

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.

No

Name:

No Response

Email address:

[REDACTED]

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

No Response

Are you happy for the SORP-making body to contact you if needed to discuss your responses?

No Response

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 :

Haysmac 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)

This is helpful for smaller charities to identify what is actually relevant to them. As noted elsewhere, we do think more could be done to pull out the requirements for tier 1 charities so that it is clear what is required for small charities. The proposed SORP has increased significantly in size, and enabling smaller charities to identify those requirements which apply to them would ease the additional compliance burden.

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)

In our view, the tier 1 reporting threshold is too low. Given the impact of inflation in recent years, a charity with income over £500k is not necessarily a complex organisation. We would support an increase to say £1m which would align to the current audit threshold in England and Wales and the forthcoming audit threshold in Scotland. This would limit the number of tier 2 charities being independently examined which would seem appropriate to reduce the number of more complex accounts subject to independent examination.

Further, for a charity in receipt of a legacy, for example, which is one off, the current guidance could tip them into the next tier of reporting for one year. It would be a helpful addition to set a rule that you have to breach the threshold limits in two consecutive years before having to prepare accounts for the next level but only between tiers one and two.

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)

It would be helpful for those smaller charities in tier one, which is the majority of registered charities in the UK, to have their requirements in a separate stand alone document so they don't have to sift through 300 pages of SORP to identify the requirements which apply to them.

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)

So long as it is clear and consistently applied we do not have an opinion on this point.

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

Although the removal of the requirement for a cashflow statement will be seen by many as a welcome relaxation, many charities operate and monitor their finances by monitoring cashflow and so perhaps this is something that is useful to many charities. Perhaps a simplified cashflow should be required for smaller charities which would help to show the management of cash. For some charities, this can differ significantly from the recognition of income within the Statement of Financial Activities and therefore we do consider the cash flow statement to have value. We also note that the tier 3 criterion and FRS 102 are not in complete alignment, and therefore this could cause confusion for some tier 2 charities who need to produce a cash flow statement in line with FRS 102.

We would also suggest inclusion of an explanation of the difference between gross income and turnover to assist users in correctly identifying the tier they are in.

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)

No Response

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)

Whilst it is important for the charity to be able to show how it is meeting its objects and meeting the needs of beneficiaries we feel that the financial statements should consider the extent to which this is the correct document in which to include such non-financial information. The FRC guidance is to consider 'clutter' and we see many trustees reports that are very long and includes lots of additional, non mandatory information, to fulfil a need which is over and above that of a set of financial statements. A piece of narrative to help preparers consider the 'balance' and volume of information being provided would be helpful. Furthermore, we think a separate heading within the "achievement and performance" section of the SORP would be helpful to identify clearly what is being required in relation to impact.

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 are broadly supportive of the proportionality - i.e. with tier 3 charities having greater requirements.

The status of "encouraged to explain" for tier 1 and tier 2 is not in line with the usual conventions followed by the SORP and could be clearer - i.e. is it "should" be included? We do not support the cross-referencing to information outside of the Trustees' Annual Report as such information could be altered after an audit (or independent examiners) report has been issued.

We would welcome more detailed guidance on this area, as what is included for Tier 3 charities is two relatively short paragraphs. We would also welcome more detailed guidance around the interaction between the charities SORP and the large company reporting requirements, which in our experience has been onerous for some charities in scope. As noted above, we would welcome clarity in the SORP on the difference between turnover and gross income which also relates to this point.

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)

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)

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)

Although it has always been a requirement to have a statement on reserves which should be a statement of all the reserves held by the charity, so this does not appear to be a new requirement. Where a charity has no reserves the auditing standards already guide auditors to consider the sufficiency of disclosures around going concern and in particular additional narrative in the accounting policy in relation to the Trustees' considerations and significant risks. We are therefore supportive of the requirement to explain how the charity where it does not have reserves.

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)

Although what you will end up with is a series of generic disclosures about them continuing to operate as they have done previously, particularly for smaller charities that rely on investment income to award grants for example, so we are not convinced that this will necessarily add to the readers understanding of the charities position.

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 requirements will still lead to differences of opinion and judgement as to whether a legacy is recognised or not. The difficulty in the current environment is that a charity often has probate of a will, but it can take years before the will is finalised and the monies distributed leading to a position where the charity has reported it as funds, but hasn't had the money. We would prefer the SORP to be explicit in the requirement for income recognition in this area to help charities report consistently. Probate granted and executors confirming that there is sufficient assets in the estate to pay - recognise. If the executors have not confirmed that the estate has sufficient funds at the year end date - non recognition. There are two further considerations. Further information received after the year end date and before signing. This is leading to situations where the charity didn't have sufficient information at the year end, but are still having to make adjustments. This we would suggest could be better dealt with by a post balance sheet event note rather than changing the financial statements. Where the charity is a residuary legatee, non recognition of any amounts should be made until the estate accounts are finalised. Again this could be dealt with as a disclosure requirement if it is considered to be material.

