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By smart survey: Invitation To Comment - SORP
(https://www.charitysorp.org/invitation-to-comment)

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Dear Sir / Madam

The Chartered Governance Institute is the professional body for governance and the qualifying and membership body for governance professionals across all sectors. Its purpose under Royal Charter is to lead effective governance and efficient administration of commerce, industry, and public affairs working with regulators and policymakers to champion high standards of governance and providing qualifications, training, and guidance. As a lifelong learning partner, the Institute helps governance professionals achieve their professional goals, providing recognition, community, and the voice of its membership.

One of nine divisions of the global Chartered Governance Institute, which was established 130 years ago, The Chartered Governance Institute UK & Ireland represents members working and studying in the UK and Ireland and many other countries and regions including the Caribbean, parts of Africa and the Middle East.

As the professional body that qualifies Chartered Secretaries and Chartered Governance Professionals, our members have a uniquely privileged role in companies' governance arrangements. They are therefore well placed to understand the issues raised by this consultation document. In preparing our response we have consulted, amongst others, with our members. However, the views expressed in this response are not necessarily those of any individual members, nor of the companies they represent.

Our views on the questions asked in your consultation paper are set out below, together with some general comments on the issues raised.

Consultation Questions

Q1: Do you support the move to three tiers?

The introduction of a three-tier system acknowledges the diversity in charity sizes and reporting capabilities. While it aims to balance transparency with administrative demands, the system falls short in fully addressing the practical realities smaller charities face. Simplified requirements for smaller organisations are a step in the right direction, but the approach could be more inclusive and tailored.

The tiers, based on existing thresholds, appear not to have been developed from first principles. They do not fully consider what charities, especially smaller ones, can competently prepare. A notable omission is a dedicated tier for micro-charities—organisations with no employees and minimal resources. Including such a tier would help avoid overburdening these entities and ensure proportionality across the framework.

To achieve its intended balance, the tier system requires refinement to better reflect the varying capacities of all charities. This would enhance accessibility, promote compliance, and foster trust across the sector.

Q2: Do you consider that the proposed thresholds have been set at an appropriate monetary level in order to support a proportionate approach to reporting?

While the thresholds of £500,000 and £15 million provide a logical and proportionate division aligned with company law, there remains room for refinement. Smaller charities benefit from reduced administrative burdens, and larger organisations uphold transparency through more comprehensive reporting.

However, the framework could better account for micro-charities—those with no employees or minimal resources. A distinct tier for these smallest organisations would further enhance proportionality, ensuring all charities can realistically meet the standards expected of them. Balancing the current thresholds with a more inclusive structure would strengthen the system's fairness and practicality without compromising accountability.

Q3: Do you agree that the Exposure Draft SORP clearly sets out the proposed reporting requirements for each tier?

The Exposure Draft SORP provides a structured approach to tiered reporting requirements, offering clarity through modular guidance and straightforward language. This framework helps preparers understand their obligations and supports compliance across tiers.

However, for smaller charities, the overall length and complexity of the document—spanning 29 modules and a 304-page glossary—may prove daunting. The need to frequently cross-reference the SORP, glossary, and FRS 102 adds to this challenge, effectively creating a 600-page resource that risks overwhelming even experienced preparers. While the modular approach is conceptually helpful, more concise and practical guidance—especially for micro and smaller charities—would enhance accessibility and usability without compromising on essential details.

Q4: 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?

The designation "tier 3" is logical, reflecting a progressive scale where reporting requirements increase from small to large charities. This structure aligns with user expectations, ensuring clarity in the relationship between tier levels and complexity.

Reversing the tiers could create confusion, potentially implying that larger charities face less stringent requirements. Consistency in this tiering framework reinforces the principle of proportionality, balancing transparency with the administrative capacity of different-sized charities. However, ensuring that the tier definitions are clearly communicated and intuitive will be essential to avoid any misunderstandings among stakeholders, particularly smaller charities navigating the framework for the first time.

Q5: Do you have any additional comments in relation to the proposed tier reporting structure in the exposure draft SORP?

