

# 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:

Fiona Condron

Email address:

[REDACTED]

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

Partner - National Head of Charities

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 :

BDO LLP

Please select what best describes the organisation:

An accounting firm / auditor

## 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?

More than 50 charity clients

## 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?

*No Response*

## 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 support the move to three tiers on the basis that this has the potential to reduce the burden on the smallest charities in the sector. However, we feel that the SORP could go further in reducing the financial reporting requirements for tier 1 charities. For example, tier 1 charities could be exempt from the requirements in paras 1.38 to 1.40 since charities of this size may find it difficult to understand why they need a reserves policy or what such a policy should cover.

We note that, in some cases, there are only marginal additional requirements proposed for a tier 3 charity in comparison with tier 2 (for example with respect to achievements and performance.) This may be considered a missed opportunity to ensure the largest charities are reporting as openly and transparently as companies of an equivalent size. We question why, for example, the following additional requirements aren't included for tier 3 charities:

- Required disclosure of CEO/senior management pay, in line with the recommendations of NCVO
- Required disclosures which are in line with the requirements of SECR regulations as well as section 172 disclosures of the Companies Act for unincorporated charities that exceed the medium company thresholds.

**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)**

We note there are already various thresholds for charities to consider (such as the audit threshold, the annual return threshold, the accruals accounting threshold). We do not believe the introduction of another approach to thresholds will make the SORP easy for the smallest of charities to understand. To avoid this, it would be more appropriate to link the tier 3 threshold with the audit threshold for a company (both now and in the future). Given that there is a consultation on charity thresholds running concurrently with the SORP consultation, there is an opportunity to better align and simplify.

While recognising the inherent difficulties of establishing an appropriate tier, we would suggest some recognition that a tier 2 charity may have a significant asset base (eg an endowed charity) which may indicate an expectation of tier 1 reporting that isn't required based on the income threshold set.

Finally, we recommend that charities are exempted from complying with the requirements of a subsequent tier in the first year the limit is exceeded (akin to how companies must exceed the small company thresholds two out of three years before reporting as a medium company). This will reduce the burden for small charities that exceed the thresholds in one year simply due to a one-off event (such as notification of a one-off large legacy) which in some cases may only be apparent after the end of the reporting period.

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

No

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

The SORP is now in excess of 300 pages. We consider the length of the document to be a barrier to the smallest charities being able to comply with the SORP. This is particularly relevant when the preparer of the accounts is not a qualified accountant. While 1.11 Table 1 is a useful aide memoire, we propose that preparers should be able to access a SORP which enables the requirements to be filtered to show only those applicable to tier 1 charities (similar to the old modular system).

The reporting "requirements" are sometimes inappropriately diluted by use of words such as "may" and "should". For example para 1.5 ought to be a "must" not a "should". Similarly para 1.33 states a trustees' report "should" comment on those significant positive and negative factors that have affected the achievement of its objectives. This ought to be a "must".

Furthermore the phrase "must consider" or "are encouraged to" do not always adequately support what the actual reporting "requirements" are.

**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?**

No opinion

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

*No Response*

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

Para 33 – this sets out the boundaries of each tier by reference to gross income. While gross income is included in the glossary of terms, it unhelpfully refers a reader to charity law, and comments this may vary by jurisdiction. It would be helpful, particularly for preparers involved with tier 1 charities, if the glossary was more specific as to how to determine gross income (for example, should the following be included in the calculation of gross income:

- Investment gains;
- Unapplied total return that has been allocated to income funds, and accounted for as other income (para 20.10)
- Endowment fund income (given this is not considered income in para 15.15)

**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)**

We consider the prompt questions a useful guide for those charities requiring guidance to ensure they provide information that is helpful to a reader of the accounts. Notwithstanding this, we believe there will inevitably be consideration of the time and cost of preparing the information versus the benefit of enhancing a reader's understanding of a charity and its activities. This is sometimes impacted by the resources which a charity has available to prepare the Trustees' Annual Report. However, we note that the SORP is suggesting the Trustees' Annual Report is used to report on activities and impact over a multi-year period of time (for example, para 1.31), while the financial statements are, by their nature, a reflection of activities relating to the reporting period. We suggest that it is made clear that the Report must firstly describe the activities in the year (linking to the financial statements) and only then extend to how the activities in the year will contribute to "story telling" taking a longer term view.

