

Challenges for the Not for Profit Sector Where to now?



Deloitte Academy, Dublin
23 June 2011

Contents

- Introduction, Tom Cassin, Partner, Not for Profit
- Corporate Governance & Risk, Jennifer Coughlan, Senior Manager, Enterprise Risk Services
- The Future of Irish GAAP, Brendan Sheridan, Director, Technical
- Financial Reporting for Not for Profit Entities, Marguarita Martin, Director, Not for Profit
- Closing comments, Tom Cassin

Corporate Governance & Risk

Jennifer Coughlan

Senior Manager

Enterprise Risk Services

Governance in the Voluntary Sector

The Governance Code - A Code of Practice for Good Governance of Community, Voluntary and Charitable Organisations in Ireland

- Not a legally binding code but sets out best practice across five main supporting principles.
- Charities select from 4 different organisational types – All-volunteer, Emergent, Established and Complex.
- Charities that subscribe to the code should make a statement to that effect in its Annual Report and other relevant published material.
- Confirm in statement whether it complies with principles, or where it does not, provide an explanation.
- “Comply” or “explain” provides flexibility to enable organisations to interpret to suit its particular circumstances.
- Consultation open to June 2011
- Launch expected in September 2011



Corporate Governance

What is Corporate Governance?



Background to Corporate Governance

Common Themes of Recent Codes

1. Setting **direction and purpose** for the organisation and linking this to day to day activities
2. Increased **transparency** of organisational activities
3. Stressing the importance of **independent oversight** of management
4. Emphasis on the clear definition and understanding of **roles and responsibilities** of management, the CEO, and the Board
5. Requirement to **measure the performance** of both the Board and the CEO
6. Increased burden of **positive assurance** required by Boards
7. Further emphasis on and clarity in the role of **Audit Committees**
8. Increased emphasis on identifying and assessing **business risks**
9. Responsibilities of **Non-Executive** Directors

How does Governance work?

A small but real step

- Managing risk is key to good governance
- Common definition of what risk means to your organisation
- Agree on how to measure risk
- Document the key risks, how controlled they are, levels of exposure, actions that need to be taken to limit exposures
- Level of input would be small
- Valuable outputs and a significant step towards meaningful corporate governance



Risks in the Sector

What we've seen

- On-line credit card donations – Charity websites being used to test validity of fraudulent credit cards
- Fraudulent activity on charity bank accounts
- Smaller organisations struggling to cope with segregation of duties resulting in reduced transparency



The Future of Irish GAAP

Brendan Sheridan

Director

Financial Reporting Services

The Future of Irish GAAP

IFRS and FRSME

- Plan to substantially replace current Irish/UK GAAP
- IFRS for Small and Medium-sized Entities – 9 July 2009
- Response to demand for the IASB to implement a regime more suited to entities without public accountability
- Small and medium-sized entities are entities that
 - do not have public accountability, and
 - publish general purpose financial statements
- Jurisdictional decision ultimately



IFRS for SMEs (FRSME)

- In volume and disclosure requirements, approximately 10% of full IFRS
- Genesis in full IFRS but is a standalone document
 - Recognition and measurement simplifications e.g. defined benefit pension plans
 - Simpler accounting policy options e.g. revaluation of property, plant & equipment not permitted, no capitalisation of borrowing costs or development costs, others
 - Exclusion of certain topics e.g. segmental reporting, assets held for sale and earnings per share
- Transition process similar to that undertaken by entities moving to full IFRS in 2005, and in 2007 for AIM-listed companies
 - Adjustments at date of transition, reconciliations and disclosures

The Future of Irish GAAP

IFRS and FREDs 43 - 45

- Exposure drafts published
 - Oct 2010: FRED 43 – Application of Financial Reporting Standards
FRED 44 – Financial Reporting Standard for Medium-sized Entities (FRSME)
 - Mar 2011: FRED 45 – Financial Reporting Standard for Public Benefit Entities (FRSPBE)
- FRSPBE is an add-on to FRSME and addresses specific PBE issues
- Three tier system



The Future of Irish GAAP

Developments 16 June 2011

- ASB made the following tentative decisions
 - To remove from FRED 43 & 44 the requirement for publicly accountable entities to prepare accounts under EU-adopted IFRS. As a consequence the application of EU-adopted IFRS will not be extended beyond the current requirements in law.
 - *To change the principles for amending IFRS for SMEs to permit or require accounting options that exist in current UK & ROI FRSSs at the transition date that align with EU-adopted IFRS*
 - *To defer the effective date to 1 Jan '14*



The Future of Irish GAAP

Developments 16 June 2011

- ASB also agreed to consider at its next meeting:
 - Any further changes that would be required to FRED 44 given its expanded scope following its decision - this might include increased disclosures for financial institutions and public entities
 - The role of the SORPs
 - Initial finding in relation to the ASB's proposals and Company law
 - How its tentative decisions would affect its draft impact assessment.
- Continues to be a moving feast!**



