

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:

Debbie Paterson

Email address:

[REDACTED]

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

Employee

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 :

Healthcare Financial Management Association (HFMA) - our response is in respect of our member NHS charities rather than as a charity ourselves

Please select what best describes the organisation:

A sector body

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?

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?

51-100 member charities

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 generally supportive of this move – the charity sector is very broad, and it is reasonable to reduce the load for smaller charities that are run mainly by volunteers.

However, we are concerned that this adds an additional threshold to an already complex financial and regulatory framework. Our response to the DCMS consultation on financial thresholds in charity law was that thresholds should be aligned wherever possible.

The SORP should provide guidance for charities that move between tiers – perhaps on a regular basis, particularly where they rely on lumpy sources of income such as legacies and grants.

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)

The proposed thresholds do not align to the current thresholds for independent examination or audit or any other thresholds.

Those charities that have gross income of less than £250,000 can elect to prepare receipts and payments accounts which would mean that the SORP would not apply to them. If the proposed threshold was adopted, this means only charities with income between £250,000 and £500,000 would fall into tier one. Based on the incomplete data that we hold, this would mean around 25 NHS charities would fall into tier one which is around 8-10% of the total number of NHS charities.

We suggest that tier one should be aligned to the audit threshold. If charities are small enough to be subject to an independent examination rather than an audit, then their reporting requirements should be similarly simplified. For NHS charities this would be around 25 charities which is less than 10% of the sector. We suggest that all charities that are small enough to require an independent examination should be in tier 1.

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)

Table 1 on page 25 of the draft SORP is helpful but it would be clearer if the cells were merged where the reporting requirements for tiers two and three are the same. We found the headings in chapter one difficult to follow. For example, at the top of page 28 there is a heading that says 'Tier three – tier one and tier two requirements', this is then followed immediately by another heading that says 'Achievements and performance'. It is not clear that what the first heading means is that for tier three charities, the reporting requirements are the same as for tier two charities and this is the final part of the section on objectives and activities. It would be easier to understand if the heading above paragraph 1.24 said tiers two and three – in addition to tier one requirements. This may not be a problem if a tailored SORP can be produced but it does need to be clear as part of a standalone document.

We suggest that the table that follows each heading in chapter one could be removed if the headings were clearer.

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 do not have view on what the tiers are called other than our concern noted above that it adds another set of thresholds to an already complicated financial landscape.

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

No Response

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)

Not all trustees will be familiar with financial reporting requirements, so it is vital that chapter one of the SORP is as clear as possible. This chapter should be written so that a lay person can follow its guidance. The subsequent chapters that deal with accounting requirements are more likely to be used by individuals with an accounting background so a level of understanding can be assumed.

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)

For charities that are at the smaller end of tier two, the requirements of paragraphs 1.31 and 1.32 are likely to be onerous. We agree that trustees should consider how well the charity has carried out its activities and assess the impact that the charity is having. However, it is not clear what charities should report if they have not been able to set targets or used measures or collect the data necessary to assess performance. Some simple examples about using case studies or reference to other guidance or blogs such as Why should trustees explain the difference that their charity makes? 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)

It would be helpful if there was more guidance or examples to explain what environmental, governance and social matters mean in the charity context. Paragraphs 1.62 and 1.63 are helpful but further guidance would be welcomed.

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)

The requirements of paragraph 1.22 should be possible for most charities at little additional cost.

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)

Given the importance of charities reserves, we suggest that the definition should be included in module one as well as the glossary.

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)

As always, some worked examples would be helpful.

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 should be made clear that planning to keep on doing what the charity is doing is an acceptable plan. The phrase 'plans for the future' can be taken to mean that all charities should have the ambition to expand or change. Some charities may have the objective of making themselves obsolete. It would be helpful if the SORP reminded preparers of the trustee reports that these plans need to be in accordance with the objectives of the charity. Perhaps paragraph 1.48 should require charities to report a summary of the charity's plans for the future in the context of its charitable objectives.

