

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:

Christine Scott

Email address:

[REDACTED]

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

Head of Charities and Reporting

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 :

ICAS

Please select what best describes the organisation:

Other (please specify):
Professional accountancy 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?

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 a three-tiered approach in principle. We recognise that charity accounts requirements are constrained by the requirement for all charities preparing true and fair accounts to comply with FRS 102. This means that charities have no access to the concessions that would be available to them under Section 1A of FRS 102 or FRS 105 had they not been charities and met the relevant size thresholds and other eligibility criteria. We believe that the proposed changes as a whole, i.e. those arising from FRS 102 combined with SORP-specific changes, mean that the reporting and accounts requirements will be overly burdensome for the majority of charities expected to apply them. Throughout our response, we make comments and recommendations where we see scope for reducing compliance burdens. The proposed SORP has increased in length from 200 pages to 300 pages consisting of an increase in requirements, good practice recommendations and guidance. Given the increase in requirements placed on all charities, we believe it is important for the sector to understand that, while tiering does provide some limited disclosure and presentation concessions, that more is being expected of charities overall, including those in tier 1.

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)

We believe that the criterion for tier 1 is too low. This threshold for disclosure and presentation concessions from SORP requirements pre-dates the implementation of FRS 102 (for periods beginning on or after 1 January 2015). Inflation impacts on the level of sophistication of charities caught by financial thresholds if they are not increased, leading to requirements becoming disproportionate.

Given that the Scottish charity audit threshold is due to increase to gross income of £1 million or more and the equivalent aspect of the charity audit threshold in England and Wales is already at £1 million, we recommend that the criterion for tier 1 is increased to gross income of not more than £1 million. We recognise that the charity audit threshold in England and Wales may increase following the DCMS consultation on charity law financial thresholds, but it would nevertheless be pragmatic to increase the tier 1 criterion to £1 million.

An increase to £1 million would also, ultimately, limit the number of tier 2 charities across the UK being independently examined, which, in relative terms, would reduce the complexity of accounts being independently examined rather than audited. We believe this is desirable.

We note that in Northern Ireland, the gross income criterion of the audit threshold has been set at £500,000 for quite some time but we do not believe it would be appropriate for this to be the basis of any decision to hold back an increase in the proposed tier 1 threshold.

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)

While the reporting requirements in each tier are mainly clear, there is scope for improvement within module 1 on the Trustees' annual report which takes a 'building block' approach to tiering but appears to include overlapping requirements between tiers.

In module 1, care should be taken to ensure that the reporting requirements specified for each tier are entirely distinct so that these are clearer for tier 2 charities (applying tier 1 and tier 2 requirements) and tier 3 charities (applying all module 1 requirements).

For example, tier 1 reporting on achievements and performance states in paragraph 1.28 that "The report must contain a summary of the achievements of the charity. To assist with this, trustees must provide answers to the following questions: In what way has the charity's work made a difference to the circumstances of its beneficiaries?.....". Tier 2 reporting in paragraph 1.31 states that "The report must explain the impact the charity is making and must consider the long-term effect of its activities on individual beneficiaries.....". These requirements appear to overlap so a charity in tier 2 will have to consider both requirements to determine what it needs to report.

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)

As long as the tiers are described clearly, we do not have a strong view on how they are labelled.

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

Tier 2 charities may not be eligible for the statement of cash flows exemption available under FRS 102 due to the Tier 3 criterion and the FRS 102 criteria not being in complete alignment. While it may seem preferable to provide concessions within the SORP through a clearly specified tiered approach, we believe it would be simpler for charities if the FRS 102 criteria for exemption was applied by the SORP. We therefore recommend a departure from the proposed three-tiered approach with regard to the statement of cash flows exemption.

Also, we recommend considering the inclusion of commentary on the difference between gross income and turnover in the SORP. This will help ensure that charities assess which tier they are in correctly. We highlight this as the gross income criterion for determining the boundary between tiers 2 and 3 which is gross income of £15 million is linked in the new SORP to the turnover criterion of £15 million which forms part of the small company threshold.

