



CHARITY COMMISSION
FOR ENGLAND AND WALES

OSCR
Scottish Charity Regulator

INVITATION TO COMMENT

Draft Update Bulletin 2

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 amendments to FRS 102 set out in [Amendments to FRS 102 – Triennial review 2017 - Incremental improvements and clarifications](#) as issued by the Financial Reporting Council on 14 December 2017, in relation to changes developed in response to the result of the triennial review of FRS 102 and taking account of stakeholder feedback on the implementation of FRS 102.

Publication date: 20 February 2018

Closing date for comments: 4 April 2018

CIPFA / The Chartered Institute of
Public Finance & Accountancy

1. Background

- 1.1 The Statement of Recommended Practice for Charities (the SORP) is issued by the Charity Commission in England and Wales and the Office of the Scottish Charity Regulator in their role as the joint SORP-making body, recognised by the Financial Reporting Council (FRC), for charities in the UK and Republic of Ireland.
- 1.2 This draft SORP Update Bulletin 2 was developed in collaboration with the Charities SORP Committee. In accordance with the FRC's Policy on Developing SORPs, the FRC then carried out a limited scope review of the proposed draft SORP Update Bulletin 2 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 (FRS 102)* issued on 16 July 2014. These proposed amendments have resulted from amendments to FRS 102 set out in *Amendments to FRS 102 – Triennial review 2017 - Incremental improvements and clarifications*.
- 1.4 The joint SORP-making body's Invitation to Comment poses two questions regarding the amendments proposed in the draft Update Bulletin.

Changes in UK Accounting Standards

- 1.5 The FRC issued *Amendments to FRS 102 – Triennial review 2017 - Incremental improvements and clarifications* on 14 December 2017, which finalises the amendments as a result of the first triennial review of FRS 102. The amendments were made in response to stakeholder feedback on the implementation of FRS 102 and after considering recent improvements in financial reporting. They balance improvements in the quality of financial reporting with stability in order to improve the usability and cost-effectiveness of the standard.
- 1.6 The Charities SORP (FRS 102) is based on the underlying accounting standard FRS 102, and therefore must also be updated with these amendments to ensure it continues to comply with changes in accounting standards.
- 1.7 The joint SORP-making body, acting on the recommendation from the Charities' SORP Committee, is proposing to make 21 amendments to the Charities SORP (FRS 102). These amendments are limited to those identified as being necessary based on the finalised amendments to FRS 102.
- 1.8 The proposed amendments to the Charities SORP (FRS 102) were identified by reviewing the finalised amendments to FRS 102. Amendments were considered to be necessary where the amendment to FRS 102 either:
 - introduced a new reporting requirement or accounting policy choice in an area which is covered by the SORP;
 - amended an existing reporting requirement or accounting policy choice in an area which is covered by the SORP;
 - changed the language or terminology used in the standard, which is similar to that used in the SORP; or
 - clarified an existing requirement in an area which is covered by the SORP.

- 1.9 The amendments are split into three categories and are presented in separate sections of the draft Update Bulletin. The first section includes amendments which are based on clarifications made by the FRC and do not relate to changes to underlying text of FRS 102. These amendments ensure that the SORP is consistent with the original drafting intention of FRS 102 and align the requirements of the SORP with FRS 102. The second and third sections include amendments which are based on those changes made to the underlying text of FRS 102. These are split between those which are significant and likely to have an impact on the financial statements of charities, and those which are less significant or editorial in nature. The significant amendments are presented separately from the other proposed amendments in order to assist stakeholders' consideration of them.
- 1.10 In several cases, the more significant amendments are only applicable to charities in specific situations or those which hold particular types of assets. Many of the editorial changes have been necessary to ensure the SORP remains in line with the language of FRS 102 and 'future proof' the SORP for further changes to UK accounting standards.
- 1.11 The principal amendments to the SORP that have an impact on the financial statements are:
- The introduction of an accounting policy choice for entities that rent investment property to another group entity.
 - The clarification of the accounting treatment for payments by subsidiaries to their charitable parents that qualify for gift aid.
 - The clarification of the requirement for comparatives for disclosures required by the SORP.
 - The introduction of a requirement for a net debt reconciliation to be prepared as a note to the statement of cash flows.

Changes in company law in the Republic of Ireland

- 1.12 In June 2017 the Republic of Ireland implemented the EU Accounting Directive, through the Companies (Accounting) Act 2017 ('the 2017 Act'). The 2017 Act amends the Companies Act 2014 and is effective from the date of commencement of 9 June 2017.
- 1.13 The 2017 Act applies to companies in the Republic of Ireland, including charitable companies.
- 1.14 The draft Update Bulletin does not include any amendments to the Charities SORP (FRS 102) to reflect the 2017 Act. It is proposed for these amendments to be included as part of a planned second edition of the Charities SORP (FRS 102), as explained in paragraph 1.25. It is hoped that these will be made together with the amendments from the draft Charities (Accounting and Reporting) Regulations when passed.

