

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:

Katharine Patel

Email address:

[REDACTED]

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

Audit Partner

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 :

Buzzacott Audit 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)

In principle we appreciate the attempt to simplify the reporting requirements for smaller charities but we consider that there is not significantly less disclosure required for a Tier 1 charity rather than a Tier 2 organisation. The level of detail in the trustees' report will be onerous for many of the smaller organisations that will fall into Tier 1.

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)

In principle we recognise the efforts to align the Tier 1/2 threshold with the audit threshold (for Scotland/NI) and the Tier 2/3 threshold with the upper limit of the small company threshold. However, as the SORP thresholds do not factor in the other elements of the thresholds (assets and employee numbers) this will mean that some tier 1 charities will require audits and others will not.

We consider that it would be clearer if the Tier 1 threshold was linked to the relevant national charity audit threshold (although this would mean different size limits in England & Wales, Scotland and Northern Ireland) and also if the Tier 2 threshold was linked to the small companies threshold. This would potentially reduce confusion although different SORP thresholds may arise due to different national audit thresholds but that would be internally consistent. If the audit and company size thresholds were to change in the future then there would not be a need to update the SORP.

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)

Generally the reporting requirements for each tier are clearly set out but it would be useful for the users of this document if the definition of the tier thresholds in paragraph 33 of the introduction was either moved earlier to paragraph 7 as it is a key area for the users of the document or referenced in this section. The list of sections with reduced disclosure for Tier 1 and Tier 2 organisations (also in appendix 4) could also be included at the start of module 1.

There is also an argument for presenting the trustees' report section by Tier and then discussing each area as this would be easier for charities to understand what they need to present. If possible a table format would be ideal.

It would also be useful to clarify whether the next tier up would apply the first year a charity exceeds the threshold or whether there is a one year grace period. If a grace period was allowed this would simplify the process for charities receiving one-off income that takes them over a threshold in one year.

We appreciate that the glossary includes a definition of gross income but this could be made more specific to clarify that this includes realised and unrealised revaluation gains or any other gains. This is implied in paragraph 15.16 (Table 14) but a more prominent definition would make the document more accessible to trustees and other charity staff especially those without a finance background.

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)

We have no strong views on this area provided the definitions of the tiers are absolutely clear to prevent misunderstandings.

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

No additional comments.

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)

The prompt questions are helpful but as noted above the level of detail required, especially for smaller charities, will impose a significant administrative burden.

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)

A reference in the introduction to the inclusion of impact reporting in this module would be helpful

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 consider that the Tier 3 threshold is an appropriate cut-off point for introducing mandatory sustainability reporting. Although it is significantly lower than the equivalent threshold of income of £36m for Streamlined Energy & Carbon Reporting outside the charity sector so this will bring charities with income between £15m and £36m into the requirement to report on sustainability for the first time. The reporting requirements in the SORP are less onerous so we agree this is an appropriate approach given the current level of public interest in sustainability.

However, the wording in the Tier 1 and 2 requirements that reference to ESG matters is encouraged is ambiguous and may lead to smaller charities omitting this statement. A requirement for a brief summary of ESG matters and the charities' response for Tier 1 and Tier 2 organisations might be more effective.

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 consider that the disclosure requirements are proportionate, but there is inconsistency between module 1 and module 6. Module 6 clearly states that the contribution of general volunteers must not be included in the financial statements, however, we consider the wording in module 1 is ambiguous and this may introduce confusion. For example paragraph 1.22 states that '... measurement issues, including valuing the contribution of general volunteers, often prevents this being included in the statement of financial activities...'. This wording is not consistent with module 6 which prohibits recognition of volunteer contributions in the SOFA.

In addition, the wording in paragraph 6.6 is also confusing as it refers to recognising volunteers' contributions if they would normally charge a fee for services (such as a lawyer or accountant donating time). This should be clarified as these items should be treated as a gift in kind of donated services.

We recommend that this wording should be reviewed and made more consistent.

More generally, where there is an expectation that a negative statement should be included in the financial statements if there is no input from volunteers this should be specified in the SORP for avoidance of doubt.

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)

It is helpful to have a definition of reserves, but we consider that there is potential for ambiguity and different interpretations given that the definition allows inclusion of restricted and endowment funds under some circumstances. We consider that the section would be more useful if the phrase 'This definition of reserves normally excludes...' were amended to read 'Other than in exceptional circumstances this definition of reserves excludes...' which would make it clearer that the examples of when restricted / endowment funds could be included are expected to be a small minority of cases.

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)

It is helpful to have the requirement for a reconciliation to the financial statements where this is not easy to derive directly and also the clear link in paragraphs 1.42 and 1.43 between reserves and going concern for all sizes of charity.

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)

No Response

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)

It is helpful for the users of the accounts to have a clear statement in respect of accrued legacy income. However, there remains ambiguity around timing of legacy income recognition and there is a perception in the sector that the guidance in the current SORP is not being consistently applied and this is likely to continue with the revised SORP (further comments at Q22).

