

Research exercise on charities SORP (FRS 102)

Submission from

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Background and Context

The regulatory framework for charities in Ireland is set out in the Charities Act 2009. The Charities Regulatory Authority (CRA) is Ireland's national statutory regulator for charitable organisations. The CRA is an independent authority and was established on the 16th of October 2014 by the Department of Justice and Equality under the Charities Act 2009.

The key functions of the Regulator are to establish and maintain a public register of charitable organisations operating in Ireland and ensure their compliance with the Charities Acts including the annual reporting requirements. The initial focus has been on establishing an accurate register of charities which has proved to be a slow process particularly in the early stages when the CRA had limited resources. While the Charities Act “deemed” all charitable tax exempt organisations (approx. 8,400) to be on the initial Charities Register there was a deadline of October 2016 for these charities to complete their entry on the register with the full information required. To date a total of 4,736 charities are officially on the Register.

Additional resources have been provided to the CRA over the past year to coincide with the commencement of Part Four of the Charities Act which provides for their investigative and enforcement powers. A new Head of Compliance was appointed in August 2016 and took over from the CEO as an observer on the SORP Advisory Committee. The CRA has recently conducted a consultation process on draft reporting regulations on behalf of the Minister for Justice and Equality and it is expected that the Minister will issue new regulations in early 2017. Until such time as the Charities Act 2009 is amended and/or the forthcoming regulations make adoption of the Charity SORP mandatory the current voluntary status of the SORP will remain.

While a number of leading charities have adopted the Charity SORP as best practice and to demonstrate transparency they represent a very small proportion of the overall charity sector in Ireland. The only statistics currently available are compiled by *Benefacts* a non-profit organisation that re-publishes regulatory data on the non-profit sector (www.benefacts.ie). Of approx. 7,500 incorporated non-profit organisations on the database 4% (325) have voluntarily adopted the Charity SORP. Of these 2,650 are registered charities of which 9% (239) have adopted the SORP. There are no figures currently available for non-incorporated charities though it is likely that these are predominantly small charities for which a receipts and payments regime is being considered.

Of the 239 or 9% of incorporated charities that claim to have adopted the Charity SORP levels of actual compliance vary considerably revealing a somewhat a la carte approach in many cases versus full or almost full compliance in others. The responses to the research questions below are

therefore based on a combination of limited analysis from Benefacts and anecdotal information from the subset of SORP compliant charities that we personally have direct contact with most of which have only completed their first set of FRS 102 Charity SORP accounts this year. In this context it was not possible to provide answers to all of the consultation questions.

RESPONSE TO CONSULTATION QUESTIONS

Q.1 Do you agree that the new format of the SORP meets the needs of all those preparing accounts using the SORP, including smaller charities? If not, what improvements should be made and why?

Yes we do. The modular layout of the new SORP is very helpful as is the option for charities to customise the SORP based on answering the series of questions provided. It is really helpful to have the option to pick and choose those elements of the SORP relevant to particular charities. This should be particularly helpful to smaller charities.

Q.2 Is more assistance required to help smaller charities? If so, please explain what is needed and why.

It would probably be helpful to include links to real examples of good quality small charity SORP compliant accounts as these become available now that the first sets of FRS102 SORP accounts have been filed.

A key issue among those who have voluntarily adopted the SORP is that Not for Profits are tending to use a "boiler plate" version of the Companies Act Directors Report rather than using the opportunity to tell the story in a format similar to the Trustees report with its emphasis on outcomes

Any efforts to promote the alternative would be greatly welcomed

Q3. Is the use of the terms 'must', 'should' and 'may' successful in distinguishing between those requirements that have to be followed to comply with the relevant accounting standard and the SORP from those recommendations which are good practice and those that simply offer advice on how a particular disclosure or other requirement might be met? If not, what alternative format should be adopted and why?

We find the use of this terminology clear enough but don't have sufficient feedback from others to know whether this is generally the case or not.

Q.4 Given the requirements for financial reporting that are now explained in FRS 102, is the retention of a SORP still necessary in the charity sector? Please give reasons for your answer.

Yes the SORP is still necessary to interpret the requirements of the FRS102 Public Benefit entity standard for charities. It provides the necessary guidance for charities to interpret and apply the standard correctly.