The tiered system represents a commendable effort to align financial reporting requirements with the varying capacities of charities. Its design promotes inclusivity and practicality, making it easier for organisations of different sizes to comply.

However, the framework would benefit from periodic reviews of income thresholds to account for inflation and economic fluctuations, ensuring its relevance and fairness over time. Additionally, incorporating enhanced digital tools and resources specifically tailored for smaller charities could further reduce the compliance burden, fostering accessibility and efficiency in reporting across all tiers.

Q6: Do you agree that including prompt questions will help trustees develop their trustees' annual report?

Yes.

Q7: Do you consider the requirements for impact reporting for each tier to be proportionate?

Yes, the requirements for impact reporting are proportionate and thoughtfully aligned with the tiered structure. The scaling of complexity based on charity size and capacity ensures that smaller organisations are not unduly burdened while encouraging larger charities to provide more comprehensive disclosures.
This approach strikes a practical balance, delivering meaningful insights into a charity's impact without overwhelming smaller organisations. However, additional guidance or resources tailored to smaller charities could further enhance their ability to report effectively, promoting consistent and useful impact reporting across all tiers.

Q8: Do you consider the requirements for sustainability reporting for each tier to be proportionate?

The sustainability reporting requirements are generally proportionate but could be refined.

For Tier 1 and Tier 2 charities, encouraging, rather than mandating, reporting on environmental, governance, and social issues acknowledges their limited resources. However, this optional approach may result in minimal transparency, potentially eroding stakeholder trust.

Tier 3 charities, by contrast, are required to report on sustainability, including KPIs for climate risks, governance, and ethics. This aligns with their larger scale, complexity, and public visibility, promoting accountability and enabling meaningful stakeholder assessment.

The tiered system balances feasibility with transparency but reveals a significant gap between optional reporting at Tier 2 and mandatory obligations at Tier 3. Introducing limited mandatory disclosures for Tier 2 charities could bridge this divide, helping medium-sized charities build reporting capacity while fostering consistency.

In summary, while proportionate, the framework could benefit from a graduated approach, enhancing Tier 2 requirements to better support sustainable practices sector-wide.

Q9: Do you consider the explanation of reserves in the glossary helpful?

The glossary explanation of reserves is helpful but could benefit from improved clarity and accessibility. The definition of designated funds effectively distinguishes them as unrestricted funds earmarked for specific purposes by trustees, supporting financial planning and reporting. The broader reserves explanation clearly defines reserves as the unrestricted funds available for charitable purposes and ensures alignment between trustees' reports and financial accounts, promoting transparency and comparability.

The guidance on reserves policy disclosure is thorough, covering the rationale, amounts, and reconciliation process, which helps charities align reserve strategies with future plans, fostering accountability and strategic planning. The tiered reporting approach is proportionate, with Tier 3 charities providing detailed disclosures while Tier 1 organisations share basic information, accommodating sector diversity.

Simplifying terminology and adding illustrative examples would further enhance the glossary's usability, particularly for smaller charities with limited expertise in financial reporting.

Q 10: Do you consider disclosures for reserves are proportionate?

Overall, the tiered approach effectively accommodates the diversity within the charitable sector. However, including illustrative examples or templates could further assist smaller charities in meeting disclosure expectations without excessive effort.

Q11: Do you consider the requirement for tier 1 charities to provide a summary of their plans for the future is proportionate?

See question 10.

Q12: Do you consider the additional disclosure will help to explain the treatment of legacies in the account?

Legacies are a key income source for charities, but their complex accounting benefits from additional disclosure. Clearer reporting enhances transparency, ensures compliance, and provides stakeholders with valuable insights for informed decision-making, supporting good governance and a robust financial narrative.

Q 13: Do you have any other comments on module 1 and the proposals for the trustees' annual report?
No.

Q 14: Is the table helpful?
Yes

Q 15: Do you have any other comments on module 4?
No

Q16: Does the module explain the five-step model in FRS 102 clearly and understandably?