Change to Accounting Framework

- Terminology
- Presentation
- Disclosure
- Recognition and measurement

Audit

Audit services

Audit hot topics

Choosing your GAAP

Audit publications

Audit team

Consulting

Corporate & Legal services

Corporate Finance

Enterprise Risk Services

Pensions and Reward Services

SME services

Audit hot topics

Welcome to our Financial reporting briefs and Audit articles page. These articles have been written by Deloitte professionals and published in external publications. The information in these articles was correct at the time of publishing, but please **contact us** for an up-to-date position on any of the subjects covered.

Financial reporting briefs

Apr 11	Jan 11	Nov 10 special edition	Oct 10	July 10	Apr 10	Jan 10	Oct 09	Jul 09 special update	Jul 09	Apr 09
--------	--------	------------------------	--------	---------	--------	--------	--------	-----------------------	--------	--------

Articles

Consolidated accounts - the full story? June 11

G20 Financial reporting objectives - progress achieved? May 11

Related sites

Solvency II
Latest news and resources

Featured content

Annual Financial Reporting Seminar
Read about our Annual Financial Reporting Seminar, which took place in the Shelbourne Hotel on 21 October 2010

IFRS for SMEs in your pocket
Summary and key highlights of IFRS for SMEs

Wednesday, 22 June 2011

The #1 Website for Global Accounting News
Beyond the Standard.

Search

Deloitte Publications

- [Newsletter](#)
- [Podcasts](#)
- [IFRS Publications](#)
- [Models and Checklists](#)
- [Comment Letters](#)
- [IFRS-GAAP Comparisons](#)



[+] [Resources](#)

[+] [Tools](#)

Deloitte's IAS Plus Website

- [About IAS Plus](#)
- [Security](#) [Legal](#) [Privacy](#)
- [Abbreviations](#)
- [XML](#) [RSS](#)

22 June 2011: IASB publishes proposals for amendments under its annual improvements project



The International Accounting Standards Board (IASB) has published to its website an exposure draft (ED) of proposed amendments to five International Financial Reporting Standards (IFRSs) under its annual improvements project.

The IASB uses the annual improvements project to make necessary, but non-urgent, amendments to IFRSs that will not be included as part of another major project. Most of the amendments are effective for annual periods beginning on or after 1 January 2013, although entities are generally permitted to adopt them earlier. Click for [IASB Press Release](#) (link to IASB website).

IFRS	Subject of amendment
IFRS 1 <i>First-time Adoption of IFRSs</i>	Repeated application of IFRS 1 Borrowing costs relating to qualifying assets for which the commencement date for capitalisation is before the date of transition to IFRSs
IAS 1 <i>Presentation of Financial Statements</i>	Clarification of requirements for comparative information Consistency with the updated <i>Conceptual Framework</i>
IAS 16 <i>Property, Plant and Equipment</i>	Classification of servicing equipment
IAS 32 <i>Financial</i>	Income tax consequences of distributions to holders of

THE BRUCE COLUMN



The main US regulator, the SEC, has released a staff paper on the middle way of 'condorsement'. Our resident regular columnist, Robert Bruce, assesses its place in the future of US financial reporting.

[Read more](#)

[+] [IASB Structure](#)

IASB Projects and Meetings

- [Projects and Timetable](#)
- [Project Insights](#)
- [Meeting Notes](#)
- [Effective Dates](#)
- [Next Meeting Agenda](#)
- [Future Meeting Dates](#)
- [Comment Deadlines](#)

IFRIC Projects and Meetings

Financial Reporting for Not for Profit Entities

Margarita Martin
Director
Not for Profit Sector

GAAP/SORP/IFRS

What should I apply?

- Irish Generally Accepted Accounting Practice (GAAP)
- Accounting & Reporting by Charities:
Statement of Recommended Practice (SORP) 2005
- International Financial Reporting Standards (IFRS)
 - IFRS for Small Medium Enterprises (FRSME)
- Financial Reporting Exposure Draft (FRED) 45
 - IFRS for Public Benefit Entities (FRSPBE)
- Revised SORP....

