

# 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:

Richard Bray

Email address:

[REDACTED]

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

Finance Regulatory & Taxes Specialist

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 :

Cancer Research UK

Please select what best describes the organisation:

A charity applying FRS 102 and the Charities SORP

## 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?

Over £5M

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

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

*No Response*

## An accounting firm / auditor

How many charity clients do you supply your services to?

*No Response*

## An accounting firm providing independent examination services to charities

How many charity clients do you supply your service to?

*No Response*

## A sector body

How many member charities does your organisation have?

*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 are in favour of tiers. This recognises the significant differences that exist between larger and smaller charities and which we believe should be reflected in their reporting requirements. It allows for the diversity of the charity sector which is much greater than is the case for entities served by other sector specific SORPs which are approved by the FRC. However, we suggest that more radical measures are needed to properly address the issues this causes; for example, we would like to see a 'micro Charities SORP' for very small charities that are required to prepare accrual accounts.

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 are not convinced that the thresholds have been set at the right levels. In income terms a charity with £500,000 of annual income is a large charity when considered as part of the population of charities as a whole. We consider that the reporting requirements should be very different for a charity with £50,000 of annual income to one with income of £500,000. As explained in our answer to question 1 we are in favour of there being a band for micro charities with income of less than, for example £50,000. We think that this is necessary to ensure that we think 'small charity' first as was recommended by the recent Charities SORP Governance review in an attempt to secure proportionate reporting. We also think that the justification for any thresholds should be thought through from first principles rather than simply adopting existing thresholds just because they are there

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

Yes

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

*No Response*

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

No opinion

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

We think that in the grand scheme of things this is not a major issue for charities.

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

We consider that the move to three tiers is not as significant shift as might first appear. In particular, the difference between the reporting requirements for tier 2 and tier 3 charities do not seem major. But we are pleased with the message it sends that charity reporting should become more proportionate. We would simply prefer more substance to the changes.

We are also concerned about the greater reporting burden placed on smaller charities in requiring them to disclose even more information. This may reflect the membership of the Charities SORP making body being made up of regulators who by their very nature are likely to take a regulatory perspective. In our opinion this does lead to disproportionate reporting for a smaller charity. This is another area where the reporting requirements should be thinking 'small charity first' rather than 'regulator first'.

**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)

Asking questions is always a good way of prompting thought and so we are in favour of prompt questions. It may help to avoid standard answers. But we doubt that this will make a major difference to the standard of reporting.

**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 charity's impact is critical and it is right that this is always given a high priority in its reporting. For a smaller charity it is important that this is framed in a way that is realistic which we consider the exposure draft to be.

**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)**

At Cancer Research UK our existing reporting means that these proposals for us as a tier 3 charity will not lead to further disclosure requirements for us. We already report on our environmental impact (carbon emissions), social impact (EDI strategy), and have extensive reporting on our governance. But we have found that other charities consider that the the guidance in the exposure draft could be improved.

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

No

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

This is an example of where disclosure requirements have increased for smaller charities. This should be considered in more detail for the many charities which have no employees as the wording for disclosure seems directed at charities who have both volunteers and employees. It is a further example of the benefits of having a 'micro SORP' or a tier for micro charities and thinking "small charity" first.

There is a risk that putting more emphasis on disclosure of volunteers in the Trustees' Report will lead to duplication of disclosure – which should be avoided if at all possible. Charity accounts are already long enough.

One point that may need to be looked is the wording in the exposure draft concerning volunteers providing services as part of their trade or profession. Although in paragraph 6.6 includes reference to volunteers doing so as part of their trade or profession it gives examples of instances which would not seem to meet the criteria. For example, it refers to a professional accountant carrying out an independent examination as an instance where the value of this work should be recognised in the accounts. However, very often a professional accountant carrying out an independent examination will not be trading in their own right (for example they may be working in industry) and so this work should not presumably be valued as the current wording suggests.

