

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:

James Foscett

Email address:

[REDACTED]

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

Accountant, auditor, independent examiner, trustee

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 :

Dux Advisory Limited

Please select what best describes the organisation:

An accounting firm / auditor

An accounting firm providing independent examination services to charities

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?

Between 21-50 charity clients

An accounting firm providing independent examination services to charities

How many charity clients do you supply your service to?

between 21-50 charity clients

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)

Helps to clarify what a charity needs to disclose and automatically removes most non-applicable requirements so that smaller charities don't try to produce information just to comply with SORP when it isn't relevant to their day to day operations

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)

There would appear to be a logic in Tier 2 staring at the audit threshold. This could reduce potential confusion where a charity subject to independent examination has to make different disclosures year on year even though the assurance report remains the same.

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)

Setting this out at the beginning of each module should help when trying to determine if particular requirements apply to a client rather than having them all together at the beginning or end of the SORP (which could be inconvenient as the SORP is a long document)

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)

It doesn't matter which direction the numbering goes as once the SORP has been in place for a short while everyone should be familiar with which is the small tier and which is the large tier

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

In principle it makes sense, although there is an argument for saying that Tier 2 is too wide, as there is a significant difference between a charity with say £1m income and one with say £13m income, and it wouldn't be unreasonable to expect greater disclosure for the larger charity which is likely to have greater ability and means to produce the required disclosures

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)

although there is a risk that the questions will be used as a "tick box" exercise rather than as prompts

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)

The concept of reporting how the charity's work has provided "any wider benefits to society as a whole" could be problematic for Tier 1 and smaller Tier 2 charities as they are more likely to be local charities making a difference locally and may not understand what "society as a whole" means (could be interpreted as "to the world in general"?) so including some explanation of this term would be beneficial

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)

whilst it remains difficult to get reliable quantitative information on (in particular) climate related matters it would be unrealistic to expect most charities to be able to include anything very meaningful in this respect so encouraging disclosure is probably a reasonable compromise at the moment

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

Yes

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

smaller charities are unlikely to have systems in place to record the number of hours "worked" by volunteers so it is reasonable for this not to be a requirement. Its unclear why the section in module 6 is still required when all of the disclosures are in module 1

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)

However it is unlikely to remove the confusion between reserves and funds. Also in the glossary the bullet point referring to pension provision, long term mortgage and revaluation reserve is a bit of a smoking gun when it doesn't explain what should be considered (especially as the considerations aren't obviously the same for each), The first 2 bullet points say what effect restricted funds & expendable endowments could have, so why not do the same for pension provision, long term mortgage and revaluation reserve

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)

reserves are relevant to all charities and the inclusion of these disclosures should reflect good governance if they are complied with. 1.38 refers to "any policy (a charity) has for holding reserves" but shouldn't this be "the policy it has" as all charities should have such a policy?

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)

it is good for trustees to consider the future of the charity and having a requirement to talk about this in the trustees' report should help to ensure this happens

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)

how legacies are included in the accounts should be covered in the accounting policies so this is really just bringing the accounting policy into the trustees' report. If the new treatment of operating leases proves to be difficult to understand will we also bring an explanation of that into the trustees' report? Maybe there should be a requirement for the accounting policy to be clearer

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

the trustees' report should be the "shop window" for a charity so it should want to make most of these disclosure requirements anyway as a way of selling what the charity does and how successful and well run it is, which in turn should encourage "investment" in the charity by funders, supporters etc

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)

it helps to explain what is meant by "natural classification" as that phrase is slightly odd and not one used elsewhere in accountancy. It really means reporting by type of expenditure so perhaps consideration should be given to saying that rather than natural classification. There is an argument that even small charities' costs can be allocated between Raising funds, Charitable activities & Support costs so the face of the SOFA could be the same for all charities with the analysis in the notes being by expenditure type or activity depending on charity size

Question 16: Do you have any other comments on module 4?

Retaining the format of the SOFA is sensible as in general people are now familiar with it. Consideration could be given to requiring all charities to use the Raising funds/Charitable activities/Support costs presentation on the face of the SOFA, with the option to use activity or expenditure type only then being available in the notes to the accounts

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)

5.26 says "proving" but this should be "providing"?
The five step model is difficult to explain simply but the module makes a reasonable attempt at this even if at times (understandably) it gets a bit more technical than is ideal

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)

5.100 presumably means "rather than charging the adjustment AS AN EXPENSE in the SOFA" as legacy income does appear in the SOFA? This also assumes the adjustment will be downwards?

