



Preparing for Change:

Key Developments in the Charity Sector

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Our team today



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Agenda

Laws & Regulatory change

**Financial Reporting
amendments**

**Annual Reporting – Best
Practice**

Learning Outcomes

- **Understand the impact of proposed legal and regulatory changes**
- **Understand the impact of financial reporting amendments**
- **Gain insight into industry best practice for annual reports**



Laws & Regulatory Change

ISA 250 – Consideration of Laws & Regulations

- **Consultation for proposed changes issued in October 2023 and closed in January this year**
- **Revised ISA will be issued later this year, effective for accounting periods starting on or after 15 December 2024**
- **Main difference is the removal of the distinction between “direct” and “indirect” laws and regulations**
- **Instead, it is expected that a risk-based approach will be adopted**
- **This will result in charities needing to perform more detailed risk assessments of the applicable legal frameworks, which auditors will then need to review**

Financial reporting amendments

Amendments to FRS 102 (and SORP)



Revenue Recognition

- Alignment with IFRS
- New 5-step model
- Guidance for charity-specific income



Lease Accounting

- Removal of the distinction between finance and operating leases
- Extension to agreements that contain leases



Other Minor Amendments

- Related party disclosures
- Employee benefits
- Going Concern disclosures

Revenue Recognition – Key Changes

Current Model:

Relatively simple revenue recognition models:

- Sale of goods – at a point in time
- Provision of services – over time using stage of completion

Non-complex disclosure requirements:

- Inclusion of accounting policies
- Breakdown of income received by type (i.e. goods or services)
- Encouraged disclosure by geographic region

New Model:

One unified approach to revenue recognition, which assumes all revenue received under contract (implied or otherwise):

- Identify the contract
- Identify the performance obligations within that contract
- Identify the contract price
- Allocate the contract price to each performance obligation
- Recognise revenue for each performance obligation as it is met

Lease Accounting – Key Changes

Current Model:

- **Distinction between an operating lease and a finance lease**
- **Restricted to consideration of lease agreements only**
- **Operating leases: Recognised as in year income or expense**
- **Finance leases: Recognised as an asset with corresponding liability and in year finance income or expense**

New Model:

- **No distinction available between operating and finance lease**
- **Extension to consider all contracts that may contain a lease**
- **Exemptions available for short-term leases**
- **All lease arrangements are recognised on the balance sheet, which increases both assets and liabilities presented**
- **Be careful of impact on covenants regarding gearing, interest cover and debt restrictions**

Changes to Company Size Thresholds

	Micro	Small	Medium
Turnover	£1,000,000	£15,000,000	£54,000,000
Gross Assets	£500,000	£7,500,000	£27,000,000

- Thresholds increase by 50% from 1 October 2024
- SECR / s172 disclosures

Annual Reporting – Best Practice

Key Areas of Focus for a Quality Annual Report



Materiality Mindset

- Avoid clutter
- Focus on key messages



Reporting Reserves

- Reminder of SORP requirements



Fundraising Disclosures

- Who needs to report?
- What needs reporting?

Materiality Mindset

FRC issued a report in October 2023 setting out recommendations for quality reporting, including:

- A focussed approach
- Is it relevant?
- Is it a reporting requirement?



Reporting Reserves

Out of a review of 50 charities:

- 84% had stated their year end reserve balance
- 78% had reported their reserves target
- 46% reporting what they would do to address the difference



Fundraising Disclosures

Charities (Protection and Social Investment) Act 2016:

Requirements for all charities with income in excess of £1m

Approach and regulation

- How does the charity fundraise?
- Is the charity subject to any regulation?

Monitoring and complaints

- How does the charity monitor fundraising efforts and complaints?
- How many complaints have been received?

Vulnerable people

- What steps does the charity take to protect vulnerable people?

Environmental reporting



Requirements for Charitable Companies:

- Streamlined Energy and Carbon Reporting (SECR) framework
- Additional guidance for charities in Information Sheet 5
- Task Force on Climate-Related Financial Disclosures (TCFD)

What About Unincorporated Charities?

- Currently no statutory requirements
- Potential requirements to report on sustainability as part of debt covenants
- Likely that mandatory reporting is on the horizon

Impact Reporting



“All the changes resulting from activities, projects and programme... Intended as well as unintended negative as well as positive long-term as well as short-term effects.”

Impact Reporting



The SORP requires:

- Disclosure of the Charity's objectives and activities (1.35 to 1.39)
- Disclosure of the Charity's achievements and performance (1.40 to 1.45)
- Examples are given in paragraph 1.44 of the SORP:

1.44. In reviewing its achievements and performance, the charity should include a summary of the **measures or indicators used to assess performance** when it provides evidence of the achievements in the reporting period. Explaining the outputs achieved by particular activities can be helpful, particularly when numerical targets have been set. Examples of such targets include the **number of beneficiaries to be reached by a particular programme, or the number of events or interventions planned as part of an activity.** However, information on activities, outputs, and outcomes (or impacts) should always be put in the **context of how they have contributed to the achievement of the charity's aims and objectives.**

Q & A

Useful Resources & Links



Grant Thornton Publications

- [Charity Sector Developments 2024 - Charity sector development report 2024 | Grant Thornton](#)
- [Environmental reporting in not-for-profit organisations - Environmental reporting in not-for-profit organisations | Grant Thornton](#)
- [Reserves & Investments Roundtable report - How charities approach reserves and investment policies | Grant Thornton](#)
- [Cyber Security Roundtable report - Cyber security in charities | Grant Thornton](#)
- [“What will successful charities look like in the future?” Roundtable report - Roundtable: What will successful charities look like in the future? | Grant Thornton](#)

External reports and consultations

- [FRC ISA \(UK\) 250 Consultation \(closed\) - Proposed Revisions to ISA \(UK\) 250 Section A and ISA \(UK\) 250 Section B \(frc.org.uk\)](#)
- [FRC Materiality Mindset report - Materiality in practice: applying a materiality mindset \(frc.org.uk\)](#)
- [Charity Commission “Public Trust in Charities” reports - Research into public trust in charities and trustees’ experience of their role 2024 - GOV.UK \(www.gov.uk\)](#)

Other useful external sources:

- [Charity SORP - Home - SORP - CCEW \(charitycorp.org\)](#)
- [FRC FRS 102 Amendments summary - Financial reporting standards Periodic Review 2024 \(frc.org.uk\)](#)



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