

Invitation to Comment on Exposure Draft Charities SORP

Do you consent to personal data you provide being held, in accordance with UK GDPR and the Privacy Policy of the Charities SORP making body and its delegated parties? If you select 'no' your name and email address will not be stored, but your organisational data (if relevant) and all consultation responses will be collected.

Yes

Name:

Francesca de Munnich

Email address:

[REDACTED]

Role (for example, Chair, Trustee, Accountant, Treasurer etc):

Head of Policy

Are you happy for the SORP-making body to contact you if needed to discuss your responses?

Yes

Do you want your response to be treated confidentially by the SORP-making body and not published?

No

Are you responding:

On behalf of an organisation/body

Responding on behalf of an organisation/body

If responding on behalf of an organisation or body, please provide its name :

Association of Charitable Foundations

Please select what best describes the organisation:

A sector body

A charity applying FRS 102 and the Charities SORP

What was the last reported gross income as set out in the charity's last annual accounts?

No Response

A user of accounts prepared under FRS 102 and the Charities SORP

In which capacity were you using accounts prepared under FRS102 and the Charities SORP?

No Response

An accounting firm / auditor

How many charity clients do you supply your services to?

No Response

An accounting firm providing independent examination services to charities

How many charity clients do you supply your service to?

No Response

A sector body

How many member charities does your organisation have?

More than 100 member charities

Responding as an individual

Which of the following describes you?

No Response

Question 1: Do you support the move to three tiers?

Yes

Please provide any reasons for your answer here, if you wish to do so: (250 word limit applies)

We are responding to this consultation on behalf of our members - charitable foundations who are both preparers and users of accounts.

A move to a three-tiered reporting system will help create a more proportionate SORP. This will reduce the burden and complexity for smaller charities, and introduce simplifications that make accounts easier to understand, particularly for funders.

Question 2: Do you consider that the proposed thresholds have been set at an appropriate monetary level in order to support a proportionate approach to reporting?

No

Please provide any reasons for your answer here, if you wish to do so: (250 word limit applies)

Along with many other sector organisations, we believe that Tier 1 is set too low for smaller charities. We would like to see Tier 1 raised from £500,000 to £1 million to reduce the burden on smaller charities and fulfil the principle of "think small first".

We are also mindful of the concurrent DCMS consultation on financial thresholds in England and Wales, which may lead to increases for certain thresholds - including audit. Additionally, the audit threshold in Scotland is set to rise in autumn 2025 to charities with an income over £1 million. In light of these developments, it seems sensible to align the SORP tiers more closely with other statutory and regulatory thresholds

We are also concerned that, even with an increase in the Tier 1 threshold to £1 million, there remains a substantial disparity between charities with incomes of £1 million and those with £15 million in Tier 2.

Question 3: Do you agree that the Exposure Draft SORP clearly sets out the proposed reporting requirements for each tier?

Yes

Please provide any reasons for your answer here, if you wish to do so: (250 word limit applies)

No Response

Question 4: Do you agree that charities within the largest income threshold should be referred to as 'tier 3' charities, or should they be referred to as 'tier 1' charities?

Agree with tier 3

Please provide any reasons for your answer here, if you wish to do so: (250 word limit applies)

We believe it doesn't make a significant difference, provided the new tiers are communicated clearly and consistently. Adopting an approach that contradicts the Exposure Draft would also likely cause confusion in the sector.

Question 5: Do you have any additional comments in relation to the proposed tiered reporting structure in the Exposure Draft SORP?

No

Question 6: Do you agree that including prompt questions will help trustees to develop their Trustees' Annual Report?

Yes

Please provide any reasons for your answer here, if you wish to do so: (250 word limit applies)

This is a helpful inclusion, particularly for new and enhanced disclosure requirements and topics as broad as impact and sustainability.

Question 7: Do you consider the requirements for impact reporting for each tier to be proportionate?