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 understand that the prompt questions are the two questions set out in paragraph 1.3 about identifying users of the report and their information needs

These two questions are set out as 'shoulds' and therefore have the status of good practice. Setting out these questions as good practice recommendations may not be the intention of the drafters as consideration of these questions isn't a matter to be reported on. Therefore, although we believe these to be helpful, it may be necessary to approach the drafting in a different way.

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 support the introduction of impact reporting but believe that the recommendations etc, are a bit lost in the module, e.g. there is no separate heading within the 'Achievements and performance' section. This makes it difficult to link the material to the definition of 'impact reporting' in the Glossary and the definition of 'impact' at paragraph 1.8.

What is being asked of charities isn't clearly defined and could lead to charities finding it difficult to implement impact reporting, e.g., we think it may be challenging for charities to comment meaningfully and objectively on how they have provided wider benefits to society without a framework for doing so. To this extent the definition of 'impact reporting' in the Glossary creates a particular challenge when setting out requirements etc. However, this wider aspect, i.e. 'societal impact', could perhaps be considered, within the SORP, as part of sustainability reporting

We also recommend an increase in the tier 1 threshold (see question 2) and comment on the need to ensure that the reporting requirements for each tier are distinct due to the approach taken to their application in module 1 (see question 3).

We would also like to highlight ICAS funded research on impact reporting, including the best impact reporting practice examples published alongside. We believe that charities will need assistance to develop impact measures, including signposting to third party resources.

More structured material on impact reporting would assist in making the requirements clearer and therefore more proportionate.

[Response continued at question 14]

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)

However, we believe that there is scope for improvement.

The drafting convention used for tiers 1 and 2 does not follow the SORP's stated convention. This makes the status of the material unclear. Rather than using the term 'encouraged to explain', we recommend that the stated convention is used.

We do not support the cross-referencing to other material outside of the trustees' annual report as:

- It is likely that the other material will be different in scope to the SORP, making compliance difficult to assess.
- Other material could be altered after the independent examiner or auditor has issued their report.
- Other material may cover a different reporting period.
- The hyperlink to the other material could be broken.
- The status of the other material in relation to the independent examiner's or auditor's responsibilities won't be clear.

In England and Wales, the public benefit delivered by charities must outweigh any detriment or harm that results from its purpose(s). In Scotland, the Charities and Trustee Investment (Scotland) Act 2005 introduces the term 'disbenefit', which OSCR has to consider in determining whether the public benefit test is met. Sustainability reporting has a similar underlying tenet, so we believe that there is a link between the public benefit test, the definition of impact reporting in the Glossary, and sustainability activities where harms need to be considered in the round.

We would welcome the development of guidance for charities on sustainability reporting, and in the short term, signposting to third party guidance or good practice examples.

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)

While we generally believe these to be proportionate, but there is scope to refine the wording. Charities complying solely with tier 1 requirements don't have to provide information on the number of general volunteers they have. It would therefore be helpful if this was made clear. This only becomes apparent when reading the tier 2 requirements.

Under tier 1 (paragraph 1.22), charities must report on the 'nature of activities' undertaken by volunteers and the 'input' from volunteers. It is not clear what the difference is between these two terms. As the reporting requirements about volunteers are set out under the heading 'Objectives and activities', it would be clearer to limit the requirement to the 'nature of activities' undertaken by volunteers.

As these requirements are about general volunteers, the reporting requirements could be reworded as follows:

"The report must include an explanation to help the user to understand the scale and nature of activities undertaken by general volunteers."

A slightly different approach to the tier 2 requirement at paragraph 1.27 would make the additional reporting requirements clearer, consistent with paragraph 1.22, and remove duplication with paragraph 1.22 by removing the need for the second bullet point:

"Charities reporting on the scale and nature of activities undertaken by general volunteers should provide information on the number of general volunteers supporting the charity during the reporting period"

[Response continued at question 14].

