed further. *So for a non-company charity with a 31 Dec 2015 year end, the accounting framework prescribe in the regulations would still be SORP 2005.*

Q15: Does this mean that non-company charities in England & Wales should stick to SORP 2005 until the regulations are updated?

A15: There are two views on this:

(a) Many people would say "yes" – if the regulations refer to SORP 2005 that is the standard you must follow, even if it is out of date. No one could accuse you of breaking the law. However, since the FRC has withdrawn the underlying standards on which SORP 2005 is based for years starting on or after 1 Jan 2015, it could be argued that SORP 2005 is no longer a meaningful standard.

(b) Nevertheless, the 2008 regulations actually allow a charity to depart from the specific details of the regulations if needed to give a "true and fair view" and the Charity Commission has suggested in their latest version of publication CC15c that this is the way forward if new regulations are not made in time and that non-company charities can adopt one of the 2015 SORPs on that basis. See section 8 in https://www.gov.uk/government/publications/charity-reporting-and-accounting-the-essentials-march-2015-cc15c But if a charity follows this approach the notes to the accounts must state clearly that the charity has departed from the 2008 regulations and say why.

However, the Charity Commission makes clear this is simply their view – they do not say their interpretation is the only possible approach, and they encourage charities to discuss the issue with their auditors and IEs.

Q16. What do you think? What would <u>you</u> recommend?

A16. This is only a personal recommendation, but until the regulations are updated and until we know the final content of the SORP Update Bulletin, I would proceed as follows.

- *For a charitable company* under £6.5M I would generally tend to follow the SORP 2015 (FRSSE) for the first financial year after 1.1.2015, especially if the charity's previous accounts under SORP 2005 referred to the FRSSE. Even though this will only work for one year I feel it is a sensible position *en route* to using SORP 2015 (FRS102) for the following year.
- *For a non-company charity under £250K income*, I would think seriously about sticking with R&P accounts to avoid the huge state of confusion with the 2015 SORPs. Even if you have previously followed SORP 2005, in my view, really good R&P accounts with a clear statement of assets and liabilities and proper disclosures in the notes are well worth considering and if they are clearly laid out in columns for the different classes of funds they can be almost as good as SORP accounts. This means you avoid the risk of trying to apply standards and regulations which do not agree.
- *For a non-company charity which needs to do accruals accounts* (either because its income is over £250K or because funders expect SORP accounts) I would be inclined to stick with SORP 2005 – in other words, stick to what's in the regulations – until the mess with the 2015 SORPs and regulations is sorted out! I do not think it makes good sense for law abiding charities to depart massively from explicit regulations under the Charities Acts. You could of course still include any extra disclosures in the 2015 SORPs which are relevant and you could follow the extra requirements in the 2015 SORPs for the Trustees Annual Report: SORP 2005 does not prevent a charity providing *additional* information.

  However, just to make clear the reasons for this choice I would include a clear note on the following lines:

  - *These accounts are prepared in accordance with the Charities Act 2011 and the Charities (Accounts and Reports) Regulations 2008, which refer to the Charities Statement of Recommended Practice (SORP 2005). Although new Charities SORPs have been issued to take effect from 2015, the trustees consider that until the 2008 Regulations are updated, it would be inappropriate to depart from the Regulations simply to apply a new SORP. Accordingly, the presentation of these financial statements are based on SORP 2005, although where the trustees consider it appropriate, additional disclosures recommend by the 2015 SORPs have been included on a voluntary basis.*

Implications for charities in Scotland

The situation for charities in Scotland (charities registered with OSCR) is much more straightforward.

This is because the Scottish charity accounting regulations have been updated to make clear that for financial years starting on or after 1 January 2015, all references to the 'Charities SORP' mean one or other of the 2015 SORPs. The amended regulations were made back in November 2014 in *The Charities Accounts (Scotland) Amendment (No. 2) Regulations 2014* (SSI 2014/335).