The module provides a clear and detailed explanation of the five-step model from FRS 102, effectively breaking down each stage with practical examples and straightforward language. Dividing the content into sections for exchange and non-exchange income aligns well with FRS 102 principles, making the guidance logical and accessible. This structured approach supports preparers in identifying and applying the relevant rules efficiently. However, the overall complexity of the SORP, as previously noted, remains a challenge.

Q17: Is the module easy to navigate as drafted?

Yes, the module is structured logically, with clear headings and separate sections for exchange and non-exchange transactions. This organisation ensures that users can quickly locate specific information. The consolidation of disclosures at the end is helpful, though linking them to their respective sections could further enhance navigation.

Q18: Should guidance on exchange transactions be in separate modules rather than sections of the same module?

Given the size of the document the separate modules might fragment the information unnecessarily, which could hinder understanding for smaller charities with limited resources.

Q19: Would it be clearer to embed disclosures at the end of each section rather than at the end of the module?

Streamlining disclosures by placing them at the end of each relevant section rather than consolidating them at the module's end could enhance clarity. This would directly link disclosures to the associated content, reducing the need for cross-referencing and making the guidance more user-friendly, particularly for those less familiar with the SORP. That said, the current consolidated approach does help maintain consistency across the module.

Q20: Is this clarification a helpful addition?

Yes, this clarification is helpful as it supports better understanding and compliance. It reflects a user-centred approach, aiming to reduce ambiguity and simplify application for preparers. Additional examples or diagrams could further enhance its value.

Q21: Does the module set out accounting requirements for legacy income clearly?

Yes, the module provides comprehensive guidance on recognising and accounting for legacy income. It clarifies common complexities and incorporates FRS 102 requirements effectively, reducing inconsistencies in practice. This improvement addresses a longstanding area of confusion for charities.

Q22: Is further guidance needed on legacy accounting outside of the SORP?

Yes, legacy accounting remains a complex area. While the module offers solid guidance, additional resources such as FAQs, webinars, or case studies could provide more practical support, especially for smaller charities with limited expertise in this area.

Q23: Any other comments on Module 5?

The module is well-structured and addresses key challenges, particularly in the areas of exchange income and legacy recognition. Including more worked examples or flowcharts could further assist users in applying the guidance correctly and consistently.

Q24: Do you find the module easy to navigate as drafted?

Yes, the clear division into distinct sections and the use of concise language make the module relatively easy to navigate. The current layout supports efficient use, though embedding disclosures within each section could further enhance clarity. That said, the module remains quite dense overall and would benefit from additional streamlining to improve accessibility, particularly for smaller charities.

Q25: Does the section explain FRS 102 requirements clearly?

Yes

Q26: Is the section on arrangements at below-market value (paras 10B.68–10B.84) clear?

Yes, the section provides clear and specific guidance on accounting for arrangements that are significantly below market value. The examples included help to clarify application, ensuring preparers understand how to handle these situations effectively.

Q27: Are additional disclosures in paras 10B.95 and 10B.129 reasonable?

Yes, the additional disclosures are proportionate and strike a good balance between transparency and practicality. They provide relevant information without imposing unnecessary burdens on charities.

Q28: Any other comments on Module 10B?

Module 10B is a valuable addition, particularly in addressing non-standard arrangements such as leases below market value. Including illustrative case studies could further enhance its usefulness by demonstrating how the guidance applies in real-world scenarios.

Q29: Only Tier 1 & 2 charities (non-small) and all Tier 3 charities to prepare cash flow statements—is that agreeable?

Yes, this approach is reasonable. Limiting the requirement for cash flow statements to Tier 1 and Tier 2 charities above the small entity threshold, and all Tier 3 charities, strikes a balance between transparency and practicality. Smaller charities often lack the resources and expertise to produce detailed cash flow statements and exempting them avoids unnecessary administrative burdens. For larger charities, cash flow statements provide valuable insights into liquidity, financial management, and operational sustainability, ensuring stakeholders have access to critical information.

This proportionality aligns with efficient reporting practices while maintaining accountability where it is most impactful. However, further guidance or simplified templates could help medium-sized Tier 2 charities transition to producing these statements if their size or complexity increases.

Q30: Comments on Module 14?