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)

The definition of 'reserves' and the disclosure requirements are confusing. E.g., the definition of reserves includes guidance which would be better set out in module 1. The inclusion of a Glossary definition for 'reserves policy' to sit alongside the definition of 'reserves' may also aid understanding of what is required.

The guidance element of the definition itself is confusing, as it is unclear how certain funds impact on the calculation of reserves. We also question the assumption that endowment funds are normally excluded from the calculation. For some endowed charities, this could result in a reserves calculation of zero or around zero, giving rise to going concern disclosures that would not otherwise be required, and which could have unintended consequences, such as decisions by users not to donate or fund.

We recommend that a table is included within the SORP which takes a charity through how to calculate its reserves, including where there is scope for judgement as to whether a fund forms part of a charity's reserves or not.

We recognise that some of the terminology used is tricky. E.g.:

- A 'revaluation reserve' or a 'fair value reserve' is not an element of 'reserves' in this context so some context needs to be provided.
- The term 'pension provision' isn't used elsewhere. It only makes sense for an item suggested as impacting on reserves if the term is used elsewhere in the Charities SORP or in FRS 102.

A solution may be to label 'reserves' in this context as 'free' reserves.

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)

We agree that it is good governance for all charities to know what their reserves are and where a charity has a policy on the holding of reserves for it to monitor its actual v planned reserves. However, we believe that for the requirements to be proportionate, the threshold for tier 1 needs to be increased to gross income of £1 million.

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)

For tier 1 charities, the ability to set out future plans will depend on their particular circumstances. Charities dependent on volunteers with low fixed costs have the ability to adapt their plans to fit the funding they receive. It is still possible for the trustees of such charities to assess that their charity is a going concern, so an inability to set out future plans is not necessarily a matter of concern. In summary, tier 1 charities ability to set out future plans may depend on the funding they have been able to secure for the following and, possibly, future, years. For tier 1 charities with future funding secured, we recommend that this is a 'may' rather than a 'must'.

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)

The additional good practice disclosure in paragraph 1.46 is likely to assist charities with legacies meeting the recognition criteria where the receipt of monies is not expected for an extended period. However, the disclosures are recommended for tier 2 charities and above only. We recommend that this disclosure is highlighted as 'may' for tier 1 charities, who may also find this disclosure helpful.

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

Yes.

Further comments on question 7

The material on 'Achievements and performance' starting at paragraph 1.28 includes material on impact reporting, but there is no reference to the term 'impact reporting' in the draft SORP apart from the definition included in the Glossary and in the commentary within the Basis for conclusions on 'Changes made in each SORP module'. Given the significance of the proposals on impact reporting within the SORP, it would make sense to use the term within module 1.

Further comments on question 9

The following wording is a continuation of our response to question 9:

There is some confusion with the use of 'must' for tier 1 and 'should' for tier 2 in relation to the status of the material on the scale and nature of activities of general volunteers. Therefore, we recommend that consideration is given as to whether the 'should' in paragraph 1.22 was intended to be a 'must'. This is critical to being able to answer accurately whether the disclosures are proportionate. There is a big difference between having to report volunteer numbers or being able to choose not to.

Further comments on module 1

We support the view, set out in paragraph 1.5, that the trustees' annual report should be 'fair, balanced and understandable', noting that this wording is used in the current SORP. It would be helpful to reiterate the need for balance at paragraph 1.8 which discusses the reporting of a charity's activities, including impact. This would highlight that reporting isn't just about good news but about activities that have not, or only partially, achieved their objectives, providing the opportunity to implement lessons learned. Tier 2 material at paragraph 1.33 specifically covers balanced reporting on achievements, including impact, but this characteristic applies to all tiers as per paragraph 1.5.