**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)**

*No Response*

**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)

*No Response*

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)

It makes sense for charities to share their plans for the future when there are meaningful plans to disclose. The very fact that there is a prompt will help trustees to consider this where otherwise they might not. But there will be instances where many very small charities will not have anything meaningful to disclose and any disclosure runs the risk of becoming standard wording of no value to the reader and which will be repeated by rote every year. As a result, it may be better to encourage disclosure where there is something meaningful to report rather than make it a mandatory requirement.

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

Yes

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

The wording in the exposure draft (1.46) makes sense as legacy income can take a long time to materialise. It is important that in practice that this disclosure is made only for material legacy income. There is a danger (especially where standard software might be used for smaller charities) that this will become a standard feature of a Trustees' Report leading to unnecessary clutter.

It is not clear why this requirement will only apply to tier 2 and tier 3 charities?

It also seems that the requirement is not as extensive as might be inferred by the background narrative to the invitation to comment question. As such we are commenting on the wording of 1.46 and not the background narrative.

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

*No Response*

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)

This is a difficult question to answer. For those who have a good technical accountancy training it may be considered 'clear and understandable'. But for those without that training there will be a struggle to understand what is required due to the use of very technical language. The module is at its best when reference is made to examples. But the first example is not given until 5.48.

The module also highlights the problem of trying to make The Charities SORP a 'one stop shop'. Much of the section on income from exchange transactions is repeating the content of FRS 102 and is not charity specific. But this is not done in full and in many sections direct reference is made to FRS102. This then results in an uneasy half way house. This treatment might be justified if the technical content was expressed in a more accessible way taking into account the needs of the likely reader of the Charities SORP.

Needless to say, the smaller charities will struggle most and this gives both the justification for a tier for very small charities and the need for guidance sitting outside of the SORP. In the short term this might be best met by a charities SORP information sheet on income recognition providing extensive examples and written in less technical language. Without this widespread non compliance is to be expected by smaller charities.

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)

We think that the separate sections for exchange and non-exchange items is a good idea. This helps with the navigation.

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)

Please see answer to question 17 above.

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)

This may be a matter of personal preference as it is literally more an issue of presentation than of technical accounting substance. But we find grouping disclosures to be a logical way of presenting requirements which can serve to act as a checklist helping to ensure that disclosures are not missed.

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

No

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

Whilst we can understand the sentiment of the suggestion it does seem inconsistent to only highlight one particular use of designation of expenditure on fixed assets in an isolated way.

Neither does designation seem to do much to deal with the underlying issue that some readers of the accounts might have. It could be more effective to require narrative disclosure and explanation in the Trustees' Report when such a situation is material financially in relation to the charity's accounts as a whole.

With designation we are also concerned that that many interpret the SORP as requiring that designation can only be made if it is decided in advance of the accounting period end. In our view a designation is an allocation of reserves and does not constitute an accounting transaction. As such, that allocation should be permitted after the accounting period end. In the case of many smaller charities, accounts will only be prepared after the period end making a formal designation prior to the accounting period end problematic.

**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)

In our accounts for the year to 31 March 2024 Cancer Research UK accounted for £231m of legacy income (34% of group income). We account for legacies when we know that we are entitled to the income e.g. on grant of probate.

We welcome the improvements in drafting. But we do not believe that these changes will remove the inconsistency in legacy accounting across the sector to the extent that they could do. That is why we consider that more information is necessary to help preparers of accounts understand how to apply the high-level guidance set out in the SORP. As a result, in answer to question 23 we argue strongly for the issue of a Charities SORP information sheet to provide practical application of the SORP guidance. This is especially important for smaller charities that may receive legacy income infrequently.

Whilst the drafting has been improved it allows for very different accounting treatments. In some cases this will be warranted but an objective of a SORP is to encourage consistent accounting where that is possible. For example, in the exposure draft there is regular reference to 'reliable measurement' with no explanation of what this means in the context of legacy valuation. Further important improvements can be made to this part of the SORP.

Whilst the guidance is improved, accounting for legacy income is a complex area of charity accounting and preparers need easy access to guidance that will equip them to deal with these challenges in a consistent way.

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

Yes

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

We consider that it is essential that there is a Charities SORP information sheet to provide the context for accounting for legacies. The background to accounting for legacy income is complex and there is a desperate need to summarise the key information in one place. How to account for legacy income is often poorly understood. This is understandable when legacies are often received by a charity irregularly.