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

No

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

Consideration should be given to the "should" requirements for tier 2 charities (para 1.32) and why these are not a "must" for tier 3 charities. The additional requirements for tier 3 charities appear to provide optionality. We are unclear why the additional requirements for tier 3 charities that focus on fundraising activities and expenditure are required. Given the diverse range of fundraising activities that charities undertake, and the inevitable issue of expenditure in one period driving income returns in future, it isn't clear why this additional focus will assist the reader understand a very complex area where not all fundraising investments will drive equal returns over consistent future periods. If a forward looking perspective is deemed helpful for the reader, this would be better focused in the "Plans for the Future" section of the Annual Report rather than reporting on "Achievements and Performance" since the latter is designed to focus on the current reporting period.

**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 agree with the proposal to exempt charities in tier 1 and tier 2 from these requirements. We noted however that "are encouraged to explain" introduces a hybrid phrase sitting between "may" and "should" which causes ambiguity. However, the requirements for tier 3 charities may be construed as vague and are likely to lead to charities taking different approaches, resulting in less consistency and less comparability across the sector. We would propose that the sustainability requirements for tier 3 charities are more clearly defined for example where the entity has relevant KPIs they must report on them to the extent necessary to have an understanding of the charity's performance and financial position.

**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)

Whilst we endorse the view that disclosure of volunteer activities is useful for some readers, we recognise that there will continue to be a varied interpretation of what a volunteer is and therefore the extent of comparable and useful information which is captured in this area.

**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)

We consider the wording in the glossary to be helpful to a reader to understand how to calculate reserves.

We believe the definition of reserves could be improved further by addressing the following:

- The definition excludes investments for the purpose of achieving the charity's purposes. It is not clear if this is the same as social investments (as set out in section 21) or has a different definition. We would assume that unrestricted financial investments set aside for delivering future charitable activities will therefore be included in the definition of reserves.
- We are not clear why the definition identifies designated funds "if they are committed for spending". This wording appears contrary to the presumption that designated funds are earmarked for an activity. Therefore, if the trustees are not committed to spending the funds then this would suggest the designated fund should not be recognised in the first place. If designated then, by definition, it is not available to spend on ANY activities. This is further complicated by the interaction between 2.8 and 13.9 in terms of how designations are applied.

The recognition of ROU assets (and associated liabilities) may have a significant impact on a charity's balance sheet. Useful guidance could be added to show how to take account of these assets and liabilities when determining reserves.

**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)

We agree that the Free Reserve is a crucial figure for most stakeholders and needs to be clearly explained and a defined term in the glossary. Where trustees wish to use their own version this should be seen as a departure from the SORP.

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

No

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

While the SORP seems to suggest those charities in tier 1 will have a lower disclosure requirement than those charities in tiers 2 and 3, it would be helpful if the SORP was clearer on how thinking small charity first is applied.

(This is an example of where there are more requirements on tier 1 charities than there were previously.)

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

No



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

There are currently diverse practices and approaches applied to legacy income recognition in the sector (this is expanded on further in question 22). Requiring charities to add additional disclosure to their Annual Report (in addition to a specific and detailed accounting policy) is only going to be an element of the solution. We still anticipate charities will have different recognition policies.

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

Para 1.7 states that the disclosure of fundraising practices are required where the entity "is subject to audit and raises funds from the public....". The regulations require all charities subject to audit to make a relevant statement even when they do not raise funds from the public. It would therefore appear in appropriate for the SORP to limit the requirements.

Para 1.9 should reference the reporting period not year.