Irish GAAP

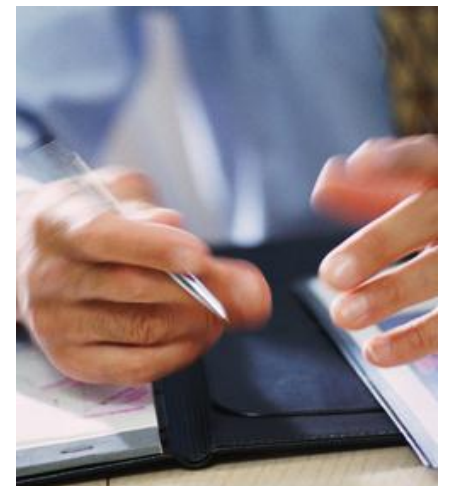
- The directors are responsible for keeping proper books of account which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements are prepared in accordance with ***accounting standards generally accepted in Ireland*** and comply with Irish statute comprising the Companies Acts, 1963 to 2009.
- Key Points of Irish GAAP
 - Statutory requirement for companies
 - Not trading for gain, exempt from CAA 1986 - not subject to pro-forma financial statements



SORP

Accounting & Reporting by Charities

- Not mandatory in Ireland
- Considered best practice
- Widely utilised?
 - Mainly by medium/larger charities
 - Selective use eg. Capital grants
- Key Points of SORP
 - Detailed Trustees Report
 - Statement of Financial Activities (SOFA)
 - Restricted/Unrestricted/Designated Reserves
 - Detailed note disclosures



IFRS

Impact on Charities

- Replacement of the current framework with a 3 tier framework for reporting
- The development of the FRSPBE to address issues not covered by commercial standards
- Retention of 3 not for profit SORPs
 - Reporting and Accounting for Charities
 - Registered Social Landlord
 - Further/Higher Education
- A changeover date for financial years beginning 1 January 2014



IFRS

FRSME

- Financial Reporting Standard for Medium-sized Entities is a proposed standard based on IFRS for SMEs
- Key Points of FRSME
 - Format of financial statements
 - Disclosure requirements
 - Accounting policies (not yet defined)
 - Stronger focus: fair value, net present value (NPV) and discounted cashflow techniques



IFRS

FRSPBE

- FRSPBE would be mandatory for entities falling within the scope of the FRSME. Entities will be within scope of FRSPBE if they meet the following criteria:
 - They meet the definition of a PBE
 - They prepare financial statements that are intended to give a true and fair view of the financial position and income and expenditure for a period; and
 - They prepare financial statements in accordance with FRSME.



IFRS

FRSPBE

- Public Benefit Entity
 - An entity whose primary objective is to provide goods or services for the general public, community or social benefit and where any equity is provided with a view to supporting the entity's primary objectives rather than with a view to providing a financial return to equity providers, shareholders or members



IFRS

FRSPBE

- Issues Addressed in FRED 45
 - Definition of public benefit entity
 - Concessionary loans ie. loans at below market rate
 - Property held for the provision of social benefits
 - Entity combinations
 - Impairment of assets: public benefit considerations
 - Funding commitments
 - Incoming resources from non-exchange transactions e.g. donations
- Consultation is open until 31 July 2011
- If there is any conflict between SORPs and the requirements of the FRSME and FRSPBE, the standards will take precedence and disclosure detailing departure from the SORP would be triggered



SORP

Revised

- SORP Committee commenced its work
 - Consultation will follow the PBE standard, expectation 2011
 - Due to complete by end of 2011?
 - ASB must formally consider
 - SORP 2012
 - Still only best practice in Ireland
 - Charities Act & Regulator 2012?
-
- Key Issues for SORP 2012
 - New framework must apply to all charities
 - Must set out a standard form and content of reporting
 - Must ensure accounting treatments are uniform



GAAP/SORP/IFRS

What should I apply?

- Key points
 - FRSME, 1 January 2014
 - FRSPBE, consultation
 - SORP to follow
 - Charities Act 2009, no format of reporting outlined



FRSPBE Consultation

FRSPBE Consultation

Issues Addressed	Proposed Treatment
Concessionary loans	<p>Loans made/received at below the prevailing market rate of interest and not repayable on demand</p> <p>Two options:</p> <ul style="list-style-type: none">• Section 11 Basic financial instruments in the FRSME ie. Fair value and subsequent measurement at amortised cost• Measure at the amount paid/received and adjust to reflect interest payable/receivable. Review for impairment.
Property held for the provision of social benefit	<p>Account for as property, plant and equipment in accordance with Section 17 Property, Plant and Equipment in the FRSME. It should not be classified as investment properties.</p> <p>No option for revaluation (likely to change?)</p>

FRSPBE Consultation

Issues Addressed	Proposed Treatment
Entity Combinations	<p>Two types of entity combinations</p> <ul style="list-style-type: none">•Combinations which meet the definition and criteria of a merger – use merger accounting.•Combinations which are in substance a gift- any excess of fair value of assets received over liabilities assumed to be recognised as a gain.
Entity Combinations - Merger	<ul style="list-style-type: none">•All parties participate equally to the establishment of the combination•No party is identified as the acquirer/acquiree•Carrying value of the assets and liabilities (not fair value)•Align accounting policies•Specific disclosures required
Entity Combinations – In Substance a Gift	<ul style="list-style-type: none">•Purchase method•Identify acquirer•Fair value of the assets and liabilities acquired•FV of assets > FV of liabilities = Gain recognised•FV of assets < FV of liabilities = Loss recognised•Specific disclosures required

