

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:

Naziar Hashemi

Email address:

[REDACTED]

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

Partner, Head of Social Purpose & Non Profit Organisations

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 :

Crowe U.K. 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)

Our consultations within the sector indicate overwhelming support for tiering.

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)

Tier 2 banding from £500k to £15m is a large band. There are substantial differences between a charity at either end of the spectrum. Furthermore, the monetary amount is based only on income in a single year. There is no asset or employee test and there is no two year test as there is for Companies Act size criteria. See response to question 5.

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)

Yes, the table in 1.11 of the Exposure Draft SORP is very helpful in clarifying the requirements for each tier.

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?

Disagree – should be referred as tier 1

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

The largest charities should be referred to as Tier 1 which will also ensure consistency with other approaches such as that within the International Financial Reporting for Non-profits Organisations International Non-Profit Accounting Standard (INPAS - IFR4NPO).

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

All registered charities are required to prepare a TAR, even when preparing receipts and payment accounts, therefore the SORP Committee should consider providing a steer e.g. Charities preparing receipts and payments accounts should follow the requirements for Tier 1 charities.

Consideration is also required as to the impact of changes year on year. For example, a charity reporting normally under Tier 1 may receive a significant one-off donation or legacy, which could push them into the Tier 2 reporting requirements in that year. The following year, they would then return to being a Tier 1 charity and therefore have reduced reporting requirements.

The Companies Act caters for such scenarios by applying a two year rule. We recommend that the SORP Committee consider adopting a similar approach to determining the reporting tier a charity must comply with.

Furthermore, there are some charities with significant endowments and therefore have a high value of assets but low income. This could result in charities falling into a lower tier. We recommend the SORP Committee consider whether income alone is an appropriate determining factor for the tier under which a charity reports.

Lastly, the Charity Commission recently consulted on changes to the various financial thresholds within charity legislation that impact on requirements to prepare accruals or receipt and payments accounts, requirements for independent examination and requirements for statutory audits, amongst other things. The SORP Committee should consider and reflect on whether these changes should impact on the tier thresholds.

Question 6: Do you agree that including prompt questions will help trustees to develop their Trustees' Annual Report?

No

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

We believe that the prompt questions are not helpful as it is prefaced that the report must provide answers to the questions making it seem like it is set up to answer exam questions thereby taking away people's creativity in responding to the requirements in a tailored way for each charity. It will make people think that they need to fit into rigid structures and a checklist.

However breaking up the text in bullets is useful and more clearly presents the requirements.

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

No

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

As noted previously Tier 2 encompasses some small and then middle sized charities. Those charities which are closer to the bottom of Tier 2 may struggle with the impact reporting requirements for Tier 2 and above.

Furthermore there is a lack of clarity as to the exact requirements as 1.31 states that there must be an explanation of impact whilst 1.32 states what charities should include. More guidance in the form of 'may' 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 the requirements for sustainability report for each tier to be proportionate, however note that Module 15 of the SORP does not provide any consideration for areas of overlap with the requirements of s172 of the Companies Act. Further clarity on this would be beneficial to preparers of the financial statements.

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)

Not all charities make extensive use of volunteers, and may have a very low number but would be required to make the additional disclosures. Smaller charities, or those with very few volunteers, may not have the information systems capable of tracking this. Perhaps an additional threshold could be determined beyond the current tier structure.

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?

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?

No

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

The accounting policies of a charity should already provide sufficient details to allow users of the accounts to understand when legacies are recognised, and any significant judgements or estimates involved, and therefore provide the context required to understand the impact of material accrued legacies..

It would be more beneficial for the additional requirements noted in 1.46 of the draft SORP to be included in the Notes to the Financial Statements, or to require a specific disclosure as to the amount of accrued legacies at the reporting date.

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

Tier 1 charities should be required to comment on the financial effect of significant events, provide a short description of their risks and uncertainties as well as the impact of material pension liabilities.

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)

Overall this module does not provide sufficient relevant, clear guidance to assist charities with understanding the application of FRS102 in the charitable context. There should be better use of relevant examples and less sign posting to FRS102.

Many of those we consulted continue to be unclear as regards to performance related grants accounting treatment.

