



INVITATION TO COMMENT

Draft Update Bulletin 1

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)

Updating the Charities SORP (FRS 102) issued in July 2014 for:

- Draft amendments to FRS 102 set out in FRED 59 *Draft amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland – Small entities and other minor amendments* as issued by the Financial Reporting Council on 19 February 2015 in relation to minor amendments required to comply with changes in company law.
- The Charities Act 2011 (Accounts and Audit) Order 2015 made on 19 February 2015 for increasing the charity audit income threshold from £500,000 to £1 million in England and Wales that also affects the definition of 'larger charity' in the Charities SORP (FRS 102) and Charities SORP (FRSSE).

Publication date: 18 June 2015

Closing date for comments: 18 September 2015

1 Background

- 1.1 The Statement of Recommended Practice for Charities (the SORP) is issued by the Charity Commission and the Office of the Scottish Charity Regulator in their role as the joint SORP-making body, recognised by the Financial Reporting Council, for charities in the UK and Republic of Ireland.
- 1.2 This draft SORP Update Bulletin was developed in collaboration with the Charities SORP Committee. In accordance with the Financial Reporting Council (FRC)'s Policy and Code of Practice on SORPs, the FRC carried out a limited scope review of the proposed draft SORP Update Bulletin 1 focusing on those aspects relevant to the financial statements.
- 1.3 The purpose of this draft SORP Update Bulletin is to set out proposed amendments to the *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* issued on 16 July 2014 resulting from:
 - the other minor amendments set out in the FRC's Exposure Draft: *FRED 59: Draft amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland – Small Entities and other minor amendments*; and
 - the Cabinet Office proposals, and subsequent regulations, that increase the charity audit income threshold from £500,000 to £1 million in England and Wales.
- 1.4 In launching this consultation, we are aware that the FRC's FRED 59 has not been finalised and as a result, further changes in this draft Bulletin may be required to align the Bulletin with the minor amendments to FRS 102 contained in FRED 59.
- 1.5 The joint SORP making-body's Invitation to Comment poses two questions regarding the amendments being suggested in draft Bulletin 1.

Changes in UK company law

- 1.6 The Financial Reporting Council (FRC) issued FRED 59 *Draft amendment to FRS 102* on 19 February 2015 which sets out draft amendments to FRS 102 in relation to:
 - small entities; and
 - other minor amendments.
- 1.7 The draft amendments to FRS 102 included in FRED 59 are to ensure the accounting standard maintains compliance with UK and Irish company law which are changing as a result of the implementation of the EU Accounting Directive (*Directive 2013/34/EU of the European Parliament and of the Council of 26 July 2013*). The Charities SORP (FRS 102) is based on the underlying accounting standard, FRS 102 and therefore, Charities SORP (FRS 102) must also be updated with the amendments being proposed in FRED 59 to ensure it also continues to comply with changes in accounting standards.
- 1.8 *The Companies, Partnerships and Groups (Accounts and Reports) Regulations 2015* became available in April 2015. Irish legislation is expected to be made during 2015.

Changes in charity law

- 1.9 In December 2014 to January 2015, the Cabinet Office consulted on raising the charity audit threshold for England and Wales only, as charity law is devolved in Northern Ireland and Scotland. The outcome of the Cabinet Office's proposal was that a charity will require an audit if its annual gross income exceeded £1 million or if the charity's gross income exceeds £250,000 and its gross assets exceed £3.26m in the reporting period. The regulations made on 19 February 2015 give effect to these changes.
- 1.10 In the current Charities SORP (FRS 102), the reporting requirements of the Trustees' Annual Report take into account the size of charities. Larger charities are required to make additional disclosures in the Trustees' Annual Report. Appendix 1: Glossary of Terms in the Charities SORP (FRS 102) defines larger charities as 'those charities subject to a statutory audit under charity law (those charities with a gross income of £500,000 (UK) or 500,000 Euros (Republic of Ireland) in the reporting period.'
- 1.11 As the increase of the charity audit threshold is effective in charity law in England and Wales, the joint SORP-making body is proposing that the definition of larger charities in the glossary be amended to de-link it from the statutory audit threshold with effect for reporting periods ending on or after 31 March 2015 for accounts under either SORP. Therefore, larger charities would be defined as 'those with a gross income of £500,000 UK or 500,000 Euros (Republic of Ireland) in the reporting period' for the purposes of preparing the Trustees' Annual Report.
- 1.12 The joint SORP-making body, acting on recommendation from the Charities' SORP Committee, is proposing to change the definition of larger charities so that it is no longer linked to the statutory audit threshold for the following reasons:
- **Consistency in reporting requirements.** There are no current plans to change the audit threshold for Northern Ireland and Scotland. By de-linking, current reporting practice is preserved. Therefore, if the Trustees' Annual Reports reporting requirements continue to be linked to the statutory audit threshold, then the reporting requirements for charities in England and Wales will be different to Northern Ireland and Scotland. The complexity of these reporting requirements may cause confusion for charities and their advisers operating in different jurisdictions in the UK.
 - **Level of accountability required for charities.** As outlined in paragraph 1.34 of the current Charity SORP (FRS 102), larger charities have a greater degree of public accountability and stewardship, and are therefore required to provide additional information in the Trustees' Annual Report. The proposal preserves the existing level of accountability. Smaller charities are encouraged to include some or all of the additional information required of larger charities in the Trustees' Annual Report (paragraph 1.10).
 - **Stability of the Charities SORPs.** If the reporting requirements of the Charities SORP (FRS 102) and Charities SORP (FRSSE) are delinked from the statutory audit income threshold for charities, this will make the SORPs more future proof from any further changes in audit thresholds.