Q.5 Do you have any suggestions as to the changes needed to address issues on implementation or in meeting the SORPs requirements? If so, please explain what are they are and where possible please give examples.

As noted above our response to this question is based on limited data but the following implementation issues have been raised:

i) Income Recognition – the issue created by the need to recognise income when it is probable leading to high surpluses in one year versus related deficits in subsequent years is considered problematic given the level of understanding of uninformed readers of the accounts. This may be a feature of the low level of knowledge of the Charity SORP in the Republic of Ireland which will need to be tackled through public education by the sector and the Charity Regulator.

Benefacts have noted many examples of incorrect treatment of funding in the SOFA particularly in relation to income deferral and this being shown as part of Reserves rather than as a liability on the Balance Sheet. This again is likely to be caused by the low levels of knowledge of the Charity SORP within the sector and auditing practices due to it being voluntary in Ireland. There is quite a lot of anecdotal feedback that auditing practices are telling charities that they do not have to adopt the SORP. This is further compounded by changes in the Companies Act 2014 (commenced from June 2015) that allow audit exemptions for companies limited by guarantee that were formerly unavailable. This has led to a 22% increase in the number of charities filing abridged accounts according to Benefacts. Again anecdotally this seems to be mainly driven by audit practices, particularly the smaller ones that do not have specialist knowledge of charity accounting. The CRA is currently seeking to address this issue either by amending the Charities Act 2009 or through Regulations in consultation with the Dept. with responsibility for the Companies Act.

ii) Restatement of 2014 results in line with the new format has proven cumbersome particularly for charities adopting the SORP for the first time in 2015. This will continue to be the case for late adopters.

iii) Treatment of unrealised gains and losses on investments – the issue of fair value reserves and the valuation requirements have been an issue for some.

Q.6 Do you agree that there needs to be a third tier of reporting by only the largest charities and if so at what level of income should that reporting requirement apply?

No on the basis that in Ireland we need to get charities adopting the SORP as is before complicating it further.

Q.7 If you agree that there should be a third tier of largest charities, what items in the existing SORP that apply to larger charities should be restricted to just these largest charities?

N/A

Q.8 Do you agree with one or more of the four suggested areas for review of the trustees' annual report recommended by the SORP Committee? If so, which ones do you support and if you do not support any of these suggestions, please give your reasons as to why not?

We agree with the four suggested areas for review of the TAR recommended by the SORP Committee.

Q.9 Do you agree with either of the two suggested areas for the review of the accounts recommended by the SORP Committee? If so, which ones do you support and if you do not support any of these suggestions, please give your reasons as to why not?

We agree that it is worth reviewing both areas suggested.

Q.10 Do you agree with one or more of the six themes for review of the SORP suggested by the charity regulators? If so, which themes do you support, and if you do not support any of these suggested themes, please give your reasons as to why not?

We are not in a position to respond to this question given that we are at such an early stage of regulation of charities in Ireland. Our first priority is to get the current SORP made mandatory and to support charities in adopting it.

Q.11 If you do support one or more of the suggested themes, which, if any, of the specific issues identified within each theme do you agree needs attention in the next SORP? Alternatively, if you support none of these suggested issues, please identify the issues that need to be addressed and explain your reasons why?

See answer above.

Q.12 Are there any items in the report or accounts which could be removed. If so, what are they and what are your reasons for removing them?

Not in a position to comment at this stage.

Q.13 Are there any items in the report or accounts which could be changed to improve the information provided to the user? If so, which items would you change, what would the change be, and how would it improve the information to users of the report and accounts?

Not in a position to comment at this stage.

Q.14 Are there any items you would like to add in to the report or accounts? If so, what are these items and how would their inclusion help the user of the report and accounts?

Not in a position to comment at this stage.

Q.15 Are there any disclosures in the notes to the accounts that you believe can simply be removed altogether? If so please state the disclosure, the relevant SORP paragraph(s) and give your reasons as to why this disclosure is not useful to the user of the report and accounts?

Not in a position to comment at this stage.

NOTE: All three respondents currently work for registered charities in Ireland (one for an umbrella body of charities) and are the Republic of Ireland representatives on the Charity SORP Advisory Committee. This submission is made in a personal capacity and not on behalf of our employers.