An information sheet would be able to provide examples of how to account for legacy income in practice.

It would also enable issues to be addressed in greater detail than is feasible in the Charities SORP itself. An example of this is how to apply discounting to a legacy debtor.

This would prompt much greater consistency in accounting for legacy income than there is at the moment. Currently, it is widely acknowledged that practice varies significantly. A key objective of the SORP making process is to ensure consistency in accounting treatment and much more can be done to achieve this.

This approach could be thought of as being analogous to having an FRC factsheet.

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

Donations and grants

It can sometimes be a struggle to identify the difference between a grant and a donation. In module 5 the SORP gives different requirements of a donation and a grant.

The definition of a grant in the glossary is any 'voluntary income received by the charity...from a person or institution.'

This suggests that any donation is a grant? Does this need to be clarified in the SORP?

**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.**

No opinion

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

Donations and grants

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The definition of a grant in the glossary is any 'voluntary income received by the charity...from a person or institution '

This suggests that any donation is a grant? Does this need to be clarified in the SORP?

**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?**

Yes

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

We consider that the module provides clarity in this area which is helped by the use of good practical examples

Whilst there can be situations where social donation leases will arise they will be limited in number. For example, at Cancer Research UK we have many leases for property particularly in respect of our charity shops, but none that to our knowledge are social leases. Our concern would be that we might be required to do more work than necessary to prove this point. We do not believe that it is the intention of the SORP for this to be the case. But this point could be made even clearer. From a practical point of view risk averse auditors can be very cautious on interpreting matters like this.

The required disclosures would also benefit from worked examples that could be provided as part of a Charities SORP information sheet or example accounts..

As a result, the definition of a social donation lease could be changed slightly as 'A social lease is one where the lessor chooses to accept lower rent for the clearly communicated philanthropic intention ....' We also think that the use of the term 'readily available information' could be framed as information that the charity becomes aware of rather than actively seeking that information out.



**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)**

With the additional disclosure requirements for charities we are concerned about the amount of disclosure that might be required where it is common practice for a charity to enter into such arrangements. It seems that as drafted a charity would have to mention each lease arrangement individually. It would make much more sense if similar transactions could be grouped together. With the requirement in 10B.95 to refer to 6.32 we note that in 6.32 it does not refer to the possibility of needing to make disclosure relating to any social donation leases. Is this an oversight? We also wonder why specific attention needs to be given to the possibility that this arrangement could lead to a key judgement as this should apply from first principles?

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

An important issue is determining whether a lease arrangement is on nominal or peppercorn terms. Although the phrase 'nominal' is used extensively in the exposure draft it does not seem to be defined. Hopefully, in most cases this will be clear. But there will be a tipping point between what is nominal and what is more than nominal leading to the arrangement being classified as a social donation lease. Some guidance here will be required to ensure consistency of treatment. For a smaller charity there will be benefit from nominal being determined on relatively generous terms to avoid treating an item as a right of use asset.

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

Yes

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

We are conscious that the usefulness of a charity cash flow statement can be of limited use when it is not required to take into account restricted funds. As well, the cash flow terminology that is required is not 'charity friendly' and is difficult for a reader of charity accounts to understand.

As a result, we appreciate the sense of not requiring a statement that few will find benefit from and which will only lengthen the accounts with little benefit for the reader.

Our only concern with this relaxation is that it might give the impression that cash flow is not considered important for a charity when that is clearly not the case.

We also suggest that where a cash flow statement is still needed that the preparer is required to take into account the impact of restricted funds

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

*No Response*

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

No opinion

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

This is not likely to affect Cancer Research UK

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

No opinion

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

This is not likely to affect Cancer Research UK

**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)**

We are concerned about this proposal especially as the language in the consultation documentation suggests that this is simply a change of classification. This not the case. A programme related investment as defined by the current Charities SORP is not simply a category of social investment as defined by the exposure draft. A social investment must be held to provide some financial return whereas a programme related investment is not required to do so

This is especially relevant for Cancer Research UK as we have a programme related investment of £147m in respect of our investment in the share capital of The Crick Institute. This is a leading medical research facility in Central London. This will yield no financial return but is instead held for its service potential. If the wording of the exposure draft is retained with no changes, then this may lead to the whole investment of £147m needing to be provided for in full when the next Charities SORP is introduced.