Yes

Please provide any reasons for your answer here, if you wish to do so: (250 word limit applies)

As preparers of accounts:

Funders may find it more challenging to report on their impact, given they do not deliver services or have direct 'beneficiaries' in the same way that service-providing charities do. We would therefore welcome a caveat in references to "beneficiaries" - for example, by adding "where relevant". Another challenge for funders reporting on impact is due to the time lag between when a grant is awarded, the funds are released, the grant is spent, and the eventual impact is realised. As a result, it may take considerable time before a funder can fully understand the impact of their grant-making.

Prompt questions are helpful in this context. Signposting to additional resources, such as ACF's Stronger Foundations Impact and Learning report would be beneficial for grant-makers who may be unsure how to approach impact reporting, and are subject to enhanced disclosure requirements in the higher tiers.

As users of accounts:

Impact reporting should not be viewed as a box-ticking exercise but as an essential way for charities to communicate how they are advancing their charitable mission – especially to potential funders seeking to understand the difference their work is making.

In paragraph 1.32 numerical targets are highlighted. We would welcome a clearer emphasis that qualitative information is equally valuable – particularly where numerical data is unavailable or insufficient to capture the full extent of a charity's impact.

Question 8: Do you consider the requirements for sustainability reporting for each tier to be proportionate?

Yes

Please provide any reasons for your answer here, if you wish to do so: (250 word limit applies)

We are pleased to see charities in Tiers 1 and 2 are encouraged and charities in Tier 3 are required to include sustainability reporting. It is positive for charities to explain how they are managing environmental, governance and social matters. Funders are increasingly seeking to understand how organisations are responding to these issues, as part of grant applications.

Question 9: Do you consider the disclosures for volunteers to be proportionate?

Yes

Please provide any reasons for your answer here, if you wish to do so: (250 word limit applies)

We believe that the disclosures are proportionate and will enable users of accounts to understand the general contribution of volunteers to charities.

Question 10: Do you consider the explanation of reserves in the glossary helpful?

Yes

Please provide any reasons for your answer here, if you wish to do so: (250 word limit applies)

The definition is useful, but should be included in Module 1 rather than appearing only in the glossary

Question 11: Do you consider the disclosures for reserves are proportionate?

Yes

Please provide any reasons for your answer here, if you wish to do so: (250 word limit applies)

Yes, but as stated in our previous answer, we believe the relevant requirements should be stated clearly in Module 1.

Question 12: Do you consider the requirement for tier 1 charities to provide a summary of their plans for the future is proportionate?

Yes

Please provide any reasons for your answer here, if you wish to do so: (250 word limit applies)

We believe that requiring only a summary of future plans from Tier 1 charities is a proportionate approach. Nearly every funding decision will be directly informed by a charity's annual report and accounts, making it important for each charity to prepare accounts that present a clear and accurate picture of its past, present and likely future.

Question 13: Do you consider that the additional disclosure will help to explain the treatment of legacies in the accounts?

Yes

Please provide any reasons for your answer here, if you wish to do so: (250 word limit applies)

The proposed SORP wording on recognising income from legacies represents an improvement on the existing SORP, enabling more consistent accounting treatment and therefore improving the interpretation and comparability of accounts for users, building on FRS 102.

Question 14: Do you have any other comments on module 1 and the proposals for the Trustees' Annual Report?

No

Question 15: Is the example table helpful?

Yes

Please provide any reasons for your answer here, if you wish to do so: (250 word limit applies)

The example table provides clear guidance on how charities should report their income and expenditure, promoting greater financial transparency and consistency. This enhanced comparability will help donors make more informed funding decisions.

Question 16: Do you have any other comments on module 4?

The flexibility offered to Tier 1 charities is welcome, allowing them to choose between the activity basis or natural classification basis of reporting.

Question 17: Does the module explain the relevant requirements of the five-step model in FRS 102 in a clear and understandable way?

No

Please provide any reasons for your answer here, if you wish to do so: (250 word limit applies)

The text details the five-step model, but is lengthy and complex. We think the text could be accompanied by a visual flowchart or checklist to enhance clarity and ease of understanding.