Module 14 strikes a good balance between simplicity and detail. The threshold adjustment for disclosures is appropriate, and the simplified reconciliation tables improve clarity. Additional examples could further assist preparers in applying the guidance.

Q31 & Q32: Are the additional disclosures helpful and proportionate?

Yes, the disclosures enhance transparency and they align well with the needs of stakeholders and promote good governance across the sector.

Q33: Comments on Module 20?

Module 20 provides clear and practical guidance on the complexities of total return investments. The module's focus on clarity ensures that charities can effectively report on total return investments, fostering stakeholder confidence. However, including illustrative examples or case studies could further support understanding and application, particularly for charities less familiar with this investment approach.

Q34: Do you agree with the new approach to using the generic term "social investment" instead of "programme related" and "mixed motive" investments?

Yes, adopting the generic term "social investment" simplifies terminology, making it more accessible and reducing potential confusion. This change enhances clarity, streamlines reporting, and aligns with modern financial language without losing the nuanced meaning of the previous terms.

Q35: Do you agree that the simplification of how gains and losses on social investments are reported is beneficial?

Yes, simplifying the reporting of gains and losses on social investments is beneficial. It reduces administrative burden, improves consistency across financial statements, and allows stakeholders to more easily assess the financial performance and impact of these investments.

Q36: Is comparative figures guidance clear?

Yes, the guidance is clear and well-structured. However, including worked examples could further enhance understanding, particularly when changes in presentation or accounting policy occur.

Q37: Need for further guidance on comparatives?

Yes, additional guidance, such as case studies or illustrative examples, would be helpful for preparers who may face challenges in restating comparative figures accurately.

Q38: Comments on Module 21?

The module is well-organised and addresses key topics such as loans and concessionary investments effectively. Providing more examples could help charities distinguish between concessionary and non-concessionary loans.

Q39: Does the drafting support smaller charities?

Yes, the Exposure Draft's tiered approach generally supports smaller charities by offering proportionate requirements and including examples and tailored guidance to aid accessibility. However, to better serve the smallest organisations—such as micro charities with no employees—further streamlining is needed. Simplifying complex sections will help reduce the reporting burden and make compliance more manageable, as highlighted in our other responses to this consultation.

Q40: Continue to disallow Section 1A of FRS 102?

Yes, disallowing Section 1A ensures that charity accounts remain transparent and meet the needs of stakeholders. The decision aligns with the overarching principles of accountability and comparability.

Q41: Any other comments on the Exposure Draft SORP?

While the Exposure Draft SORP adopts a tiered approach tailored to the differing capacities of charities, smaller organisations are likely to face considerable difficulties navigating the document effectively. The SORP comprises 39 modules plus a glossary and extends to over 300 pages, resulting in a dense and complex resource. Instead of concise, worked examples, it often offers wordy explanations that may confuse rather than clarify for those less familiar with technical accounting language.

Smaller charities frequently need to cross-reference between the SORP, the glossary, and the underlying FRS 102 standard, effectively turning compliance into navigating a 600-page body of material. This fragmentation risks overwhelming even the most diligent small charity accountants or trustees, leading to potential errors, inconsistent application, or avoidance of best practices altogether.

Moreover, the placement of disclosures at the end of modules rather than within relevant sections forces users to flick back and forth, which interrupts the flow and hinders clear understanding. The absence of practical, step-by-step examples further compounds this challenge, limiting smaller charities' ability to apply the guidance confidently and efficiently.

This complexity contradicts the SORP's intention to support transparency and accountability across all charity sizes. Without significant improvements in clarity, navigability, and practical illustration, the risk remains that smaller charities will struggle with compliance or require disproportionate external support.

In conclusion, while the Exposure Draft SORP provides a comprehensive and robust framework, realising its full potential requires prioritising accessibility. Simplifying language, integrating clear worked examples, improving document structure, and reducing the need for extensive cross-referencing will better serve smaller charities. Such measures would help ensure that all organisations can meet reporting obligations effectively, maintaining public trust and sector integrity without being overburdened by complexity.

If you would like to discuss any of the above comments in further detail, please do feel free to contact me.

Yours faithfully,

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