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

These requirements are likely to add to the length and complexity of the trustees' annual report for many charities although we appreciate that the intention is to reduce the level of required disclosure for smaller charities. The challenge for many charities will be effectively drafting the trustees' annual report so that disclosure which is no longer required is removed as well as ensuring compliance with the new disclosure and including the detail around activities and impact of the charity which is often the board's key focus. Trustees' reports already vary enormously in terms of the level of detail included and this is often linked to whether the trustees' annual report is seen as fundamentally a compliance document (with communication with stakeholders by other methods) or whether it is the main method of communication with the various stakeholders. In the latter case there is typically much more focus on achievements and impact including case studies.

It would be helpful for the existing guidance from the Charity Commission on effective drafting of trustees' annual reports to be updated and more widely publicised within the sector.

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?

Generally this section is clearly drafted and provides helpful guidance. Paragraphs 4.19 – 4.22 setting out what does not constitute a discontinued operation provide useful clarity.

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 majority of this section appears to be copied directly from FRS 102 with minimal consideration of its applicability to the charity sector. A high level summary of what the five step model aims to achieve (matching of income recognition to project deliverables) before paragraph 5.13 would be useful. This should include examples of transactions which would most likely be affected (contract income, especially where there are multiple elements and where the project milestones are not clearly defined in the contract).

We consider that many charities are unlikely to have significant changes to the timing of their income recognition but that significant work will be needed to document this conclusion. Additional guidance with more charity-specific examples (we appreciate some basic examples are included already) would be helpful. Examples would be particularly helpful in relation to identifying contract milestones and deliverables where these are not specified in the contracts or grant agreements or where the scheduled payments do not align with the timing of deliverables. Examples could be given increased emphasis through a box or sub-heading as at present they are not immediately obvious.

Additional guidance, again with examples, of distinguishing between contracts and grants would be helpful as this is not covered in FRS 102 and this is an area which can be challenging for many charities as there is some overlap between grants and contracts (for example documentation may describe a transaction as a grant but the wording is closer to that of a contract).

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)

The SORP caters to a very wide range of users from experienced accountants familiar with FRS 102 to volunteer trustees who may have limited financial knowledge. It is therefore important that wherever possible the provisions should be drafted in plain English.

From an experienced accountant's perspective the module is clear.

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

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

These two concepts are key to the approach of the SORP to income recognition so we agree that they should be presented together and the definitions in paragraph 5.5 are useful. However, it would be helpful to have more examples and simplify the language where possible – perhaps adding (donations and gifts) after 'non exchange transactions' in the section heading might help with clarity.

Non-exchange transactions: For restricted grants, charities must assess whether there are performance conditions on the grants. Many restricted grants will have detailed budgets, timescales and largely fund staff costs which are incurred over the life of the project. There can be significant judgement required to assess whether performance conditions exist and to set an appropriate accounting policy. This results in significant variations in accounting practices across the sector.

Where restricted grant funding is linked to detailed budgets and staffing and the charity has limited control over the phasing of expenditure, we believe that users of the accounts would find it more meaningful to recognise this income in line with the delivery of the project. We believe that this can fit in with the principles of performance conditions within FRS102. We would therefore recommend that the updated SORP provides greater recognition of this approach.

This section would benefit from a comprehensive review and redraft in plain English with reference to FRS 102 where appropriate. This would be especially helpful for charity staff and trustees without an accountancy background as this is a very technical section.

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)

We consider that it is helpful to have all the disclosure set out in one place as this will reduce the probability of disclosure requirements being missed inadvertently.

However, there is a lot of new disclosure in paragraphs 5.112 to 5.119 so some examples of how this is expected to be presented would be helpful. Some elements might be better presented within accounting policies (for example the requirements in 5.116 to disclose revenue recognised in respect of performance obligations met over time and 5.119 to disclose not adjusting for the time value of money on contracts under one year) but others would be best included in the income notes.

Example disclosure note(s) would help promote consistency across the sector.

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)

Many charities already show designated funds for fixed assets to clearly show the level of free reserves so having this formally included as an option in the SORP is helpful.

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)

The requirements are clearly set out but the underlying ambiguity around measurability of the amount which will be received has not been addressed. This is particularly relevant to residual legacies as in the majority of cases pecuniary legacies are paid at the same time as notification or for larger gifts there is early clarity on whether the estate has sufficient assets.

For residual legacies which include properties, unlisted investments, artworks or other hard to value items, the level of judgement on measurability is high and there is considerable variation of approach across the sector. Depending on the financial position of the charity there can be pressure in either direction ranging from charities only wanting to recognise when cash is received or to recognise at a much earlier stage of the process. Additional guidance with examples on this area would be useful (see response to Q23).

We consider that the situation described in paragraph 5.99 in relation to discounting of legacy income will be rare as it is very unusual to have sufficient certainty that a payment will not be received for over a year.

Paragraph 5.100 is confusing as it states a subsequent revision to a legacy receivable should be adjusted against legacy debtors and income rather than charging the adjustment in the SOFA – an adjustment to income will by definition affect the SOFA. Rewording this would improve clarity.

We are surprised to see the SORP referencing a specific research firm (Smee & Ford) in the SORP text.

