

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:

Keith Macpherson

Email address:

[REDACTED]

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

Audit Partner

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 :

Henderson Loggie LLP

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?

More than 50 charity clients

An accounting firm providing independent examination services to charities

How many charity clients do you supply your service to?

more than 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)

We support the move to three tiers in principle, recognising the broader constraints for charity accounts requirements preclude access for charity reporters to the concessions that would be available to non-charitable smaller entities under Section 1A of FRS 102, or FRS 105.

While we recognise that the SORP ED provides more detailed guidance on accounting changes, it has significantly lengthened the document which some preparers may find 'offputting'. Even with the ability to tailor the SORP to the circumstances of your charity, a lot of the new material will be needed by all preparers and users of charity accounts.

'Think Small' was set out as the basis for the preparation of this version of the SORP, and overall with generally the number of 'must' requirements in the Trustees Annual Report section, it is difficult overall even with the move to three tiers to see where any extra concessions (other than on preparation of a cashflow statement for qualifying Tier 2 charities) have been provided to smaller charities reporting under the SORP.

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 criterion for Tier 1 is too low. There is no change to it for a number of years and it feels that there is no specific rationale for the £500k income level. With the audit threshold in Scotland moving to £1m income, and the threshold in England & Wales already at this level (although potentially also likely to increase), aligning the Tier 1 threshold with the lower of the audit thresholds going forward would limit the number of Tier 2 charities, with more detailed disclosure requirements, being subject to independent examination, which would be desirable.

Tier 3 being aligned with the £15m company threshold has some logic to it, but in terms of then the application of the cashflow 'exemption' within the SORP, the result of the interaction with FRS 102 is that some Tier 2 charities will be required to prepare a cashflow statement while some Tier 3 charities, which would otherwise be exempt from a cashflow under FRS 102, are required to prepare a cashflow. We believe this gives rise to additional complexity and potential inconsistency when looked at.

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)

In the main the bullet points are quite clear, but the building block approach means that the Tier 3 charities for example have to work through all the tier levels to pick up all the disclosure requirements. While these will naturally be the most sophisticated of reporters, then it does not feel like the most user-friendly way to build up disclosures.

There is also a need to ensure that there is consistency of language in the requirements, where these change in tiers from should to must, for example.

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)

Satisfied with the approach as it is, but equally would not be an issue if it was swapped based on consultation responses.

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

Firstly to reiterate that I believe the cash flow exemption would be better linked directly to the FRS 102 criteria for consistency. Secondly, there are some modules that are charity-driven requirements and hence disclosures, where no application of tiering has been made when it would appear this could have been done eg module on grant-making whereby smaller organisations could have been provided with slightly reduced disclosure requirements. In reality, the tiering introduced is primarily impacting on the Trustees' Annual Report content.

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)

With respect to paragraph 1.3, the questions set out high level considerations for trustees to consider and this is helpful. Language is however important and these are labelled as 'trustees should consider'. From an auditor perspective, if it was apparent from the Trustees' Annual Report that the trustees had not considered these prompt questions, then that is not a departure from the SORP under the wording convention. Clearly these are not direct reporting requirements, but it would be helpful if other wording could be used.

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)

Answered no, because while the term 'impact reporting' is defined in the Glossary as 'a term used in the SORP', the problem is that the term is not used in the SORP. As such the Glossary would be better defining 'impact'. Tier 2 requirements state in 1.31 'The report MUST explain the impact the charity is making...', but then in para 1.32 'The charity SHOULD include....information on activities, outputs and outcomes (or impacts)...'. This is very unclear as to what is a MUST or a SHOULD requirement around reporting on 'impact'. Tier 3 charities have no additional requirement as 'impact' is not used in para 1.34 but must also wrestle with the interpretation of the previous paragraphs

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 believe the requirements are proportionate but the use of 'encouraged to explain' does not fit with the drafting convention and should be amended. Also, we do not support the cross-referencing of material outside of the trustees annual report where it is a MUST requirement, as there are challenges with reviewing compliance with other reporting which may not be overlapping in the correct period, links may be broken etc.

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?

No

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

We believe the definition mixes up a definition of reserves with factors which may need to be considered by trustees when preparing a reserves policy. As such, a definition of 'reserves policy' may be more helpful to separate out these requirements.

Also, the Glossary definition states that the definition of reserves 'normally excludes' permanent endowment funds, expendable endowment funds and restricted funds. The inclusion of the word normally is at odds with the initial definition and with paragraphs 2.17 and 2.23, the latter of which are more accurate in stating that the existence of these funds may impact more on a charity's reserve policy.