Impact

Options considered

- 1.15 As explained in paragraph 1.17 below, the amendments proposed in the draft Update Bulletin are restricted to those which are considered necessary as a result of recent changes to UK Accounting Standards.

- 1.16 In reviewing the amendments, the Charities SORP Committee considered whether these should be made by issuing an Update Bulletin or new version of the SORP. Given that the necessary amendments were considered to be non-contentious and required due to changes in FRS 102, it was proposed to issue an Update Bulletin that amends the existing SORP and avoids a new version of the SORP being issued.
- 1.17 The Charities SORP Committee also considered whether the amendments should be limited to only those arising from changes to FRS 102, and if any further changes should be introduced in tandem with these amendments. In making its decision, the Committee reflected on the findings of the 2016 SORP research exercise. The research findings identified concerns over the complexity and pace of change of the current reporting regime for charities across all respondent categories. Given stakeholders' desire for greater stability, it was proposed to limit the amendments to those arising from changes to FRS 102 and defer any further changes until a later date. The timings of these changes and the future development of the SORP is covered in Section 4 of this document.

Impact assessment

- 1.18 The proposed amendments to the Charities SORP reflect the finalised amendments to FRS 102, as issued by the FRC in *Amendments to FRS 102 – Triennial review 2017 - Incremental improvements and clarifications*. The FRC consulted on these amendments by issuing the following Financial Reporting Exposure Drafts (FREDs) in 2017:
- FRED 67 *Draft amendments to FRS 102 – Triennial review 2017 – Incremental improvements and clarifications* (issued March 2017)
 - FRED 68 *Draft amendments to FRS 102 - Payments by subsidiaries to their charitable parents that qualify for gift aid* (issued September 2017)
- 1.19 As a result of these amendments, the FRC believes that FRS 102 will be clearer and easier to use, some accounting policies will be simplified and additional choices and exemptions will be introduced. The overall impact will be more cost-effective financial reporting with no loss of significant information to users of the financial statements.
- 1.20 The joint SORP-making body believes the proposed amendments to the Charities SORP will have a similar impact on the SORP and the financial reporting of charities which apply it.

Effective date

- 1.21 In general, entities required to apply FRS 102 must apply the amendments set out in the *Amendments to FRS 102 – Triennial review 2017 - Incremental improvements and clarifications* for accounting periods beginning on or after 1 January 2019. Early application is permitted provided all of the amendments are applied at the same time, except for those amendments where early application is permitted separately.
- 1.22 It is proposed for the amendments set out in Update Bulletin 2 to apply to all charities in United Kingdom and Republic of Ireland that follow the SORP for reporting periods beginning on or after 1 January 2019. It is also proposed to permit early application provided all of the amendments are applied at the same time. It is noted that those amendments to the SORP which clarify how existing requirements of FRS 102 must be applied, are effective immediately. As these represent 'clarifications' based on the existing requirements of FRS 102, failure to

apply these amendments represents a departure from the requirements of FRS 102.

- 1.23 Whether early application of Update Bulletin 2 is permitted is however dependent on the legal position of the SORP in the jurisdiction where a charity is registered.
- 1.24 The final version of Update Bulletin 2 is expected to be issued in October 2018 subject to FRC approval. The SORP-making body encourages charities to consider applying the amendments set out in the *Amendments to FRS 102 – Triennial review 2017 – Incremental improvements and clarifications* prior to Update Bulletin 2 being issued. This is possible, except where prohibited by regulations or charity or company law.

Application of amendments

- 1.25 Charities following this SORP will need to refer to the Charities SORP (FRS 102) issued in July 2014, Update Bulletin 1 issued in February 2016 and this Bulletin when preparing their accounts and reports. Charities are also recommended to refer to *Information Sheet 1: Implementation Issues* which clarify the application of the Charities SORP (FRS 102) and particular recommendations contained within it. The SORP-making body intends to issue a second edition of the Charities SORP (FRS 102) which will consolidate and incorporate both Update Bulletins and other legislative changes into the current SORP.
- 1.26 As the proposed amendments in the draft Update Bulletin have been restricted to those which are considered necessary, it is important that charities applying the Charities SORP (FRS 102) refer to the amendments to FRS 102 in full to identify those amendments relevant to their own financial statements. These are set out in [*Amendments to FRS 102 – Triennial review 2017 - Incremental improvements and clarifications*](#) as issued by the Financial Reporting Council on 14 December 2017.

