

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:

Julia Megone

Email address:

[REDACTED]

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

Accountant

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 :

City Bridge Foundation

Please select what best describes the organisation:

A charity applying FRS 102 and the Charities SORP

A user of accounts prepared under 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?

Funder

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)

In principle yes but we consider that there is limited differentiation between tiers 2 and 3 (with the exception of cash flows - see later comments on this) and that whilst it is a good idea to have 3 (rather than 2) tiers it would be preferable for there to be much greater differentiation between each tier and ideally fewer requirements for tier 1 than currently continue to be included there.

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 consider that this opportunity to do more for smaller charities is also an opportunity for reducing rather than increasing complexity, and on that basis we believe that tier 1 should be linked to the proposed thresholds for audit/independent examination as have just been consulted on by DCMS. In particular we would like to see more fall under the lowest tier (tier 1) - assuming that the DCMS consultation raises the audit threshold to £1.5m, we favour keeping the tier 1 income requirement at that level. As grant funders who use charity accounts for our due diligence, we do not consider that increasing the threshold for tier 1 to this level would adversely affect our ability to carry out due diligence.

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

No

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

We are not sure that the current proposed layout is the most easy to navigate, especially for the smallest charities, and the SORP is extremely long. For improved ease of access possibly the accounting aspects could be separated from the requirements for the Trustees' annual report, which could be downloadable by tier - as non-financial Trustees/volunteers for very small charities are most likely to find this document hardest to navigate and so should be prioritised

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

No opinion

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

No Response

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

We consider that for a number of our funded organisations (many of which would fall into tier 1) there can already be confusion about thresholds for e.g. audit vs IE, receipts and payments accounts - so alongside the audit thresholds it could be helpful to consider having rules similar to the Companies Act to avoid constant moving between tiers e.g. if meet thresholds in 2 of 3 years.

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)

In principle these questions are helpful but as part of such an enormous document the people who they are aimed at (presumably non-expert Trustees/volunteers at the smaller charities) that they may be hard to find. It would be helpful to consider options to reduce the overall length of the document, find ways to pull out key information (e.g. a separate section on the TAR) and ensure that these helpful approaches are not lost in a swathe of text

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)

There could be some consideration of the fact that many charities already produce separate impact reports - could the SORP offer the ability to cross-reference to these where they cover a similar period?

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

No

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

The introduction of new language 'encouraged' is confusing we would prefer to see consistency with defined terms used elsewhere ('must' and 'should'). From a large charity in tier 3 perspective the requirements do not appear onerous

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

No opinion

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

No Response

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

Yes

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

We are very supportive of this clarification - we look closely at (free) reserves as users of the accounts (funders) and having greater clarity across the sector around what they need to be managing/disclosing and how it ties into the accounts will be extremely helpful

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

Yes

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

We are very supportive of this requirement - one of the key pieces of information for us in looking at charity accounts is understanding the reserves position compared to the charity's policy, so having explicit requirement for this will be helpful and hopefully reduce the number of additional queries we need to raise with potential funded organisations, speeding up our due diligence processes

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)

Proportionate in themselves but consider the overall burden on smaller charities - rather than adding in it would also be good to consider what could reasonably be removed

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)

Although it is not clear that it will resolve inconsistencies in approach between charities

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

We wonder whether more could have been done to emphasise the CC14 guidance around responsible investment and link this to sustainability reporting for the largest charities (where they hold investments), to encourage Trustees to take account of the revised guidance.

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?

Yes

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

We note that sections of FRS102 are just restated - will it be made clear that this is only for the new introduction of these requirements with an aim to remove in future (and reduce the SORP in size)?

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)

Assuming that hyperlinks to the glossary, relevant elements of FRS102, other areas of the document etc. are all included, this is reasonably manageable to navigate. It could be helpful to provide some kind of process flow chart at the beginning to direct people to relevant areas. Would also be good to clearly identify the sections for 'Step 1', 'Step 2' etc.