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)

As noted above this is an area where additional guidance would be extremely useful – especially in relation to estimating the amounts receivable on residual legacies as there is significant variation in treatment of these across the sector. This is often a contentious issue during the audit process and detailed sector guidance would be useful. This could include more detailed example approaches than there is space for in the SORP.

The guidance could also usefully include a section on updating legacy income for post year end information. Many charities find the requirements to update a legacy if the payment is received between the year end and signature of the accounts (if the variance is material) frustrating, but any other approach would be inconsistent with FRS 102 and treatment of post balance sheet events.

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

All comments included above.

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)

As for the income section, the majority of this section appears to be copied directly from FRS 102. For consistency with the rest of the document where FRS 102 is referenced but not copied we consider that this should be reviewed.

However the introduction section in paragraphs 10B.1 to 10B.10 is useful, especially the glossary of terms which will be helpful for organisations which have not previously accounted for finance leases. This could also usefully include a reference to the provisions for peppercorn leases and below market value leases as these give rise to a large number of questions from charities and are not covered until later in the module.

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)

As for income, the accessibility of this section will depend on the financial knowledge and experience of the user which for this section varies widely from experienced finance professionals to volunteer trustees.

The actual application will be complex for many charities and so worked examples of how to calculate the right of use asset and present value of the liability although this may be better included in separate guidance.

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 appreciate the underlying intention of this section but the provision for the charity to set the value it would have paid for a similar asset rather than the open market value to determine the donation element of the transaction will lead to significant variation in treatment across the section.

Linked to this, our understanding of the treatment of discounted leases is that the income element is all recognised in year one of the lease rather than being spread over the life of the lease which has potential to distort the income recognised between years. This may provide an incentive for charities to set the value they would have paid at or very close to the value of the actual lease payments.

Additional guidance on the basis for setting the value the charity would have paid and what evidence of this is required would be useful (although paragraph 10B.95 does indirectly address elements of this through the disclosure requirements).

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)

Our view is that the level of detail required in 10B.95 will lead to significant extra detail in the financial statements, especially for charities with large numbers of leases. There is no provision for aggregation where there are similar leases which would be helpful.

There is overlap between this disclosure and the requirement in paragraph 6.32 to disclose donations of goods and services so clarification on the elements to be disclosed in each location would be welcome.

We consider that some example disclosure showing the level of detail expected, including aggregation where there is a portfolio of leases would be useful. This could either be included in separate guidance on lease accounting for charities (as referenced in Q27) or, ideally, in example accounts (as referenced in Q42)

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

All comments included above.

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)

Removing the requirement for smaller charities to prepare a cashflow statement will reduce the level of administrative burden for smaller charities and bring charity reporting closer in line with the Companies Act requirements where a cashflow is not required for small companies.

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

No additional comments

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 additional comments.

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 approach is consistent with the revised CC14 guidance and it will simplify the disclosure required and reduce confusion around social investments. In particular the guidance around mixed-use properties is helpful and we consider this will reduce the level of complexity in accounting for these.

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)

The previous treatment for losses on valuation or impairment of programme related investments was to treat this as charitable expenditure. The revised version stipulates these are all to go through investment gains and losses. Social investments includes instruments intended to return some but not all of the principal so there is an argument for including some element within charitable expenditure.

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)

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?

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 additional comments

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)

The SORP is a complex document and it is a challenge to ensure applicability to all entities given the range of size and complexity in this sector. There is a lot of material for trustees and finance teams to assimilate and this will be particularly challenging for smaller charities.

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

Yes

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?

As a general drafting point there appears to be an inconsistency of approach in respect of the links to FRS 102. Some sections reference FRS 102 where necessary but others (predominantly modules 5 and 10B) include large sections from FRS 102 verbatim. We appreciate that these are key changes but the difference in style gives the document an inconsistent feel. Our preference would be for the SORP to summarise the changes with more reference to charity specific issues and reference to FRS 102 as applicable as this would improve the readability of the document and increase its accessibility to trustees and charity staff with less accounting knowledge.

In the past the Charity Commission have prepared example accounts including example trustees' reports. While we appreciate that this may have led to disclosure being used as template wording and not tailored, example accounts do support the sector and encourage consistency of disclosure. With a suitable disclaimer around tailoring, example accounts and trustees' reports (perhaps for Tier 1, 2 and 3 charities) would be a great benefit to the sector

Work will also be needed on an updated accounts disclosure checklist – and this will need to include the removal of older disclosures which are no longer required.

Finally, the exposure draft has not changed the threshold for disclosure of higher paid staff from £60,000. When this was introduced in 2005 the UK median salary was approximately £23,000 whereas by 2024 it had increased to approximately £37,000. This means that each year more staff are included in the disclosure and it includes middle management staff at many Tier 3 charities rather than just those paid significantly above average. If the threshold for disclosure was to be increased in proportion this would increase to approximately £96,000. Is there potential for this level to be reviewed and potentially increased to £90,000 or £100,000. This would also reduce incentives to manipulate the disclosable figures through salary sacrifice schemes. We also recommend that there should be provisions for pro-rating the thresholds for both short and long accounting periods.