Question 18: 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)

5.112 is somewhat unclear especially given that this is a 'must'— what does this mean, in other words what is the essence of why this is a requirement? Can the SORP provide example disclosure to assist preparers in understanding what is actually required?

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?

Yes

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

There is a general lack of appropriate examples or considerations specific to the sector. Most of the text included is simply FRS 102 regurgitated.

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?

Yes

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

No Response

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

No

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

This approach is already commonly used across the sector, so this does not provide any further clarification than currently exists.

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)

Although the SORP has not changed guidance on recognition of legacies, the removal of entitlement as a criteria and the focus on two recognition criteria, probability of receipt and measurability is likely to cause uncertainty. Therefore linkage to the ED definition of an asset and an emphasis on 'economic resource controlled by an entity as a result of past events' is important.

The ability to direct the use of an economic resource means the charity must be able to decide whether to use the resource, when to use it, and in what way to use it.

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?

No

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

No Response

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

The section is poorly disaggregated, and not clear in its requirements. It would be helpful to split the module into two separate sections for exchange and non-exchange transactions.

For exchange transactions, the five steps are not clearly identified in the body of the text – the addition of sub-headings would allow for more clearly identifying the requirements and associated guidance / considerations.

5.17 states 'Refer to Section 23 if this should apply' without providing any clear guidance where this may apply

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)

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 - do not understand a specific section

No - do not understand recognition exemptions

No - do not understand disclosure requirements

No - do not understand time value of money (free text box will be provided for more information to be added)

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

There needs to be further examples of how the guidance should be applied. For instance, an example of the initial and subsequent measurement of the ROU asset and lease liability would benefit preparers, as would specific considerations for charities regarding the reasonably certain test.

Where examples are included, they are not clearly indicated, but instead form part of the body of the text – it would be better if these be more clearly identified, like the examples in Table 9A

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)

The current drafting does not make it clear when a peppercorn or nominal arrangement would be considered a lease, therefore does not provide any greater guidance than that contained in FRS 102.

It unhelpfully refers to Module 6 in case where there is not a lease, which does not provide further guidance on whether it is a donated asset or a donated facility i.e. what would be the distinguishing features for consideration?

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

Yes

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

No Response

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

No Response

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)

Allowing an exemption for small entities from presenting a cash flow, but not allowing them to avail themselves of other small entity exemptions under Section 1A is inconsistent.

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

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

Where an endowment fund is managed on a total return basis, the user is concerned with the overall performance of that fund and that the initial capital is protected.
Requiring additional disclosures for a single specific class of asset is disproportionate – what if the funds held in equities made a loss and the social investment didn't? That wouldn't require a specific disclosure.

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

No

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

See response to Q32

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)

Given that this is the definition within the Charities Act there is not really an option here.

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 Exposure Draft at 21.32 states that states that "An impairment loss arising on a social investment should be recognised as an investment impairment in the 'gains/(losses) on investments' line in the SoFA." Given that social investments are an activity undertaken by charities in furtherance of their charitable purposes, the classification of impairment losses and losses on disposal as 'gains/losses on investments' does not reflect the actual nature of the transaction.

As a result of the simplification of how gains and losses on social investments are presented in the financial statements, some charities may need to adjust comparative figures.

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)

Module 21 is not clear on the presentation of prior years as a result of the changes in 21.33 – 21.34. Are preparers required to restate the comparatives for this?

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)

No Response

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

No Response

Question 40: Do you agree that the drafting, structure and proposals in the Exposure Draft SORP support the needs of smaller charities whilst addressing the needs of users of charity reports and accounts?

No

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

No Response

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)

No Response

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

The requirements for comparatives for almost all disclosures and notes is still there and can clutter the financial statements. A suggestion would be to provide guidance that tables can be condensed or the additional disclosure is in narrative form.

There has been no uplift in the bandings for higher-paid employees, therefore more and more employees will be captured by this disclosure requirement. Given the media interest in charity pay, and the misconception amongst the general public regarding paying charity staff, this could be more detrimental to public trust. If other thresholds are increasing (i.e. the recent Charity Commission consultation) then it would make sense to increase the bandings.