Para 1.25 does not suggest setting out the measures of success which will be used for the following reporting period and therefore when it comes to reporting back on success in the subsequent period it is not evident as to what the success, or otherwise, is to be measured against.

Para 1.30 requiring a review of investment performance against investment objectives would appear more suited to be set out in the financial review section. We noted that currently charities tend to have one section of text covering all relevant information about investments, so it is rarely reporting under two separate headings. Having all information in one place would enhance the readers' understanding of all aspects of investing and investment performance. Furthermore, we note that some charities will have diverse investment objectives for different assets within a portfolio. It is unclear whether this SORP is expecting a more granular approach to reporting performance (ie return of X% against an objective of Y%) against specific objectives for each individual asset class or rather a narrative approach to how objectives have been set.

Given the relative importance of investment performance to larger endowed charities, this clarification would be helpful to drive a consistency in reporting.

Para 1.31 – we find this requirement difficult to interpret. Charities will not realistically be able to report on the long term effect of their work on "society as a whole" each year. And the use of stories may be better suited to information that charities wish to share with stakeholders through other media forms such as their website. This has the benefit of ensuring that stories are current and allows the focus of the Trustees' Annual Report to be on presenting a fair and balanced view of the achievements in the reporting period covered by the report.

We would suggest a general simplification of the Achievements and Performance section enabling preparers to set out

- The Charity's charitable objects in law
- The Charity's operating and business plan
- What the Charity has done during the year (as set out on the SOFA) showing, where practicable, the outputs, outcomes and impact supported by relevant and measurable Key Performance Indicators (KPIs)

Para 1.37 – given the change in terminology from the previous SORP (free reserves to reserves), we believe it would be useful to highlight this change in the overview guidance when the SORP is finally published.

Para 1.40 – We believe the SORP should clarify that all charities which are required to report on reserves must apply the definition in the SORP. This should be the case even if a charity chooses, in addition, to report on a liquidity measure as an alternative measure of "reserves". Without this explicit requirement, it will continue to be difficult to draw meaningful comparisons.

**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)

*No Response*

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

*No Response*

**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)

Detail in Module 5 (exchange transactions) is extensive and mainly FRS 102 repetition. We suggest signposting FRS102 for the detailed requirements, and use Module 5 to provide more practical examples. The module could usefully start by listing types of income that are not affected (annual subs based on accounting period). Further Information Sheets may be useful. There are limited examples of how the principles apply to performance obligations satisfied over time. It would be useful to expand these for other common scenarios:

- NHS and LA contracts with multiple deliverable elements;
- "Cost-plus" contracts spanning multiple years but where the contract doesn't allow for inflationary increases to rates for staff time;
- E-access rights to printed material (which may be a combination of historical material and/or new publications);
- Ticket sales which have a recommended donation connected to them.

We recommend making the guidance as specific as possible - ie

- para 5.6 (3rd bullet) could imply that charities can exercise choice in accounting for income that is restricted by contractual terms as restricted or unrestricted income

There is a risk that by applying this approach, preparers bypass the 5 step model for income recognition.

- para 5.60 gives a membership income example with the conclusion that recognising the income over time could be appropriate;

A lack of clarity, with complexity in language and clauses/sub-clauses (for example para 5.19), have the potential for different income recognition approaches to be adopted, and thereby reducing comparability between charities undertaking similar activities.

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

Yes

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

As accountants working extensively in the sector and with various regulations and standards, we have no issues with the navigation aspects of the Module. As previously noted however, the repetition from FRS 102 is extensive (although there are multiple cross references back to the original text in FRS 102) and is therefore becoming more challenging to navigate. We therefore question whether it continues to be appropriate for the SORP to be a "one-stop-shop" for reporting. It is also unclear whether the boxed references to FRS 102 are designed to prompt preparers to refer back to FRS 102 for more detailed guidance or are there simply to provide reference to where the source information has been derived from.

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?