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)

From the perspective of the reader of the annual report and accounts, it may be better for the explanation of how much income has been recognised in the accounts ahead of that resource being received to be included in the relevant note(s) to the accounts - income from legacies or payables.

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

Paragraph 1.3 refers to stakeholders and users – it is not clear what the difference is between a stakeholder and a user or whether the two terms are used interchangeably. This could be made clearer. Paragraphs 1.35 to 1.43 on reserves and going concern could be clearer. We are concerned that users of the SORP will need to move to the glossary for detailed definitions which makes it more difficult to use. Paragraph 1.42 would be clearer if it was re-arranged so it starts with the requirements for charities with no reserves or negative assets to make additional disclosures, then the SORP explains what going concern is followed by the requirements to consider whether there are any other material uncertainties around going concern. Paragraphs 1.66 and 1.67 seem to be saying the same thing in two different ways. The only difference seems to be the reference to the chief operating officer in paragraph 1.66. As we noted above, the headings around the tiers are unclear and the box that sets out the reporting requirements for each tier is unhelpful.

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?

Paragraph 4.7 includes the phrase 'using separate rows for multiple activities' which is unhelpful as it is not clear what it means.

The third bullet point of paragraph 4.18 raises the question, how is the disposal of any other subsidiary (one that was not acquired for resale) be reflected in the accounts? Would this fall into one of the other two bullet points? It might also be helpful to refer to material rather than major lines – or are the two different? The example of the charity providing services to the elderly is unhelpful – provision of services in residential and community settings feel like separate major lines of charitable activity – moving from one to another may result in the disposal of assets such as residential care homes, changes in staffing requirements and possible redundancy of staff providing soft facility services such as laundry services in a residential care home. While the charitable purpose remains the same, the operational framework is very different.

Paragraph 4.27 would be easier to read if the comma between Table 4 and section A1 was a full stop.

There is a typo in the second to last bullet point in paragraph 4.43 – income should have a lower-case i.

Paragraph 4.44 says this SORP requires – this is unnecessary. The sentence would be clearer if it simply said:

'Where applicable, the notes to the accounts must'

This phrase is used elsewhere in the SORP and does not aid understanding.

Paragraph 4.66 states that the transfers line must not be used when adjusting for a reversal of an impairment but does not say how such reversals should be accounted for.

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)

The guidance on the five-step module is clear in theory. We expect that applying it to actual contractual arrangements will be more difficult. More examples would be helpful.

We are concerned with the number of references to FRS 102. If there is an underlying assumption that the SORP should be read in conjunction with FRS 102, then any guidance that is duplicated from the accounting standard in the SORP should be removed. Ideally, the SORP should be able to be used as a stand-alone document with users rarely having to refer to the underlying accounting standard. But this needs to be clear, the box referring to FRS 102 before paragraph 5.20 is unclear – does it refer to the paragraphs it precedes or proceeds?

We suggest that the appropriate sections of FRS 102 are referenced at the start of each module with only limited references to the standard elsewhere.

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)

No Response

Question 19: Do you consider that the guidance on exchange and non-exchange transactions should be set 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)

As long as the two halves of the module are clearly separate then it should make little practical difference. However, as the two types of income are so different it makes sense to have two modules. Most NHS charities do not have exchange transactions so it would be helpful to be able to build a modular SORP that excludes the guidance on the five step model.

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)

As long as it is clear to preparers that disclosure requirements are at the end of the module then this should make no difference. This is the way that accounting standards are written so preparers of the accounts will be used to looking for disclosure requirements at the end of the module.

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

No opinion

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

NHS charities tend to be grant-making charities, so this clarification is unlikely to be used by them. For those that hold capital assets funded by grant income, this is helpful guidance.

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)

The accounting requirements are mostly clear. However, paragraph 5.95 needs some context. Is this considered best practice for all charities or for charities with material legacy income? Or is this paragraph only applicable to those charities that have databases or use will notification services?