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

No

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

Answered no as this is linked with the tiering threshold - if the threshold for Tier 1 is increased, then the disclosures would be more proportionate.

Question 12: Do you consider the requirement for tier 1 charities to provide a summary of their plans for the future is proportionate?

No

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

In order to assess going concern, small entities with few overhead costs may determine that they are a going concern if they do not commit any funding or commit to activities until funds are received. As such plans for future periods could be limited to making comment on what they could do if they are awarded funds, which does not feel overly useful as a MUST requirement. Setting out a 'SHOULD' or MAY where entities are able to provide meaningful disclosure would feel more proportionate.

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)

No Response

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?

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)

We believe the SORP could focus on specific guidance for charity-specific circumstances and examples, but with less requirement to duplicate material and wording that is included in FRS 102.

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)

I think consideration could be given to structuring either as separate modules, perhaps with A and B designation for exchange and non-exchange transactions, or alternatively similar to how FRS 102 uses PBE for Public Benefit Entity related paragraphs, per using a paragraph number 5E and 5NE, so that preparers are very clear whether the paragraph applies only in one situation or another.

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)

See response to question 18.

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)

Yes it would and per previous answers this could be achieved either by separation into different modules or use of E / NE designations that would equally apply to the disclosure sections.

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 a helpful clarification regarding this mis-match. More commonly, however, trustees and preparers comment that not being able to use the option for the accrual model option per FRS 102 for government grants which is a major source of funding for the sector provides that same confusing for the user of the accounts. If there was genuine concern over the confusion for users of the accounts, perhaps the same clarification could be made to set up designated funds also for non-capital funding?

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)

Entitlement is clearly implicit and a factor in legacy income recognition and we believe it should be referenced as such. It is unclear why emphasis is made on retaining 'entitlement' in paragraph 5.103 in respect of entitlement to a dividend when it has been declared, and not for a legacy as entitlement as a valid will similarly creates a legal document. The recognition criteria in 5.103 for dividends could just as easily have been written such that the income is 'probable' when it has been declared and not used entitlement in this instance. Consistency would therefore be preferable.

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, outside the SORP may be helpful for a number of areas of income recognition, given the significant changes introduced at this time.

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

No Response

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)

Yes but it would be helpful to be clear around peppercorn arrangements - where the SORP uses the term 'unlikely to meet the definition of a lease but are considered therefore to be a form of non-exchange transaction'. We consider it would be more helpful if the SORP could be more definitive eg "Except in unlikely circumstances, these arrangements will not meet the definition of a lease and are outside the scope of Section 20 of FRS 102, and should instead be accounted for under Module 6." The paragraphs 10B.76-77 would appear better suited to being in Module 6 as how to account for such arrangements.

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)

Principally around below market rents and peppercorn arrangements, see answer to q25

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)

Per response to Q25 we believe this could be more definitive than stating these are 'unlikely to meet' the definition

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)

We agree with introduction of an exemption but would prefer this to be aligned with FRS 102 criteria for exemption.

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 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 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)

No Response

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?

No

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

We think that as currently presented, the tiering for small charities has not changed yet the requirements for Tier 1 charities have become more onerous and the SORP itself has significantly lengthened which may prove challenging for preparers in smaller entities to navigate effectively. Adjusting the tiering thresholds may assist to an extent, plus consideration as to whether any additional tiering disclosure distinctions could be introduced in areas where the SORP determines the extent of the required disclosures.

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 believe that the drafting convention needs to be seriously considered for future versions of the SORP, and at the very least this version needs to be thoroughly reviewed for each use of the convention.

FRS 102 does not use 'MUST/SHOULD/MAY' and this can cause confusion when cross-referring to the underlying source. Indeed charities are often advised that they 'should refer to FRS 102', which is used not in drafting convention meaning as good practice but to mean that charities must refer to FRS 102 to understand the requirements in the specific area.

As a minimal example, paragraph 10B.132 of the SORP states 'must' requirements of finance lease disclosures as lessor on a charity, and in the middle of the second bullet point uses 'shall' for reconciliation of undiscounted lease payments to the net investment in the lease'. This can be confusing for preparers as 'shall' is lifted here from FRS 102 which is used as a requirement, but 'should/shall' are closer derivative wordings.

There will be other examples to be identified but we have not endeavoured to find them all.