Non-company Scottish charities (including SCIOs) can continue to use R&P accounts up to £250K income but wherever SORP accounts are produced – whether or not the charity is a company – one of the 2015 SORPs should be following for financial years starting 1 January 2015 onwards.

The choice between SORP 2015 (FRSSE) and SORP 2015 (FRS102) as the same as explained above for England & Wales (Q4 to Q10).

However, for financial years starting on or after 1 January 2016, Scottish charities are expected to face the same removal of the FRSSE SORP as explained above (Q7-Q8). The only option then will be R&P accounts (where allowed) or following SORP 2015 (FRS102) as amended by the SORP Update Bulletin (see Q11).

What about dual-registered charities? In the case of charities in England and Wales (E&W) which are *also* registered with OSCR, the accounts must comply with both the requirements in E&W *and* the requirements in Scotland. In most respects the Scottish requirements are more demanding so it is best to use them as the focus.

Given that the Scottish regulations have been updated for the 2015 SORPs, a dual-registered charity preparing SORP accounts must follow one of the 2015 SORPs for financial years starting on or after 1 January 2015.

Charities in Northern Ireland

Until recently there have been no general regulations for charity accounting in Northern Ireland, but that is about the change.

For financial years starting on or after 1 January 2016, registered charities in Northern Ireland must now produce accounts in accordance with the Charities Act (Northern Ireland) 2008 (as amended) and the detailed requirements are set out in *The Charities (Accounts and Reports) Regulations (Northern Ireland) 2015* (NISR 2015/384).

This is a major development for charities in Northern Ireland. The Charity Commission for Northern Ireland (CCNI) has published *draft guidance* for consultation and full guidance from CCNI is expected in the spring.

This Bulletin is only concerned with the specific issues around the new SORPs, but please get in touch if you have any queries about the new charity accounting requirements in Northern Ireland more generally – this includes a whole new statutory framework for audit and independent examination of accounts.

Other regulations made at the same time have increased the upper limit for R&P accounts in Northern Ireland to cover non-company charities up to £250K income (as in E&W and Scotland). But because the new regulations only take effect from 1 January 2016, there is *no provision* for charities in Northern Ireland to follow SORP 2005, *nor* is there any reference to the SORP 2015 (FRSSE). For general purpose charities, the Northern Irish regulations *only* allow for SORP 2015 (FRS102).

All charities in Northern Ireland preparing SORP accounts will thus have to follow SORP 2015 (FRS102) as amended by the SORP Update Bulletin (see Q11 above). The only alternative is R&P accounts for non-company charities under £250K income.

What about charities not yet registered with CCNI? The Northern Irish charity regulations only apply to *registered charities* – i.e. charities which are registered with CCNI by the start of the accounting year concerned.

Many charities in Northern Ireland are still on the 'deemed list' of bodies recognised by HMRC but not yet registered with CCNI. For these charities there is no legal requirement to follow a SORP – although many wish to do so as a matter of good practice. Moreover, if the charity is a company (see Q14 above) there is a strong argument that the accounts will have to follow a relevant SORP in order to give a 'true and fair view' and the only relevant SORP for years starting from 1 Jan 2016 onwards is SORP 2015 (FRS102).

So, in practice, it makes sense for all charities in Northern Ireland (other than those doing R&P accounts) to adopt SORP 2015 (FRS102) as soon as possible.

What about external charities operating in Northern Ireland? In due course there will be a supplementary 'section 167 register' of external charities operating in Northern Ireland, but this has not yet been implemented. So, at the present time, a charity based in E&W or Scotland which has activities in Northern Ireland does not have to do anything in terms of registering with CCNI or filing accounts with CCNI. Its accounts will continue to be governed solely by the requirements in E&W and/or Scotland.

FURTHER HELP: *The Kubernesis Partnership LLP offers a range of seminars on issues concerning charity regulation and accounting. See www.kubernesis.co.uk/seminars.*

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