We are also concerned that the new requirements for exchange transactions appear to shift from objective, fact-based accounting toward a more judgment-based approach.

Question 18: Do you find the module easy to navigate as drafted?

No

Please provide any reasons for your answer here, if you wish to do so: (250 word limit applies)

As per the previous answer, the five-step model could be explained more clearly and represented more visually.

Question 19: Do you consider that the guidance on exchange and non-exchange transactions should be set out in separate modules of the SORP rather than separate sections of the same module?

Yes

Please provide any reasons for your answer here, if you wish to do so: (250 word limit applies)

No strong opinion, provided that this is clearly indicated in the contents and consistently referenced throughout.

Question 20: In the Exposure Draft SORP, all the disclosure requirements are listed at the end of the module. Would it be clearer instead to set out the relevant disclosures at the end of each section within the module?

No

Please provide any reasons for your answer here, if you wish to do so: (250 word limit applies)

No strong opinion – fine to list the disclosure requirements at the end of the module.

Question 21: Do you consider this clarification a helpful addition to the SORP?

Yes

Please provide any reasons for your answer here, if you wish to do so: (250 word limit applies)

No Response

Question 22: Does the module set out the accounting requirements for legacy income clearly?

Yes

Please provide any reasons for your answer here, if you wish to do so: (250 word limit applies)

No Response

Question 23: Accounting for legacies can be a complex area for charities to navigate. Is there a need for further guidance on this topic outside of the SORP?

Yes

Please provide any reasons for your answer here, if you wish to do so: (250 word limit applies)

We believe it would be useful to have further guidance for clarity.

Question 24: Do you have any other comments on module 5?

No

Question 25: Do you find the module easy to navigate as drafted?

No

Please provide any reasons for your answer here, if you wish to do so: (250 word limit applies)

We are concerned about the increased use of judgment being introduced under the new lease accounting requirements. This may lead to inconsistencies in how leases are presented on the balance sheet, with some charities potentially applying exemptions as broadly as possible. We anticipate that some funders may request accounts excluding leases due to this confusion and placing an additional burden on those seeking grant-funding to prepare these.

Furthermore, the requirement to recognise the full lease upfront - rather than spread over the life of the lease - risks distorting results and could inadvertently shift some charities into a different reporting tier.

Clearer language and the inclusion of worked examples as a minimum would be helpful.

Question 26: Does the module explain the relevant requirements of FRS 102 in a clear and understandable way? Please select all options that apply.

No - do not understand a specific section

No - do not understand recognition exemptions

No - do not understand disclosure requirements

No - do not understand time value of money (free text box will be provided for more information to be added)

Please provide any reasons for your answer here, if you wish to do so: (250 word limit applies)

As per previous answer

Question 27: Does the section (paragraphs 10B.68 to 10B.84) on arrangements that are significantly below market value provide clarity on how to account for such arrangements?

No

Please provide any reasons for your answer here, if you wish to do so: (250 word limit applies)

We believe the lack of clarity poses a risk that charities may misclassify leases as exempt. The overall complexity of lease accounting will significantly reduce the readability of accounts for users.

Question 28: Are the additional disclosure requirements set out in paragraphs 10B.95 and 10B.129 reasonable for charities with such arrangements?

No opinion

Please provide any reasons for your answer here, if you wish to do so: (250 word limit applies)

No Response

Question 29 - please provide any other comments you have on module 10B:

No Response

Question 30: Do you agree with the proposal in the Exposure Draft SORP that only tier 1 and tier 2 charities, that do not meet the small entity threshold, and all tier 3 charities are required to prepare a statement of cash flows?

Yes

Please provide any reasons for your answer here, if you wish to do so: (250 word limit applies)

We agree that this is a proportionate approach and welcome the decision to remove this requirement for the majority of charities.

Question 31: Do you have any other comments on module 14?

No Response

Question 32: Do you agree that the additional disclosures are helpful?

Yes

Please provide any reasons for your answer here, if you wish to do so: (250 word limit applies)

Any guidance that enables organisations making social investments to better understand the risks to financial return is helpful.