Paragraph 1.5 highlights a challenge with the drafting convention in that it states: "The reporting should be fair, balanced and understandable." The use of 'should' suggests that this is a good practice recommendation, but we don't believe this to be the context of this statement. However, replacing 'should' with 'must' is also a challenge as achieving a fair, balanced and understandable report does not relate to a specific item. It may be helpful to take a different approach to the drafting.

There is an incorrect cross-reference in paragraph 1.6. The paragraph refers to both paragraphs 1.73 and 1.74. However, module 1 only goes up to 1.72.

In module 2, paragraphs 2.17 and 2.23 state that restricted and endowment funds fall outside the definition of 'reserves' but the nature of these funds may impact on the reserves policy. These statements are fine in themselves but are not consistent with the definition of 'reserves' in the Glossary. The Glossary states "This definition of reserves normally excludesendowment and restricted funds".

We recommend that in finalising the definition of reserves and related requirements and guidance, that there is consistency between the Glossary, module 1 and module 2 and any other relevant aspects of the SORP.

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 welcome the inclusion of an illustrative SoFA using natural classifications. We would like to see this approach to the SoFA being extended to charities with a gross income of up to £1 million. We would see this as reasonable and proportionate.

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

Yes. On page 8, the illustrative SoFA on an activity basis, appears to include incorrect references in relation to expenses. We think the 'further details' column needs to be updated to refer to 'B2 to B4' rather than 'B1 to B3'.

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 material on the five-step model could be clearer and more understandable. There is a balance to be struck between the amount of information included within the SORP about the five-step model and the extent to which charities are expected to refer directly to FRS 102 (which takes precedence over the SORP). We believe that too much detail has been included within the Charities SORP and that the SORP should primarily focus on issues where there are charity sector specific considerations (such as the material on accounting for income from membership subscriptions and royalties which has been included in module 5) or where charities may require further guidance. As the Charities SORP takes a different approach to specifying requirements from FRS 102, in addition to a risk of duplication, there is a risk of introducing differences inadvertently by increasing scope for interpretation. Inadvertent differences may not be identified until the SORP is being applied. We would also welcome further examples, such as how to apply the model to a contract for the provision of social care. This would be an example relevant to many charities and would be generally helpful as charities' contracts with customers are most likely to be for services rather than goods. We understand that the approach taken within the SORP is designed to be helpful to accounts preparers, but there is a risk that charities may have to consider two sets of similar requirements in order to assess the accounting treatment for their contracts with customers.

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)

We support the distinction between exchange and non exchange transactions in the module and welcome the hyperlinks in paragraph 5.4 which will be helpful to accounts preparers looking at specific aspects of income recognition. However, as mentioned in our response to question 17, we believe there is scope to reduce the material in module 5 on exchange transactions to avoid duplication and the risk of introducing differences inadvertently. Our comment on duplication between the SORP and FRS 102 also includes the disclosure requirements relating to income from exchange transactions set out at the end of module 5. We are particularly concerned that the definitions of exchange and non-exchange income are not mutually exclusive i.e. contracts, which are exchange transactions, may not result in an exchange of equal value, so we recommend that the definitions/ commentary at paragraph 5.5 are revisited. Introducing a flow chart to assist charities in determining whether an arrangement results in exchange or non-exchange income would be most helpful. We are aware that some arrangements, especially when a public sector body is the counterparty, can refer to an arrangement as a contract which is in substance a grant. Therefore, with performance related grants being common, it is all the more important that charities have access to appropriate tools. Also, it is worth emphasising the difference between a grant and donation and a grantor and donor in any commentary around the classification of income.

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)

Ideally, we would prefer exchange and non-exchange income to be covered in separate modules. However, the approach taken within the SORP is a pragmatic one as it means that the module number is consistent with the current version of the SORP. An acceptable alternative would be to have modules 5, 5A and 5B, similar to the approach taken towards modules 10, 10A and 10B. Module 5 could be introductory and cover the nature of income and include a flowchart to assist with the classification of income as exchange or non-exchange (grant or donation).