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)

Accounting for legacy income will always require an element of judgement and estimation. We are aware of NHS charities that have taken appropriate advice on the likely legacy, only for probate to take many years or the legacy to be a different amount. As always, some worked examples would be helpful, particularly on reviewing judgements and estimates on a regular basis and making adjustments when they change.

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

Paragraphs 5.67 and 5.71 are not very clear. It would be helpful if the requirements of the performance model were included in paragraph 5.67 with a simple statement that the accrual model opinion in FRS 102 is not permitted.

Paragraphs 5.77 and 5.78 talk about restricted grants but do not clearly state that this means that they should be accounted for in a restricted fund. It may seem obvious, but it should be made very clear.

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)

Paragraphs 10B.2 to 10B.10 would be better included in the rest of the module – while they intend to provide an overview, they raise more questions than they answer. For example, the reference to operating lease arrangements in paragraph 10B.7 is unhelpful as it is referring to an accounting treatment that is no longer applicable for lessees under this SORP. Equally, paragraph 10B.6 will only be valid in the first year of adoption of this SORP. It may be better to remove the reference to operating and finance leases and simply state that for lessees, an asset and liability is recognised at the commencement of all leases unless they meet the low value or short-term exemption. Accounting for leases by the lessor and the lessee need to be in separate sections of the module – and it should be very clear in the sub-headings which is which.

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

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

Some of the examples raise questions. For example, in paragraph 10B.26, if part of a floor was rented would that be a lease? That may depend on whether there are shared areas that the charity does not have control over, but a single room could be leased where the charity has control over that room. Paragraph 10B.31 implies that if there is a right to buy the car then the arrangement is not a lease but a contract could be a lease arrangement even it did include a right to buy. We suggest that in the section on lease elements and recognition should be reordered. Paragraphs 10B.45 to 10B.55 should be moved towards the end of the section so how to measure the right of use asset explained in paragraph 10B.48 is moved to be the second paragraph of that section. There is a typo in paragraph 10B.48 as the word asset is missing after right of use. Paragraph 10B.53 would be much better explained with a worked example.

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 difference between a social donation lease and a peppercorn arrangement is not clear and the phrases seem to be used interchangeably. It seems that the key considerations are the reasons for the low rent and then how low the rent is compared to the market rent. It would be helpful if the SORP made it clear that this is an area where trustees will need to make a judgement. It may not always be clear whether the lease is a reduced rent or such a low rent that the arrangement does not meet the definition of a lease. Table 9A is very helpful and may be more useful earlier in this section. As always further examples would be welcome.

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?

Yes

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

Ideally, the definition of a small entity should be included in the SORP. If this is not possible then reference should be made to sections 382 and 383 of the Companies Act 2006. Otherwise, preparers will have to find the definition in FRS 102 and then go to the Companies Act.

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

Paragraph 14.4 is not easy to read and seems to be repeating itself – we suggest that the sentence should end where the comma is.

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)

The SORP must be clear that the financial return from social investments may be incidental. This was clear in the definition of programme related investments in the current SORP and is not so clear in the exposure draft, particularly paragraph 21.8.

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)

No Response

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?

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?

Yes

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

However, we are concerned that the SORP is becoming much longer and complex which will be difficult for smaller charities to apply. We understand that the use of the term SORP is set by the FRC, but the document is no longer really a statement and as most of its requirements are obligatory, it is not really setting out recommended practice as this implies that there is a level of choice. The option to produce a tailored version of the SORP may help smaller, less complex charities as it will allow charities to ignore the parts that are not applicable to them. However, not all smaller charities will be less complex, so it is vital that the SORP is clear and concise.

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?

The definition of amortisation in the glossary does not refer specifically to intangible assets. It is not clear why amortisation is defined but depreciation, of tangible assets, is not. Combined financial statements (aggregated accounts) is defined in the glossary but neither term appears in the SORP.

We assume that annex A will be updated in line with the results of the Government's consultation on financial thresholds for charities.

The paragraph references in paragraph B65 seem to be wrong – 10.20 should be 10.19, 10.30 should be 10.29 and 10.90 to 10.91 should be 10.91 to 10.92