Presently, the distinction between a programme related investment and a mixed motive investment can be judgmental. But it is only a matter of classification. It would be much more difficult if the difference determined whether an investment could be carried forward on the balance sheet or needed to be provided against. What for example is an acceptable financial return for a social investment?

As this is such a critical issue we provide more information on this topic in answer to Q39.

**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)**

We strongly disagree with this proposal stemming from the same reasons given in answer to question 35. A programme related investment is made to further the charitable objectives of the charity. As a result, to show this as a loss on investment would be misleading. In the vast majority of cases there will be a loss rather than a gain. Such a loss is much more accurately included as expenditure on charitable activities.

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

No

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

We are not aware that the module provides specific guidance in this area. This would provide clarity.

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

Yes

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

Taking into account our answers to questions 35, 36 and 39 we hope that the need for a restatement of prior year figures will not be necessary in the final version of the new SORP.

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

Further comment on social investments

We provide further comments on the proposals in the exposure draft relating to social investments.

Summary of key changes document

For module 21 Accounting for social investments:

"Changes in terminology, disclosure and presentation; updated to be consistent with FRS 102 and to reflect changes in legal requirements"

This suggests that the changes are simply those of terminology. Further to this the invitation to comment also suggests that there is simply a change of terminology.

Invitation to comment

The Exposure Draft SORP proposes to retire the terms 'programme related' and 'mixed motive' investments and use the term 'social investments' to cover both terms.

Included in the exposure draft itself

"Previously the SORP has divided social investments into programme related investments and mixed motive investments. This has been simplified in this SORP by only referring to social investments. Comparative information must be restated as far as practicable on a like-for-like basis."

Again, this suggests a change of terminology rather than the intention being that this would potentially result in a change of underlying accounting treatment.

A more detailed examination suggests otherwise:

New definition of social investments

Social investment is a class of assets that comprises investments undertaken for both a financial return and to further the investing charity's purposes.

Existing definition of programme related investment in the current Charities SORP:

Programme related investments are a type of social investment and are made directly in pursuit of the charity's charitable purposes. The primary motivation for making a programme related investment is not for financial gain but to further the objects of the funding charity. Programme related investments can generate some financial return, and the funding may or may not be provided on commercial terms. Such investments could include loans to individual beneficiaries (such as for housing deposits) or to other charities (for example, in relation to regeneration projects). This definition of social investment is unlikely to include all programme related investments.

Under the existing definition included in the exposure draft a social investment requires a financial return whereas a programme related investment 'can generate some financial return'. Under this definition there is no need for a programme related investment to generate any form of financial return. This means that an investment can be a programme related investment but not a social investment as defined in the current exposure draft of the Charities SORP.

As a result, the new approach advocated by the exposure draft means that some current programme related investments will no longer be social investments i.e. those investments made without the intention of generating a financial return.

This then raises the question of how such programme related investments should be accounted for to comply with the requirements of the exposure draft?

A programme related investment is to 'further the objects of the funding charity'. This creates service potential:

Definition of service potential per Charities SORP

"Service potential is the capacity to provide services that contribute to achieving a charity's objectives. Service potential enables a charity to achieve its objectives without necessarily generating net cash inflows."

The concept of service potential explains, for example, why a charity can often carry forward fixed assets on its balance sheet and the same principle should be available to carry forward a programme related investment as a charity asset.

The way that the exposure draft of the Charities SORP is worded does not seem to provide guidance on how investments that may not provide financial return should be accounted for. In these circumstances it is likely that they would need to be written off.

Explaining this issue is helped by providing a practical example.

At Cancer Research UK we have an investment of £147m in the share capital of The Crick Institute which



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

is a charity and a company limited by shares. We provide revenue funding for the Crick. The investment provided funding for the Crick building and this is currently shown as a programme related investment in our accounts. Further narrative can be found in note 14 to our accounts for the year to 31 March 2024.