5.103 refers to gift aid to a parent charity, on the basis that this is now considered legally to be a distribution, but most users of the SORP are likely to regard this as a donation and show it as such on the recipient's SOFA so perhaps this needs more detailed explanation in this paragraph

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)

separate sections of the same module is more logical as they are just different forms of income

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)

having all of the disclosure requirements together should be easier for users of the SORP, although it may be helpful to add more paragraph references to the disclosure points so it is clear where to find the guidance supporting/explaining the disclosures

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

Yes

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

this is what many charities have done in practice for a long time but it is helpful to have specific reference in the SORP. However, the inclusion doesn't of itself deal with the underlying potential confusion: perhaps 5.88 should include an encouragement to include an explanation in the accounting period in which the grant is received explaining why income may appear higher because the expenditure is written off over a period of time

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)

there will always be issues with timing of recognition of legacy income, and, for legacies which are not for a specified sum, the amount to be included, but the draft SORP requires disclosure of more detail about the policies used which should assist both the preparer of the accounts and the user of the accounts. In most cases a charity will only know about a legacy when they hear from the executors or a solicitor acting for an estate, especially smaller charities, so there could be reference to this being a reasonable point to regard as a legacy being "reasonably likely" to be received

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)

additional guidance on such areas is always helpful, and legacies can be a significant but irregular source of income, especially for smaller charities, so having a reference point for when they are received would be helpful. This could also include information on what information charities should expect, or are entitled, to receive from executors as some larger charities seem to expect a lot even if there is no obligation for executors to provide the information.

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

the concept of exchange and non-exchange transactions could be difficult to explain at first but hopefully it will be easier in due course and help to explain the difference between contracts of service and contracts for service which is often the current basis

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)

As this is a revised SORP it seems odd that the opportunity hasn't been taken to renumber modules rather than have 10A and 10B

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)

in as much as it is possible to explain them in a clear and understandable way!

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)

but it is unclear what the difference is between the nominal arrangements covered by 10B.68-10B.73 and those in 10B.74-10B.77. It could also perhaps be clearer that for social donation leases there could be entries in the accounts for a gift in kind (with matching donation & expense) as well as the payment for the lease

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)

the phrase "general description of the lease term" could be misinterpreted and be regarded as a requirement to just disclose the length of the lease, as opposed to the presumed intention of the disclosure requirement which would be to disclose the financial effect/terms as well, so while the disclosures are reasonable there could be greater clarity of what exactly is required

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

why is it called module 10B? why not use the revision to renumber module 10A as module 11, call module 10B module 12 and renumber existing module 11 as 13 etc

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)

based on earlier response, it would seem more logical for Tier 2 to start at the audit threshold and so having the cashflow statement requirement starting at the same level would be logical and reflect the greater accountability of a Tier 2 charity compared to a Tier 1 charity

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

consideration should be given to including additional guidance on the effect of the changes to lease accounting (module 10B) on the cashflow statement as these could introduce material non-cash items into the SOFA and balance sheet

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)

the potential risk is that past performance is no guarantee for the future so even though the losses may be covered by gains at the balance sheet date there will be a risk that this will not continue to be the case. Consideration should be given to requiring this to also be mentioned (or how this has been mitigated - by investing other amounts in the fund in guaranteed income products for example)

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)

Possibly need to include guidance on the potential for the losses not to be covered by gains elsewhere, depending on how the non-social investments have been invested

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

No

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)

mixed motive investments would generally have had a programme related or social element anyway, so greater consistency is positive

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)

if the asset is held as an investment then showing gains & losses as such rather than as other income seems a logical step

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)

21.35-21.39 do not mention comparative figures at any point

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)

just clarity that they are expected to be included

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

No

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?

Yes

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

setting out at the beginning of each module which paragraphs relate to which Tier should be helpful

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)

if section 1A does not require the desired level of disclosure then permitting it but adding further requirements in the SORP so that equivalent information was disclosed anyway seems pointless. Disallowing section 1A completely seems a simpler approach

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

in general the changes seem positive but it will be helpful for some example accounts to be made available at the same time as the SORP is introduced so that preparers have something tangible to refer to where the new disclosure requirements may be open to interpretation. These examples need to adequately cover the different legal structures which could be used as well as all 3 tiers (which could mean as many as 9 examples - unincorporated/CIO/company limited by guarantee at each tier). If the same figures were used across the examples at each tier then this could be a good way of showing the different requirements for the different legal structures