No opinion

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

*No Response*

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 opinion

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

*No Response*

**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?**

No

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

We consider this is a missed opportunity in the SORP as currently drafted: it is clear some charities operate almost on a cash received basis thereby understating reserves and income. 5.91 does not add anything as the word "normally" continues to provide ambiguity. One of the challenges with the existing SORP is that there continues to be a presumption of perfect information being available to the preparer of the accounts regarding the status, amount and timing of legacy receipts, whereas the reality is far more complex and charities are still required to make significant judgments. For completeness the notes should identify both a) the legacy debtor and b) the "pipeline". The requirement to provide additional disclosures, and enhance the accounting policy narrative, is anticipated to have little impact on recognition principles and therefore the comparability of reporting. What preparers would find more useful is practical examples of situations and the relevant conclusions about recognition.

**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)**

See comments above. The use of an information sheet may be appropriate to be able to provide a variety of examples which, in the view of the SORP making body would result in a legacy being recognised or not being recognised which would aid further consistency.

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

It would be useful to flag to a reader that accrued legacy income is likely to include key sources of estimation uncertainty, and, if so, para 8.7 of FRS 102 requires the carrying value of the accrued legacy income to be disclosed.

We strongly suggest that para 5.95 refrains from the apparent endorsement of a specific third party company who provides will notification services.

We note the SORP no longer has specific disclosure requirements related to legacies which have not met the thresholds for being recognised as income (previously paras 5.34 of the SORP). Given the different approaches taken by charities to recognising legacy income (and the expected differences going forward), we recommend this disclosure requirement is reinstated.

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

Yes

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

*No Response*



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

Yes

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

While recognising that this Module is mandated through the new requirements of FRS 102, we still recognise that smaller charities are likely to find this Module very challenging to interpret and apply without seeking professional advice.

**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)**

In practice, we expect significant judgement involved in determining whether a lease is a social lease. Examples of challenges include:

- Leases on retail shops in areas where landlords can't secure tenants and therefore the only option is to fill the property at whatever rent they can agree;
- Leases on listed buildings where the charity takes on responsibility for maintaining the building and therefore there is an element of social donation;
- The lease is apparently below MV but is clearly in excess of what the charity would have been prepared to pay on alternative lease in a different (less desirable) location (for example).

These judgements are likely to result in charities reaching different conclusions on similar leases and fact patterns.

The SORP also results in different asset values of properties held under social leases and peppercorn arrangements (full capitalisation of the donated element of a social donation lease versus no capitalisation for a peppercorn arrangement). This differentiation is arbitrary and will not enhance understandability of charity's accounts and reported performance.

To address these issues, the SORP must provide definitive guidance on how to:

- differentiate a social lease from a commercial lease;
- differentiate a social lease from a peppercorn arrangement;
- value the non-exchange transaction element of a lease;
- treat a lease which was commercial at inception but, over time, becomes a social donation

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

No

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

We are in general agreement that narrative disclosure to explain how any form of "donation" has been agreed as part of a lease arrangement is helpful. We note however that aggregation would be preferable for charities with multiple (sometimes several hundred) charity shops as detail on a lease by lease basis is unlikely to provide a reader with useful information.

In many situations it could be argued that the narrative form of disclosure will be easier to understand than the resulting accounting entries. Nevertheless the suggested disclosures may be considered commercially sensitive by a landlord (particularly if a charity only has one property). The SORP making body should therefore be mindful of ensuring that the SORP disclosure requirements do not inadvertently create a barrier to lessors being inclined to offer below market rate leases to charities.

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

The SORP requires the non-exchange transaction of a social lease to be valued and capitalised at the inception of the lease. However, clear guidance is not given on whether this element should be recognised as voluntary income in full on day 1 of the lease, or if it should be spread over the expected lease term. Further guidance on this matter would be useful.

This section could be usefully linked to section 6 so that a reader understands the value of the non-exchange transaction part of a social lease is based on the value the charity would be prepared to pay in the open market for a facility of equivalent utility, which may be less than the market price of the leased property.