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)

In principle, it makes sense to corral the disclosure requirements at the end of each module as it makes it more straightforward to prepare the notes to the accounts. However, in relation to module 5, it would make sense to include the disclosure requirements for exchange and non-exchange income at the end of the respective sections. The way the material in module 5 is presented in the consultation draft makes it look like the disclosure requirements are an extension of section two on non-exchange income. As mentioned previously, we believe that there is scope to reduce the disclosure requirements on income from exchange transactions within the SORP to avoid duplication with FRS 102. A cross-reference to the relevant paragraphs in FRS 102 could be made instead.

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)

We support this being highlighted.

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)

We recommend that the material on legacies is revised to refer to three rather than two recognition criteria. Appendix 4, The basis for conclusions, states that 'entitlement', 'probable' and 'measurement' are terms only used in relation to the recognition of dividend income and in the definition of a performance related condition. In module 5 'probable' and 'measurement' are used in relation to the recognition of legacy income, but 'entitlement' is not. The recognition requirements for legacy income are derived from FRS 102. FRS 102 has not been revised in this regard and continues to have only two stated recognition criteria for legacies 'probability' and 'measurement'. However, 'entitlement' is a recognition criterion in the current version of the SORP, and the material linked to entitlement in the current SORP (see paragraph 5.29) remains reflected in the proposed SORP (see paragraph 5.95). Also, legacy income cannot become probable, without first establishing entitlement – paragraph 5.90 on when legacy income becomes probable includes conditions which cement entitlement such as a grant of probate or confirmation. Disputes are also a factor in assessing entitlement and these are referenced in paragraph 5.92 of the proposed SORP. 'Entitlement' is therefore implicit in the SORP and, in reality, a factor in whether a legacy can be recognised, so we believe this should still be referenced. While we recognise that entitlement itself isn't enough for recognition, recognition isn't possible without it. [Response continued at question 24]

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)

While we have not considered in detail what additional guidance on legacies is needed, it may be helpful for charities to have access, outside of the SORP, to guidance on how to account for specific scenarios, for example, where the charity is entitled to the residual value of an estate. As a general point, revenue recognition may be a topic where accompanying guidance would be helpful for charities, especially given the increase in complexity in accounting for income due to the changes to FRS 102.

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

Yes.

Response continued from question 22

We observe that evolution of accounting requirements in the UK highlights the need for a consistent principles-based approach towards the recognition of non-exchange income, donations (cash and in-kind), grants (both government and non-government) and legacies.

Additional substantial comments

We have the following additional comments of substance on module 5:

- We recommend that consideration is given to retitling the module 'Recognition of income, including contract income, grants, legacies and donations'. Contract income is exchange income, which is covered by section one of this module, so it makes sense to reference this first. Also, grant income is covered before legacy income in section two. We also believe that donations merit specific reference.
- As membership subscriptions can be either exchange or non-exchange transactions, they don't fit easily within either section one or section two of this module. Material currently sits within section one with a high-level cross-reference to section two, but it may be helpful if distinct examples of exchange and non-exchange subscriptions are included in the respective sections.
- We recommend that the final edition of the Charities SORP 2026 includes requirements and guidance on how to account for lifetime membership subscriptions. We anticipate that this will be a challenging area of accounting for charities offering lifetime subscriptions and therefore should be specifically addressed by the SORP.
- Also, in relation to subscriptions, these may be available at a discount, and it would be helpful if the material on 'income from membership subscriptions' provided some guidance on how discounts impact on the accounting.
- Paragraph 5.83 refers to the disclosure of contingent assets relating to grants. Rather than specify when a contingent asset should be disclosed, it may be clearer to state that the contingent assets must be disclosed when the relevant criteria are met and add a cross-reference to paragraph 10A.6.
- Module 5 material on 'Other terms that may limit the recognition of income'. Our reading of this updated section is that time-related conditions are now conditions which must be met before a grant is recognised. This has been achieved in part by removing the reference to implied time-related conditions. However, the examples given in paragraph 5.82 discuss grants for specific activities. It would be very helpful if non-specific grants provided to support a charity's general running costs were referenced, including circumstances where a multi-year award is made. In circumstances where a charity receives a grant award to fund a specified amount in relation to running costs in each of a number of years, we believe that time-related conditions must be met before grant income can be recognised in a particular year.
- Appendix 4, Basis for conclusions, refers to 'entitlement' to be a factor in the recognition of dividends and in the definition of a 'performance related condition', however, there is no specific reference to 'entitlement' in paragraph 5.103 about dividends. 'Entitlement' is implied. However, we recommend that this paragraph is revised to refer specifically to 'entitlement'.
- The SoFA presentation (see page 58 of the consultation draft) refers to 'Income and endowments from: investments'. However, module 5, 'Income from interest and dividends', does not use the term investment income. We recommend that paragraph 5.103 is revised to make it clear that dividend income is investment income in relation to the presentation of the SORP. It may also help to provide separate commentary on Gift Aid payments from trading subsidiaries.