**Conclusion**

The wording in the exposure draft needs to be clarified. This is required to ensure that those investments currently classified as programme related investments can continue to be carried forward as investments on a charity balance sheet when the new Charities SORP is introduced.

**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 proposals put forward in the exposure draft place a heavier burden on smaller charities. This is difficult to reconcile to the SORP governance review requirement to "think small charities first".

Even were the proposals deemed to be proportionate it is questionable that the charities in this income band (especially at the bottom end) have the resources to be able to comply with the ever-increasing regulatory burdens placed on them. Reporting requirements are only likely to work where they are practical to apply. There is a danger that the Charities SORP making body will be seen as being out of touch with what can be done in practice. That is why with many others we are in favour of a further band for what might be termed 'micro charities', for a micro charities SORP and for exploring other ways that smaller charities can be supported. All this is with the aim of ensuring that reporting for the smaller charity is proportionate.

In developing the Exposure Draft SORP the SORP-making body has continued to disallow the option to apply Section 1A of FRS 102 for charities that are small entities under FRS 102. This decision is made on the basis that the application of Section 1A would not, without the addition of further disclosures, provide the required level of transparency and accountability that users of charity accounts are seeking. Furthermore, this would also present issues in respect of comparability which would impact on utility for users of charity accounts.

**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 are concerned that little progress seems to have been made in coming to solutions for a proportionate reporting regime for smaller charities. This has been a problem for a long time, and we seem to be no further forward in finding a solution. The increasing complexity arising, in particular from the changes to lease accounting and income recognition coming into the new SORP, only compounds this.

It also seems anomalous that charitably incorporated organisations (CIO's) can use receipts and payment accounts for up to £250,000 of income whereas a charitable company limited by guarantee cannot prepare receipts and payments accounts at all.

Making the receipts and payments option available to more charities on the same basis as a CIO would be a pragmatic way of helping many smaller charities comply with their accounting obligations.

Whilst we appreciate that solutions to such an anomaly are beyond the scope of the SORP making body in its own right, we would like to see a longer-term plan to achieve this. It is fundamental to the long-term credibility of charity accounting.

We would also welcome the SORP making body having further discussions with the FRC on how Section 1A might be applied. Fundamental to the credibility of exploring this option is how funding might be found to explore this option properly.



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

There are some points that we would like to raise:

### Ex gratia payments

We refer to the reporting of ex-gratia payments in charity accounts. These are payments that are made for a compelling moral reason rather than as a payment that is in accordance with the charitable purposes of the charity. This often happens in connection with our legacy income. For example, a person might have given a cheque as a gift to a friend or family member which they failed to cash before the Legator died. It might be morally justified for CRUK to make a payment to that friend or family member to fulfil the Legator's clear intention.

The current Charities SORP allows a charity to aggregate similar items for disclosure purposes. However, the exposure draft requires each ex-gratia payment to be disclosed separately (regardless of size). As we might have forty such ex gratia payments in a year it would create a long list of small payments which would lead to unhelpful and disproportionate clutter in our accounts.

Furthermore, we question whether it is appropriate to provide the detail of an ex-gratia payment so openly after it has been thoroughly considered by Trustees and then the Regulator. The purpose of these applications is that they can be considered by the Regulator without publicity and the charities are given guidance/orders on how to proceed. Some applications are extremely sensitive and often relate to a person's mental and physical condition pre death. We are aware of an example where a person gave a large donation to a charity because they intended to commit suicide and so gave away most of their wealth. Fortunately, they didn't and the person asked for their donation to be returned - which it rightly was. We question if it is necessary for circumstances like these to be publicised in detail in the accounts. The number of ex gratia applications and the total amount should be sufficient.

We also believe that despite some helpful changes to the wording in the exposure draft relating to ex gratia payments some aspects of the wording remain confusing. In particular, the definition of ex-gratia payment includes, 'In addition, the trustees must not be able to justify the payment as being in the interests of the charity'. This wording is not very helpful as for most preparers of accounts a payment will only be made if it is in the interests of the charity! From what we have been able to glean this can be interpreted narrowly or more broadly. The legal view is likely to be the narrow one. So, if this language is to be used it requires further narrative explanation. If not, it is likely that we will continue to get widely different applications of what is an ex-gratia payment in practice in what is a very sensitive area of disclosure.