Impact

- 1.13 Given that these amendments being proposed by Update Bulletin 1 are minor and are likely to be non-contentious since the majority of amendments are required by the accounting standards we are issuing an update bulletin which amends, rather than proposing to re-issue, the Charities SORP (FRS 102). This fulfils a promise made by the SORP-making body not to issue a new Charities SORP (FRS 102) until such time as the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102) is itself reviewed. Therefore, charities following this SORP, will need to refer to the Charities SORP (FRS 102) issued in July 2014 and this Bulletin when preparing their accounts and reports.
- 1.14 The proposed amendments to the Charities SORPs in relation to small entities are the subject of a separate consultation *Withdrawal of the Charities SORP (FRSSE) and proposal to widen the scope of Charities SORP (FRS 102)*.

2 Consultation questions

- 2.1 We welcome comments on any aspect of the draft amendments set out in Update Bulletin 1. In particular:

Question 1 Do you agree with the proposed amendments in draft Update Bulletin 1? If not, why not?

Question 2 Do you agree with the proposal to amend the definition of larger charities so that it is no longer linked to the statutory audit threshold for accounts prepared under the Charities SORP (FRSSE) or Charities SORP (FRS 102) for reporting periods ending on or after 31 March 2015? If not, why not?

- 2.2 In your response, please say what kind of organisation you are involved with or responding on behalf of, and what your role is. The joint SORP-making body is particularly interested in receiving comments from both preparers and users of charity accounts and reports, including charity finance staff, treasurers, trustees, auditors, independent examiners, funders and others with an interest in charity reporting.
- 2.3 Your comments will shape the final version of the Update Bulletin which, subject to FRC approval, is likely to be issued in February 2016.

3. How to respond to the consultation

3.1 The consultation will run for 3 months with a closing date of Friday 18 September 2015.

3.2 There are two ways to respond to this consultation:

Email:

Submit your response or enquiry via email to charities.sorp@cipfa.org

Post:

Send a written response to:

Charities SORP
CIPFA
77 Mansell Street
London
E1 8AN

If you have any questions about the consultation, please e-mail them to charities.sorp@cipfa.org

The joint SORP making body will publish on the Charities Sorp microsite (www.charitiessorp.org) all responses to formal consultations unless the respondent explicitly requests otherwise (please see data protection guidance). We will aim to publish responses as soon as possible and at least within one month of receipt.

4. After the consultation process

4.1 We will acknowledge receipt of all responses, and all responses will be considered. The aim is for a summary of the consultation responses to be published in November 2015. The aim would be for changes to the Charities SORP (FRS 102) and Charities SORP (FRSSE) to be effective for reporting periods beginning on or after 1 January 2016 with the exception of the amendment to the definition of a larger charity which is effective for reporting periods on or after 31 March 2015.

5. Data protection

5.1 All information contained in the consultation responses (including personal information) may be published or disclosed in accordance with the access to information regime. This is primarily set out in the Freedom of Information Act 2000 (FOIA), Freedom of Information (Scotland) Act 2002, Data Protection Act 1998 and Environmental Information Regulations 2004.

5.2 The joint SORP-making body can only treat information in your consultation response as confidential if that's consistent with the law. There is a statutory Code of Practice under the FOIA which public authorities must comply with. This sets out how confidential information must be dealt with. The joint SORP-making body can't give assurances that all information will be kept confidential, but it will take into account any representations that you make.

- 5.3 If you object to any information in your consultation response (including your personal details) being published, please say so. Please explain why you think the information should be confidential. This will help the joint SORP-making body to decide whether there are grounds for not publishing it.