Comments on the drafting

We also have the following comments on the drafting of module 5:

- Paragraph 5.4. The format of the hyperlinks to section one and section two are slightly different. We recommend that these are consistent.
- Paragraph 5.5. The first bullet states "...consideration which the charity expects to be entitled to....". We are not convinced that 'expects to be' is the correct wording, would 'is' be more appropriate?
- Paragraph 5.6. This paragraph uses the phrase "...when determining whether income should be recognised". 'Should' is supposed to be used to indicate recommended practice. This is not how it is used here. We recommend that the wording is updated to give greater precision. For example, "...when assessing income recognition."
- Paragraph 5.8. The paragraph starts with the following sentence: "All income must be reported gross when it is raised by the charity or its agents.". This paragraph may be clearer if this sentence is deleted, as it could appear to contradict the final sentence on circumstances where the charity must recognise the net amount remitted.
- Paragraph 5.9. We recommend that the wording "The model will only apply to....." is replaced with "The model only applies to.....".
- Paragraph 5.11. The first reference to 'should' in this paragraph appears to be a requirement and should therefore be a 'must'.
- Paragraph 5.17. We recommend that the final sentence is reworded to state "Refer to Section 23 of FRS 102 if this applies." This enables the word 'should' to be deleted where it is not used to denote good practice.
- Paragraph 5.19. This paragraph contains two bullets introduced as follows: "For a modification to be an adjustment to an existing contract then either..." However, the first bullet is about circumstances where a change in terms leads to a new contract not a modification, so the drafting convention of using two bullet points doesn't appear to work here.
- Paragraph 5.26. There is a typo: 'proving' should be 'providing'.
- Paragraph 5.63. We recommend that the following cross-reference is properly drafted: "see five step above."
- Paragraph 5.76. The cross-reference to accounting for grants as a grant-making charity should make it clear that the material being cross-referenced to is about expense recognition and not income recognition.

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)

In comparison to module 5, we found this module easier to navigate. However, we do have the following comments:

- We would recommend that an additional heading is included before 10B.48 where the SORP moves from discussing recognition matters to measurement matters relating to both the right of use asset and the lease liability.
- The treatment of nominal or peppercorn arrangements is addressed before the treatment of leases at significantly below market rents. It may be logical to re-order the paragraphs to deal with the treatment of leases significantly below market rents first, so that the SORP moves from leases at market value, to leases at significantly below market rents, and the arrangements which may not meet the FRS 102 definition of a lease.
- Similar to our comments on module 5, we believe there is scope to reduce the material in module 10B on leases to avoid duplication and the risk of introducing differences between FRS 102 and the SORP inadvertently. However, this risk is less relative to module 5. We welcome the examples provided, but believe there is scope for more, which we reference in our responses to other questions in this section.