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

No opinion

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

No strong opinion although it would potentially be helpful to have some kind of separate fact sheet to help charities assess whether grant income should be treated as exchange or non-exchange transaction, and other aspects of grant income recognition as we regularly see issues with the way our own grants are recognised in the accounts of funded organisations and believe this is an area that requires support.

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

No opinion

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

At the moment the separate elements of the module are not that clearly defined so if these were clarified then holding disclosures in the area to which they relate would make sense

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)

This seems like additional detail that could be inferred from an understanding of designated funds

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

Yes

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

No Response

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

Yes

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

We believe some kind of fact sheet would be helpful, given that some of those involved in accounting for legacies may not have significant engagement with other aspects of the SORP, and we do not consider it to be a good idea to increase the volume of the SORP any further

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

No

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)

See above comments relating to taking large sections of FRS102 and including in the SORP

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)

No Response

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)

However for very small charities this will still be a very burdensome requirement and the need to make significant accounting adjustments to recognise peppercorn lease arrangements which often apply to very small charities does appear a challenge that could be further considered for any possible further simplifications (recognising the requirements of FRS102).

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

No opinion

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

See above comments noting that this may well apply to very small charities which should be taken into account.

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

None

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?

No, this should be required of all tier 2 and 3 charities

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

Ideally we would see the statement of cashflows removed across all tiers except where required under other legislation e.g. Companies Act, given that we believe the cashflow statement provides limited value to users as a backwards looking statement. However if it is retained it would be better/simpler to be clear on applying to tiers rather than small entity thresholds (adding confusion)

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

As a funder we do not refer to the statement of cash flows in the accounts to assess financial stability of applying organisations, so it would not impact our needs as users of smaller accounts - therefore supportive of this simplification.
If the cashflow were to be retained we believe it should distinguish between restricted and unrestricted cash flows as this is crucial to understanding a charity's stability and resilience

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

Yes

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

No Response

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

Yes

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

No Response

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

No Response

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

Yes

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

Yes we are supportive of this, as holders of social investments we did not previously use the split and the loss will not impact our users. However the revised SORP does get a bit confusing where the previous split is now merged - previously identified that some investments would not do both financial returns and purpose, now seems to assume both and it is not clear the accounting treatment of something that no longer appears to meet the definition of a social investment?

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

Yes

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

No Response

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

Yes

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

However does assume that a previous programme related investment meets the new criteria

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?

21.29 is helpful clarification on what is not a social investment
Overall very helpful clarification on impairments
In section 21.7 it is stated that where a social investment temporarily stops contributing to the the charity's purpose it should be reviewed for impairment. Not that clear on what the impairment review involves - writing off part of the asset by reclassifying it to financial / property investments?
21.22 and 21.25 seem to repeat one another

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)

Overall we feel that the definition of smaller charities is too narrow, with many of the charities we fund with income <£1.5m still having a small staff team and limited financial expertise internally. In addition whilst as users of the accounts we welcome the SORP's attempt to ensure consistency across the sector, in reality as the volume of requirements increases the level of compliance appears to decrease and so in general we would support a further reduction in the requirements placed on smaller charities - one example might be allowing for some exemptions in the complex transactions of accounting for peppercorn rents.

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?

We would be supportive of an inflationary increase in the reporting threshold for staff salaries. Although we find this useful as users of funded organisations' accounts, some increase would be considered proportionate

Our main comment is that this is a very long and complicated document and any further attempts to simplify, improve navigability and reduce requirements (e.g. splitting 'must' and 'should' out more clearly, considering if more elements could be moved up from tier 1 to tier 2) would benefit the sector. As funders who use charity accounts on a regular basis, it is our view that a reduction in requirements would be more likely to increase compliance than increasing the volume of detailed prescriptive information which many do not appear to engage with in great detail (or, in some cases, at all).