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Honorary Treasurers Forum: Future changes and best practice in financial reporting for charities and topical update

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Welcome



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Agenda

- Financial Reporting Changes
- Topical update
- Disclosure and accounting issues
- Giving

Financial Reporting Amendments

Amendments to FRS 102 and the SORP

Timescale

- **FRS102**
 - 27 March 2024, second periodic review issued March 2024
 - effective date for most changes is periods beginning on or after 1 January 2026
 - early adoption permitted
- **New Charity SORP**
 - currently being updated for changes to FRS102
 - should be issued for consultation in early 2025
 - new SORP being issued later in the year

Planning ahead

Amendments to FRS 102 (and SORP)

Revenue Recognition

- Aligning with IFRS 15
- New 5 step model
- Charity specific income guidance

Leases

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

Other more minor amendments

- Related party disclosures
- Employee benefits
- Going concern

Revenue Recognition

Key changes

Current approach:

Reasonably simple revenue recognition:

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

New approach:

One unified approach to revenue recognition

Assumes all revenue received under contract (implied or otherwise)

Five step model

- 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 approach:

- 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

Lease Accounting

Key changes

New approach:

- No distinction between operating and finance lease
- Extension to consider all contracts that may contain a lease
- Exemptions available for:
 - short-term leases
 - low value assets

Lease Accounting

Key changes

New approach:

- All lease arrangements are recognised on the balance sheet, which increases both assets and liabilities:
 - A lease liability at the PV of the lease payments still to be paid
and
 - A corresponding right of use asset at cost
- Consider impact on covenants regarding gearing, interest cover and debt restrictions

Topical updates

Things to be aware of

- **Charity Digital Survey 2024**
 - **Headlines**
 - 50% have a digital strategy
 - 61% are using AI in their day to day work/operations
 - 39% want their CE to keep up to date with emerging tech trends & AI tools
 - 25% using digital to reduce carbon footprint
 - 62% of charities say their trustees' digital skills are low or could be improved
 - 74% good or excellent at cyber

<https://charitydigitalskills.co.uk/>

Things to be aware of

- **Cyber threat**

British Library report

<https://blogs.bl.uk/living-knowledge/2024/03/learning-lessons-from-the-cyber-attack.html>

- **AI governance framework**

<https://www.charityexcellence.co.uk/charity-ai-governance-and-ethics-framework/#:~:text=The%20Charity%20AI%20Governance%20and,challenges%20of%20charity%20AI%20use.>

Things to be aware of:

- **Improving your Charity's Finances**

Updated C12: Improving your charity's finances

Sets out actions to

- improve the charity's finances
- protect against financial difficulties
- understand what to do if insolvent or at risk of insolvency

Link is here:

<https://www.gov.uk/government/publications/managing-financial-difficulties-insolvency-in-charities-cc12/eaf0f321-7428-4723-872d-d426c6068db1>

- **Trustee Quiz**

Updated Quiz to reflect recent guidance

Just 10 questions

Areas can readily be identified for further guidance or information. Take the quiz at:

<https://beingacharitytrustee.campaign.gov.uk/take-the-trustee-quiz/>

Things to be aware of:

- **Decision making for trustees**

CC27: Decision making for charity trustees

7 decision making principles (and how to follow):

1. act within their powers
2. act in good faith
3. be sufficiently informed
4. take into account all relevant factors
5. identify and disregard any irrelevant factors
6. manage conflicts of interest
7. ensure their decision is within the range of decisions that a reasonable trustee body could make

also sets out how to record the decisions.

<https://www.gov.uk/government/publications/its-your-decision-charity-trustees-and-decision-making>

Disclosure and accounting issues: Top areas to consider

Disclosures and accounting issues

1. Fundraising Disclosures

Charities (Protection and Social Investment) Act 2016:

- Requirements for all charities which exceed audit threshold
- Approach and regulation
- Monitoring and complaints
- Vulnerable people

2. Reserves Policies

- Funds held and why, free reserves, addressing differences, review of policy

Disclosures and accounting issues

3. Accounting policies

- Significant estimates and judgements

4. Categorisation of income

- Careful look at the SORP
 - Donations and legacies
 - Charitable activities
 - Investments
 - Other

5. Going concern

Accounting and accounting issues

6. Fund accounting

- Unrestricted:
 - Unrestricted
 - Designated
- Restricted:
 - Income
 - Endowment
 - Permanent
 - Expendable

Notes to the accounts including accounting policies

Accounting and accounting issues

7. Environmental reporting

- Charitable Companies:
 - Streamlined Energy and Carbon Reporting (SECR) framework
- Unincorporated Charities?
 - Currently no statutory requirements

Giving

CAF UK Giving Report 2024

- Total amount given
 - 2023 : £13.9bn
 - 2022 : £12.7bn
 - 2021 : £10.7bn
- Most causes remained level (overseas causes decreased)
- Typical donation is £20 - unchanged for seven years, and would now be over £25 if it had kept up with inflation

<https://www.cafonline.org/insights/research/uk-giving-report>

The status of UK fundraising 2024 Report

Thinking about the last full financial year, how did your organisation's voluntary income change, compared with the year before?



<https://www.blackbaud.co.uk/industry-insights/resources/the-status-of-uk-fundraising-2024-benchmark-report>

Questions?

