

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:

Heather Lamont

Email address:

[REDACTED]

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

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 :

Honorary Treasurers Forum

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?

More than 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 recognise that the use of simple monetary income thresholds may have shortcomings that some organisations will perceive as disadvantageous because income is not necessarily a guide to the level of resource available to a charity to meet its reporting obligations (for example, a traditional endowed charity may have income in excess of £500k but little or no paid staff resource). However no system is going to be perfect and using income as the basis for tiering makes the most sense.

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?

Yes

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

The proposed levels appear reasonable and we believe would appear reasonable to most lay users of accounts. However we would recommend that some consideration is given to circumstances where a charity may temporarily (for example because of a large one-off income receipt) breach a threshold. A 'two years out of three' approach comparable to that used for company thresholds might be appropriate.

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)

No Response

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?

Agree with tier 3

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

The principle of 'think small first' indicates that smaller charities, which make up the vast majority by number, should be referred to as Tier 1.

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

1. We note that the SORP proposals introduce a further set of thresholds from those used for other purposes such as external scrutiny of accounts, charity registration and regulatory reporting. This additional complexity may be considered unfortunate by some trustees and preparers of accounts. However we acknowledge that prioritising alignment of the thresholds used for all purposes would be impractical and inappropriate; and the thresholds of £500k and £15m do each align with at least one other regulatory/reporting threshold that preparers of accounts will recognise.

2. We believe it would be helpful to include some provision for changes to be applied to the thresholds if this were deemed appropriate in future years, as a standalone measure outside of the full SORP making process. For example if the company law 'small company' threshold of £15m (that being also the proposed SORP Tier 2/Tier 3 threshold) were to change, it might be sensible to change the SORP Tier 2/Tier 3 threshold accordingly. We would also refer to the recent DCMS consultation on uprating thresholds for inflation, and the SORP committee may wish to be cognisant of the outcome of that consultation which may present opportunities for at least some alignment of threshold approaches across different frameworks.

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)

We hope that the prompt questions will encourage trustees to consider and debate their charity's effectiveness on an ongoing basis.

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)

We agree that charities should consider and comment on the ultimate impact that their work may have but our 'no' response to this question reflects our view that the requirements for Tier 2 (especially those at the lower end of Tier 2) and Tier 3 charities as currently worded in paragraph 1.31 are too prescriptive, too onerous and in many cases would be impractical.

Please refer back to us if you would like some of the many examples that spring to mind of charitable activities whose ultimate impact (as opposed to intended impact) cannot readily be understood. Given the helpful 'should include' content of 1.32 we think the effect of the SORP on this aspect of reporting would be undiminished by the deletion of para 1.31. However if 1.31 is to remain the language should be softened from 'The report must explain ...' to something like 'The report should describe the impact that the charity believes its work to have over the long term and for the benefit of society as a whole'.

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)

No Response

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)

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)

We believe that charities of all sizes should regularly reflect on their resilience and how they can provide the greatest benefit in pursuit of their charitable purposes. Requiring trustees to comment on this should encourage such reflection.

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)

We believe that for many charities which receive legacies, this income either regularly makes up a substantial proportion of their total annual income or, for others, it comes in unpredictable patterns which can result in the charity's total income fluctuating markedly from year to year (such as when a relatively small charity receives occasional sizeable bequests). In either case it would be helpful to explain the treatment in straightforward narrative terms for the benefit of readers of the accounts.

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)

We find that illustrative examples are almost always helpful to preparers of accounts seeking to understand the application of reporting requirements.

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)

In many parts of this section the language looks like a straight lift from FRS102 (other than substituting 'charity' for 'entity'), rendering it lengthy and impenetrable. We recognise that the SORP must reflect the requirements of the FRS but this section would especially benefit from more prominent examples, ideally examples working through the five steps, relevant to charities. Worked examples on membership subscriptions and other activities which may incorporate both exchange- and non-exchange transactions, would be especially helpful. Meanwhile, for the many charities which have only non-exchange transactions, it would be useful to have a simple explanation early in this section, which allowed them to identify that fact.

Question 18: Do you find the module easy to navigate as drafted?

No opinion

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?

No

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

1. Including them in the same module helps to remind preparers of accounts to consider the status of all transactions as exchange or non-exchange, as a starting point for identifying the appropriate recognition treatment. At the same time ...
2. The SoFA headings do not use 'exchange' or 'non-exchange' terminology, so keeping the two in the same module is consistent with the SoFA classification.

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)

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)

Yes, helpful for the relatively small number of charities affected.

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)

The theory is clearly set out although given the complexities of this area, we can foresee that some charities will need to refer to legal and professional advice for assistance in addressing their particular circumstances.

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 opinion

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

We note that accounting for legacies is irrelevant to many charities, while for those who do have legacy income it can indeed be a challenging area which would benefit from further guidance including plenty of worked examples. While further guidance might therefore be welcome by the affected charities, we would hope that their professional advisers could assist with this. In principle we would prefer that the SORP module can provide all the information, including worked examples, to allow preparers of accounts to meet the requirements with confidence.

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

The reference in para 5.95 to a named commercial organisation (Smee & Ford) is incongruous and could be regretted in the event of future changes in the market for such services, ownership or name. Better to refer generically to 'will monitoring services', 'probate notification' or something similar.

Question 25: Do you find the module easy to navigate as drafted?

No opinion

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

The module is logically set out but will be mystifying to many preparers of accounts. User understanding would be assisted by illustrative computations and presentations, including sample notes to the accounts.

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 opinion

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

We anticipate that while the individual components may be understandable to preparers of accounts, taken in combination this is a major change in practice which requires worked examples encompassing all of these features.

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)

Table 9A is helpful in providing realistic examples.

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:

1. Para 10B.4 notes that FRS102 excludes certain lease agreements, without saying what these are or where the reader can find this information (does it mean the exemptions referred to in paras 10B.15-10B.20?) It would be helpful to refer to that info at this introductory stage
2. It would be helpful in the relevant section (such as after 10B.55) to provide one or more examples of the lessee's accounting treatment for standard commercial leases, complementing the examples in Table 9A which refer to leases with a non-exchange element.

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)

No Response

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)

Appendix 4 does not state what the three new disclosures are, so it is difficult to comment on whether or not they are helpful.

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)

It is helpful that the SORP's reference to 'social investments' and the removal of 'programme related' and 'mixed motive' is consistent with the recent revision to CC14.

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?

No opinion

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 opinion

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)

Yes, broadly - although we have commented on areas where we believe the proposals are unnecessarily onerous and/or impractical for some 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?

No Response