2. Consultation questions

- 2.1 As previously noted, the proposed amendments are necessary to update the Charities SORP (FRS 102) for changes in UK Accounting Standards and provide guidance where considered appropriate. As the amendments to FRS 102 are now finalised, this consultation is focused on how these have been interpreted in the SORP, rather than the changes to the underlying accounting standard.
- 2.2 Therefore the joint SORP-making body seeks comments in relation to the questions below.

Question 1

Do you agreed with how the amendments to FRS 102 have been reflected in the proposed amendments to the Charities SORP (FRS 102) in draft Update Bulletin 2?

If not, which of the proposed changes do you not agree with, and why?

Question 2

Are there any other amendments to the Charities SORP (FRS 102) that you consider to be necessary based on the recent amendments to FRS 102?

If so, please state the amendment to FRS 102 and the relevant SORP paragraph(s).

- 2.3 The consultation will run for six weeks in order for the draft version of the Update Bulletin to be approved by the FRC and issued by the joint SORP-

making body as early as possible. This shortened period of consultation was considered appropriate given the Update Bulletin is proposing to amend the Charities SORP (FRS 102) for a small number of focused and narrow technical changes in GAAP.

- 2.4 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.
- 2.5 Your comments will shape the final version of the Update Bulletin which, subject to FRC approval, is expected to be issued in October 2018.

3. How to respond to the consultation

3.1 The consultation will run for six weeks with a closing date of 4 April 2018.

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:

Charities SORP
CIPFA
77 Mansell Street
London
E1 8AN

Responses should be dispatched to be received no later than 5 April 2018.

3.3 Any questions about the consultation can be e-mailed to charities.sorp@cipfa.org

3.4 In accordance with the FRC's *Policy on Developing Statements of Recommended Practice* all responses to formal consultations will be made publicly available and published on CIPFA's [website](#), unless a respondent explicitly requests otherwise (please see Section 5).

3.5 Please note that CIPFA does not edit personal information (such as telephone numbers or postal or e-mail addresses) from submissions; therefore, only information that you wish to be published should be submitted.

3.6 CIPFA aim to publish responses as soon as possible within 10 working days of receipt.

4. After the consultation process

Finalisation of Update Bulletin 2

- 4.1 CIPFA will acknowledge receipt of all responses and all responses will be considered. A summary of the consultation responses is expected to be published in April 2018.
- 4.2 These responses will inform any proposed changes to the SORP Update Bulletin before it is submitted to the FRC for its sign-off review.

Future development of the SORP

2016 Research Exercise

- 4.3 The joint SORP-making body undertook a research exercise in 2016 following the launch of the FRSSE SORP and SORP (FRS 102) in July 2014. The exercise gathered user's feedback on the usefulness and desirability of the revised SORPs and user's views on various areas of future development. The analysis of the research exercise responses were considered by the Charities SORP Committee at their meetings during the first half of 2017.
- 4.4 As noted in paragraph 1.17, the research found users were concerned over the complexity and pace of change of the current reporting regime for charities. The research also identified a number of themes for future development, however no areas were found where changes to the SORP were considered urgently required.

Timing and extent of future changes

- 4.5 As a result of the research exercise findings, the Charities SORP Committee recommended that Update Bulletin 2 should be limited to only those changes arising from the amendments to FRS 102. It was recommended that those changes to the SORP arising from the research exercise findings should be deferred and included in a new version of the SORP, which will replace SORP (FRS 102).
- 4.6 It is intended that the next full revised version of a new SORP coincide, if possible, with any further amendments to UK and Irish GAAP following on from more significant changes in IFRS. However, both the timing and extent of these amendments (if any) have yet to be set and the FRC have yet to consult on any detailed proposals. As the outcome remains uncertain, the proposed timing of the revised SORP remains to be settled and is subject to any future review of FRS 102 when known.

Current and future work

- 4.7 The development of the new SORP will be informed by the recommendations of four working groups formed of members from the current Committee. The groups are considering changes based on key themes identified by the research exercise, being: smaller charities, transparency, tiered reporting and governance disclosures. The Charities SORP Committee plan to discuss each working group's findings at their meetings during the second half of 2018.
- 4.8 The joint Charities SORP-making body and the Charities SORP Committee will also continue to review any issues arising relating to the implementation of the Charities SORP (FRS 102) as they arise. Where appropriate, information which seeks to clarify the application of the SORP or particular recommendations contained within the SORP will be issued.

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 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 is consistent with the law. There is a statutory Code of Practice under the FOIA and under the FOI(S)A which public authorities must comply with. This sets out how confidential information must be dealt with. The joint SORP-making body cannot give assurances that all information will be kept confidential, but we 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 when making your submission. 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.