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?

There is currently no requirement to separately identify interest payable on the face of the SOFA. Commercial accounting requires this and so it would be helpful to also require charities to identify interest payable as a separate line item as they do for interest receivable.

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)

No Response

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 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)

This would be helpful along with examples to aid the users understanding of how to apply the standard. Grants and contracts are a common area where users of the accounts sometimes struggle to identify the substance of the transaction, and in our experience some charities also struggle to align the narrative in the annual report and accounts to the underlying agreements. Further guidance on what is a condition which would prevent recognition would be beneficial.

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?

Yes

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

Restricted funding for capital is restricted in the hands of the charity until it has expensed the funds for the purpose specified by the donor/grantor. Provided there are no further conditions other than spending on capital, once the purpose has been met, the SORP should require charities to transfer the restricted fund to unrestricted funds (provided the asset is itself unrestricted). There is currently an inconsistency in the way charities treat these funds, some preferring to retain the asset funded by restricted funds as a restricted fund and charge depreciation against it over time. This is inconsistent with the legal reality which is that the asset is no longer restricted, unless the donor/grantor has imposed additional conditions that need to be met after the asset is purchased/constructed (i.e. continue to operate the building as a theatre for a period of 10 years)

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)

Although see early response on greater clarity over information received after the year end date.

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)

See earlier response. this is an area where there is inconsistency of treatment and interpretation between charities and their advisors. For example, setting out how to account for specific scenarios would help users of the SORP navigate this complex area.

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)

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.

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?

No

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

There is a gap in the requirement to specify what the accounting treatment should be for a property that has been gifted at peppercorn rent or nominal value. Assuming such assets need to be accounted for at fair value this could have a significant impact on the accounting treatment of property assets and the resulting depreciation charge in future.

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)

The SOFA is often not a representation of how charities actually monitor and manage day to day activity. For many the availability of cash is crucial within the organisation and so a cashflow statement, or a simplified version, is a useful primary statement. We believe it should be retained for all larger charities to aid both trustees' own understanding but also that of the readers of accounts. We also note that under the proposals as drafted, there is a disconnect between the requirements of FRS 102 and the SORP which may cause confusion.

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

no

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)

No Response

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)

No Response

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)

This is a helpful simplification and reflects the reality of how many charities describe their activities.

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

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)

Although as noted earlier, it would be beneficial to strip out in a separate document the tier 1 requirements to make it easier for tier 1 charities to identify more easily what they need to do, rather than read through a 300 page document. The ability of tier 1 charities to use natural classifications is a very helpful concession, and overall the requirements for tier 1 charities appear proportionate. However, using the SORP could be made much more straightforward for those preparing accounts for tier 1 charities.

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?

There are a number of other areas of the SORP where we would like to comment:

- 1) Paragraph 6.14 indicates that those charities in receipt of donated goods to value those goods where the goods are for distribution to beneficiaries rather than resale. This is an inconsistent approach to those charities that receive donated good for resale, whereby paragraph 6.12 permits income to be recognised at the point of sale where valuating the donated good is impracticable. We believe that the same exception on a cost benefit basis should be afforded to those charities that receive donated good for distribution. If not this will lead to significant administration and cost for no real benefit to the user of the accounts.
- 2) It would be helpful for the preparers of accounts to have some guidance within the SORP on what can be allocated in terms of costs to restricted grant programmes where the grant is silent on what can and cannot be allocated against the grant.
- 3) In our experience, the concept of an expendable endowment fund is one which lawyers struggle with as the legal definition of an endowment is something that is held permanently. This concept is often used to make it appear that charities have fewer reserves than they in fact do and can be confusing to the reader. We think it would be helpful to require the accounts to explicitly state the circumstances under which an expendable endowment can be released and used for the charity's general purposes.
- 4) There is still a lack of clarity around the accounting requirement specifically for pledged donations. This is an area where it is open to interpretation and again we would recommend a more explicit set of requirements in the SORP.
- 5) There is need to clarify the disclosure requirements on salaries and bandings which causes a lot of uncertainty in charity reporting. The bandings and the KMP disclosure requirements are not currently consistent. The inclusion of NIC in the disclosure is confusing as NIC is a tax on the business and not relevant to the individuals remuneration package per se. We would also suggest raising the banding limits which were originally set in the 2005 SORP and if you applied inflation to those figures up to today, the £60k limit would now be nearer £100k.
- 6) In the disclosure of salary costs for group organisations, it would be helpful to require charities to disclose the split of salaries in total between the parent charity and its trading subsidiaries. This can often be essential to understand the split of activity between the charity and its subsidiaries particularly where the subsidiaries are the larger trading entity in the group.