It would also be useful to stress that the accounting for social leases only applies to public benefit entities, and so non-charitable subsidiaries cannot follow the accounting for social leases set out in the SORP. This may prove challenging when considering the potential impact on consolidation.

The impact on reserves is considered in response to question 10.

**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)**

It would be helpful to clarify when FRS 102 still requires a tier 2 charity to prepare a cash flow statement where assets and employee thresholds are exceeded.

**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)**

*No Response*

**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?**

No

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

The current definition of social investments means the investment must be held for both financial return and to further the investing charities' purpose. As a result, what is currently considered a programme related investment is not captured by the new definition of social investment (as there is no financial return associated with a programme related investment). This means the SORP provides no further guidance to charities that are making an investment purely to further their charitable purposes. We consider that this requires addressing both in the SORP and CC14 guidance. We propose that the SORP provides further clarity (and a separate definition) for investments which are exclusively for a charitable purposes. The resulting presentation and disclosure would continue to identify the two alternative types of investments which are not exclusively financial investments

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

No

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

For presentational purposes we would suggest that, even if all gains and losses are located in one place on the SOFA, this entry must have, where relevant, sub headings to present 1) gains/losses on charitable investments (formerly PRIs), 2) gains/losses on social investments and 3) gains/losses on financial investments. The aggregation of these into a single line has the risk of diluting poor asset allocation decisions on financial investments against losses from charitable endeavours which have not been as successful as anticipated. A reader may also place a different level of interest on gains and losses associated with social investments to other investments, and so separate disclosure is likely to be considered helpful.

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

Yes

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

While the comparative requirements are clear, the SORP making body may wish to consider advocating for certain exemptions from the requirement to provide comparatives for some notes in order to help reduce the volume disclosures. In line with a general desire to improve accessibility of accounts, full comparative notes for funds (movements and assets by fund), cost allocation and SOFA analysis, are less likely to provide additional useful information to a reader of the accounts (and particularly where prior year financial statements are readily accessible.)

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

No

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

*No Response*

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?**

No

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

In line with the overall aim of "think small first", the SORP making body may wish to further consider reducing the cost of reporting for smaller entities through this SORP prior to finalisation. The tier 1 requirements are still considered challenging for the smallest charities.

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

No

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

We consider that allowing the application of FRS 102 Section 1A would support in the reduction of the disclosure requirements for smaller charities and would not necessarily result in a lack of transparency and accountability.



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

1. The SORP now usefully clarifies that employer national insurance costs are excluded from the calculation of salaries for higher paid employees (para 9.33). It would also be useful if the SORP clarified if this calculation should exclude salary that has been sacrificed in exchange for higher employer pension contributions. Without this clarification, payments made to the highest paid employees can simply be distorted (downwards) as a result of this treatment. This appears to contradict the spirit of transparency regarding pay and reward for the sector.

2. The SORP now provides exemption from the disclosure of related party transactions if they are "not considered to have influenced the charity's activities or use of resources" (para 9.20). We consider the current wording unhelpful and ambiguous in the specific example of non-contractual payments made to members of key management personnel as part of exit arrangements which, under the extant SORP are required to be disclosed. We would propose that the SORP making body reviews the related party disclosure section again to avoid inconsistent practice and potential lack of transparency in reporting.

3. Linked to point 2, the ex gratia payments section appears to suggest individual disclosure of amounts repaid. We are unclear whether this was intended since the list of required disclosures for some of the largest fundraising charities is expected to be significant. This type of detailed disclosure may be better suited to being shared outside of a set of statutory accounts.

4. Related party transactions - 9.20 seems to contradict 9.17 with respect to aggregate donations. We suggest as an alternative that charities must disclose aggregate donations from all trustees if material and influenced the charity.

5. 1.36 - Given qualitative considerations we consider all restricted funds in deficit should be disclosed and explained. As currently drafted, if no individual funds are materially in deficit, but cumulatively they are, no explanation needs to be given to explain this.