FRSPBE Consultation

Issues Addressed	Proposed Treatment
Impairment of Assets: Public Benefit Considerations	<p>Provides guidance on fair value less costs to sell and indicators of impairment and introduces depreciated replacement cost as an alternative to value in use in certain circumstances</p> <ul style="list-style-type: none">• If the recoverable amount (higher of FV less cost to sell and its value in use) of an asset is less than its carrying value then the asset should be written down as an impairment loss• Fair value: Requirement to consider any restrictions on use of the asset• Value in use: Cash flow driven model may not be appropriate
Funding Commitments	<p>Recognise a liability only when an entity is unable to withdraw from it and the commitment does not depend on the performance of the recipient</p> <ul style="list-style-type: none">• Applies to entities that provide resources/grants to other entities• Commitment should be recognised at the present value of the commitment• Specific disclosures required

FRSPBE Consultation

Issues Addressed	Proposed Treatment
Incoming Resources from Non-exchange Transactions	<ul style="list-style-type: none">• Where no specified future performance conditions imposed – recognise at fair value when receivable• Where conditions are imposed – recognise at fair value once performance conditions are met (entitlement to the resources, measured with sufficient reliability and virtually certain of receipt)• Where resources are received before performance conditions are met – recognise as a deferred liability
Heritage Assets	<ul style="list-style-type: none">• Recognise at cost/valuation, recognise valuation in other comprehensive income• If it cannot be obtained, include disclosure• Depreciate over useful economic life, as applicable• Impairment review required and recognise as expenditure• Specific disclosures required

FRED 45 FRSPBE

Other considerations

- Definition of public benefit entity
- Capital grants
- Income recognition & terminology used
- Donated goods
- Volunteer measurements & disclosure
- Implementation date



Deloitte Advice

Irish GAAP	<ul style="list-style-type: none">• Statutory requirement for Irish incorporated entities• Consider improving quality and disclosures in Directors Report• Unincorporated entities or Trusts – Rules and agreements still apply
IFRS	<ul style="list-style-type: none">• Familiarise yourself with ASB proposals• Be aware of potential impact and consider comparative requirements
FRSPBE	<ul style="list-style-type: none">• Consultation open• Represent your views
SORP	<ul style="list-style-type: none">• If already applying SORP 2005, continue• If considering applying SORP 2005, focus on identification and analysis of reserves such as restricted and unrestricted and improved Trustee or Directors Report

Other Developments in the Not for Profit Sector

Other Developments in the NFP Sector

- The Charities Act, 2009
 - Charities Section is now part of the Dept of Justice
 - Considerably more resources to implement fully
- Statement of Guiding Principles for Fundraising
 - Not legally binding
 - Option to subscribe
 - Sets out best practice
 - ‘Comply’ or ‘explain’
 - Launched in May 2011
 - Monitoring Committee
- The Governance Code



For further information visit :

<http://www.deloitte.com/ie>

or contact us:

Tom Cassin

Partner

Not for Profit

Direct: + 353 (0) 1 4172210

Email: tcassin@deloitte

www.deloitte.com/ie

Thank You!

Deloitte.

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.com/ie/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member firms.

These materials and the information contained herein are provided by Deloitte & Touche and are intended to provide general information on a particular subject or subjects and are not an exhaustive treatment of such subject(s). Accordingly, the information in these materials is not intended to constitute accounting, tax, legal, investment, consulting or other professional advice or services. The information is not intended to be relied upon as the sole basis for any decision which may affect you or your business. Before making any decision or taking any action that might affect your personal finances or business, you should consult a qualified professional adviser. These materials and the information contained therein are provided as is, and Deloitte & Touche makes no express or implied representations or warranties regarding these materials or the information contained therein. Without limiting the foregoing, Deloitte & Touche does not warrant that the materials or information contained therein will be error-free or will meet any particular criteria of performance or quality. Deloitte & Touche expressly disclaims all implied warranties, including, without limitation, warranties of merchantability, title, fitness for a particular purpose, non-infringement, compatibility, security and accuracy.

Your use of these materials and information contained therein is at your own risk, and you assume full responsibility and risk of loss resulting from the use thereof. Deloitte & Touche will not be liable for any special, indirect, incidental, consequential or punitive damages or any other damages whatsoever, whether in an action of contract, statute, tort (including, without limitation, negligence) or otherwise, relating to the use of these materials or the information contained therein.

If any of the foregoing is not fully enforceable for any reason, the remainder shall nonetheless continue to apply.

© 2011 Deloitte & Touche. All rights reserved