### Funding commitments

Accounting for our funding commitments for grants as required by the current Charities SORP is based on providing in full for any grant commitment made in writing to the recipient of the grant. For us this is when we issue a grant award letter (GAL) to the grantee. This means that the grant expenditure in our statutory accounts is grant costs that we became committed to in the accounting period rather than the research that we have funded in the accounting period. We have discussed this with our research colleagues, and we have agreed accounting for grant expenditure as it is incurred makes more sense to us compared to the current requirements of the Charities SORP. These requirements do not seem to have been considered coming to the current Charities SORP consultation draft.

We simply wish to get this issue on the radar of the Charities SORP making body for consideration in the future. We believe our proposal is technically sound and would be much more easily understood by our supporters. It would also make it much more difficult to manipulate grant expenditure reported in a charity's accounts. For example, the same grant could be awarded on the final day of an accounting period or on the first day of the next accounting period with very different results. This would not be the case with an accounting policy based on expenditure incurred on grant activities in an accounting period.

This issue has been raised before but we can see that since the last Charities SORP was agreed we have been through the COVID 19 epidemic that showed that charities like Cancer Research UK can reduce grant commitments previously made to grant recipients. This questions whether many grant commitments are anything more than honourable intentions.

There is wording in the exposure draft that a charity cannot use a clause concerning lack of funds in the grant terms and conditions as a reason not to provide for grant commitments. This has meant that it has been interpreted that our terms and conditions, where we retain the right to withdraw from funding for any reason, have no effect on what we have to provide in our accounts. This is difficult to understand.

### Definition of employee benefits

This is not an issue that is relevant to the changes proposed in the charities SORP and so it applies to the wording in the current Charities SORP as well. It has come about as we have been preparing our accounts for the current year.

Module 9 the SORP refers to 'other employee benefits' without defining what these are. Charities will track benefits that relate to that employee as they need to report these benefits for tax purposes. It could be argued that employees also can make use of other benefits that are either not taxable (e.g. a free eye test in some circumstances) or are not attributable to an individual employee. For example, this might include an employee assistance programme where there is no benefit in kind for the employee and so no individual amount allocated to individual employees. It would be helpful if other benefits could be defined as other taxable benefits to provide both clarity and pragmatism over how these amounts should be disclosed.

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

##### Example accounts

With the increased complexity of accounting coming about from the new requirements of FRS 102 for income recognition and lease accounting the need for example accounts is greater than it ever has been. As a result, we would strongly encourage the SORP making body to ensure that example accounts are available on a timely basis to help ensure the adoption of the new Charities SORP can take place as smoothly as possible.

We notice, for example, that with the pensions SORP model accounts are provided as an appendix to the SORP itself.

##### Use of Charities SORP information sheets

The length of the exposure draft for the next charities SORP is considerably longer than the current SORP. It would seem inappropriate to suggest that the SORP should be any longer than that. But there is the need for further guidance in some areas. In particular, we are very keen for there to be a charities SORP Information Sheet to provide additional information in respect of legacy accounting.

Further charities SORP information sheets are likely to be needed to provide further guidance in respect of lease accounting and income recognition especially taking into account the needs of smaller charities. These will need to be available before charities have to prepare accounts in accordance with the new Charities SORP.

##### Education programme for the new Charities SORP

It seems clear that the new Charities SORP will be challenging for many charities to apply especially given the new income recognition and leasing requirements. Serious thought should be given to how the changes will be communicated to the charities that will need to apply it.

##### Format of the consultation

We found that the format for responding to the consultation has not been ideal and it would have been helpful to have other channels for communicating a response. In many cases a response will require the input of more than one person and this form of response makes that challenging. The consultation is very important in developing technically correct and effective reporting standards and we hope that this format has not discouraged too many from responding. We hope that lessons will be learnt for the future.