6. 1.44 bullet 1 appears to imply that income is spent in the same period that it is received. Clarity is required to highlight the fact that not all income is necessarily expected to be spent/applied in the same financial reporting period or that resources received in prior years may have been spent in the current period.

7. 1.44 bullet 2 – it remains unclear why specific emphasis is placed on risks arising from environment issues when the majority of charities will have more prominent risks arising from safeguarding, cyber or fundraising.

8. 1.47 - we recommend that this requirement is a "must" for all sizes of charities as it remains relevant if there are potential going concern or longer-term viability issues. It should also be qualified for the effect to be significant.

9. We note that the Structure, Governance and Management section makes no reference to any existing governance codes and specifically the Charity Governance Code. While the Charity Governance Code remains a voluntary Code (and was designed with smaller charities in mind), it is unclear why there should not be an expectation that Tier 3 (or indeed any size of charity) should report on whether they have applied the Code (or an alternative Code of Governance) and whether any gaps or areas for development have been identified.

10. We noted that the SORP is silent on accounting for fees deducted at source by third party fundraising platforms. In the same way that investment management fees are discussed, practical application guidance in this area would be helpful.

11. We also note that the SORP is silent on accounting for returned and refused donations: we consider that donations should be disclosed by way of note with comparable disclosures to ex gratia payments, with returned donations reversed against the income.

12. The SORP making body may wish to advocate for charity exemptions from the requirement to provide comparatives for some notes in order to help reduce the volume disclosures. In line with a general desire to improve accessibility of accounts, full comparative notes for funds (movements and assets by fund), cost allocation and SOFA analysis, are less likely to provide additional useful information to a reader of the accounts (and particularly where prior year financial statements are readily accessible.)

13. We recommend that the cash flow section emphasises the need for charities to have a specific and clear accounting judgment relating to the definition of cash and cash equivalents. A charity must determine whether cash held by third party investment managers is included as part of its cash and cash equivalents balance on the cash flow statement. Some charities judge that it is appropriate to present the cash held by investment managers awaiting onward investment as part of cash and cash equivalents on the cash flow statement. Other entities exclude cash held with investment managers from their cash and cash equivalents total.

Either of these accounting judgments may be appropriate depending on the facts and circumstances. The key point is to be consistent within a set of accounts. If cash held with an investment manager is not included in cash equivalents, then sales and purchases of underlying assets by the investment manager are not expected to be investing cash flows.

FRS 102 defines investing cash flows as: Investing activities are the acquisition and disposal of long-term assets and other investments not included in cash equivalents. [FRS 102.7.5]

FRS 102 states: An entity shall exclude from the statement of cash flows investing and financing transactions that do not require the use of cash or cash equivalents. An entity shall disclose such transactions elsewhere in the financial statements in a way that provides all the relevant information about those investing and financing activities." [FRS 102.7.18]

14. Regarding 14.18, charities are somewhat different to corporates in that holding an investment portfolio is a regular occurrence. However, these portfolios are not taken into account in arriving at net debt under FRS 102.

The purpose of a net debt note is to provide a clear picture of the entity's total debt minus its cash and cash equivalents. This has the following benefits:

- Transparency: It offers a straightforward view of how much debt the entity has after accounting for its cash reserves. This helps you see the real debt burden.
- Financial Position: By showing net debt, you can assess the entity's ability to meet its financial obligations. A lower net debt suggests a stronger position to handle debts.

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

- ☐ Investment Decisions: Investors use this information to gauge risk. An entity with high net debt might be seen as riskier, affecting investment choices.
- ☐ Performance Tracking: It helps track changes in debt levels over time, indicating how well the company is managing its finances.

However in our opinion, a broader disclosure, incorporating investments held by the charity, would provide a more holistic view of the resources available to a charity. We also note that a distinction between restricted and unrestricted cash, cash equivalents and investments would be helpful.