Question 33: Do you agree that the additional disclosures are proportionate?

Yes

Please provide any reasons for your answer here, if you wish to do so: (250 word limit applies)

No Response

Question 34: Do you have any other comments on module 20?

No Response

Question 35: Do you agree with the new approach to using the generic term 'social investments' instead of referring to 'programme related' and 'mixed motive' investments?

Yes

Please provide any reasons for your answer here, if you wish to do so: (250 word limit applies)

This is in line with the Charity Commission retiring these terms, including in updated CC14 guidance, and reflects broader trends across the sector.

Question 36: Do you agree that the simplification of how gains and losses on social investments are reported is beneficial?

Yes

Please provide any reasons for your answer here, if you wish to do so: (250 word limit applies)

No Response

Question 37: Is the Exposure Draft SORP clear on the requirements for comparative figures and disclosures?

No opinion

Please provide any reasons for your answer here, if you wish to do so: (250 word limit applies)

No Response

Question 38: Do you think there is a need for further guidance on the treatment of comparative figures and disclosures in this area?

Yes

Please provide any reasons for your answer here, if you wish to do so: (250 word limit applies)

We believe this should remain open for review at a later stage, once the new SORP has been implemented and smaller charities have had sufficient time to prepare their accounts under the new SORP. At this point, further guidance might be necessary and welcome.

Question 39: Do you have any other comments on module 21?

No Response

Question 40: Do you agree that the drafting, structure and proposals in the Exposure Draft SORP support the needs of smaller charities whilst addressing the needs of users of charity reports and accounts?

Yes

Please provide any reasons for your answer here, if you wish to do so: (250 word limit applies)

Overall, this represents an improvement over previous SORPs. We appreciate the generally clear structure, with each section focusing on Tier 1 requirements first.

However, as stated earlier, we believe the Tier 1 threshold should be increased to £1 million to ensure the SORP remains proportionate and practical for smaller charities.

Question 41: Do you agree with the SORP-making body's decision to continue to disallow the application of Section 1A?

Do not understand the position enough to comment

Please provide reasons for your answer or suggestions on how you think Section 1A could be applied differently: (250 word limit applies)

No Response

Question 42: Do you have any other comments on the Exposure Draft SORP?

Overall, we are concerned that the Exposure Draft SORP – at over 300 pages long - is lengthier and more complex than the previous SORP, particularly challenging for smaller charities. Additionally, charities will need to consult FRS 102, particularly the referenced paragraphs, which is an even more complex and lengthy document. Enhanced guidance on receipts and payments options for eligible charities would be helpful.

There is a risk that the complexity of the new SORP could divert valuable resources away from charities' core activities, as organisations may need to invest significant time in understanding the requirements or seek professional support to prepare their accounts accurately. Across the sector, there is a heightened risk of reduced compliance, even when additional resource is allocated to addressing the demands of the new SORP. Clear guidance, additional prompt questions and further practical examples will be essential in helping to mitigate this risk.

From a user's perspective, such as a funder, the increased reliance on judgement will make it more difficult to read, understand and compare accounts, hindering informed decision-making for grants and social investments based on a true and fair view. This is particularly true for changes to the recognition of income and lease accounting.

This issue is further compounded by the lack of engagement with accounting software providers. Most major bookkeeping platforms have not planned to update their systems to reflect the new requirements, such as the five-step model, offering little assurance to funders that accounts will be prepared consistently across the sector. As a result, funders are likely to request additional information to accurately assess the financial needs of charities and the associated levels of risk.

Finally, we are concerned about the limited time between the publication of the final SORP and the date from which it will be effective. We encourage the SORP-making body to consider how it can support the sector – alongside the ongoing efforts of sector infrastructure bodies - to ensure charities are well-prepared for the upcoming changes. Given that several changes arising from FRS 102 will be implemented regardless of the consultation outcome, we believe there is an opportunity for the charity regulators to begin proactively communicating these specific changes to the sector now.