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)

We set out concerns about the understandability and scope of the material on leases significantly below market rents and on nominal or peppercorn arrangements in our responses to questions 27 and 28.

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 SORP refers to 'market rate' whereas terminology used in FRS 102 is 'market rents.' We don't believe there is a good reason for this difference and recommend that the terminology used is consistent with FRS 102.

The term 'social donation leases' is introduced. We do not believe it is helpful to introduce new terminology and would prefer, for clarity and consistency with FRS 102 for the term 'leases significantly below market rents' to be used instead.

Where a lease is significantly below market rents there is a non-exchange element to account for. FRS 102 (paragraph 20.35) requires the non-exchange element to be accounted for as a government grant, under section 24, if the grantor is a public body. If the grantor is not a public body the non-exchange element must be accounted for as non-exchange income under section 34 (specialised activities). The relevant paragraphs in this module need to be reworked and cross-referenced to the relevant material in the SORP and FRS 102 on government grants and non-exchange income.

Paragraph 10B.76 recognises that the non-exchange element of nominal and peppercorn arrangements could be classified as a donated asset, service or facility. Some examples would be helpful here given the potentially complex nature of the judgements to be made. E.g. a peppercorn arrangement for office accommodation with a five-year term may be a donated facility, but an arrangement for a specialised property with a ninety-nine-year term may be a donated fixed asset. (see our response to question 29 for further comments.)

Question 28: Are the additional disclosure requirements set out in paragraphs 10B.95 and 10B.129 reasonable for charities with such arrangements?

No

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

In paragraph 10B.95, the disclosure requirements should be amended to recognise that incoming resources from a non-exchange element where the lessor is a public body must be treated as a government grant as is required under FRS 102.

In paragraph 10B.129, the disclosure requirements appear to be made on the basis that a nominal or peppercorn arrangement is a lease. While this may be the case on rare occasions, we anticipate that most nominal or peppercorn arrangements will not meet the FRS 102 definition of a lease (and lease accounting will not apply) so it may be more appropriate to locate the disclosure requirements in module 6.

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

It is likely that the potential to exclude nominal or peppercorn arrangements from the lease accounting requirements was intended to reduce complexity. However, we believe that for some charities it will mean significant complexity around accounting for the related non-exchange element in accordance with module 6 of the SORP and section 34 of FRS 102. While requirements for accounting for donated goods, facilities and services arising from FRS 102, have not changed, the lease accounting changes bring into focus the absence of specific material on how to account for [tangible] fixed assets, which are simply donated, in section 34 of FRS 102. We acknowledge that section 34 of FRS 102 references incoming resources that form part of the right of use asset relating to leases at below market rent and the capitalisation of services in relation to the construction of an asset.

Module 6 of the draft SORP includes material on the non-exchange element of a lease below market rents, where a right of use asset is to be recognised. But no mention is made of non-exchange income or assets relating to peppercorn or nominal arrangements. Material on donated heritage assets may need to be drawn on to resolve some of the complexity that may arise for some charities in placing a value on certain tangible fixed assets that may need to be recognised in relation to a peppercorn or nominal arrangement.

There could be significant valuation challenges with valuing a donated tangible fixed asset where there is a peppercorn arrangement outside of the scope of section 20 of FRS 102 on leases, especially if the arrangement is long-term and relates to a specialised property. Further guidance on valuation may be needed along with appropriate concessions, such as the concession available in paragraph 18.88 on heritage assets, where it is not practical to value a heritage asset.

We know that some Designated Religious Charities (DRCs) in Scotland already deal with complexity in this area where assets are owned by a member of the group and used by another without formal leases being in place. Therefore, any solution to this issue will need to consider the circumstances of DRCs and other religious charities with similar arrangements across the UK.

The lease accounting changes will likely push some charities above the audit threshold at a time when we are waiting for an implementation date for the planned increase in the audit threshold in Scotland and the outcome of the Department for Culture Media and Sport (DCMS)'s consultation on the Charities Act 2011 financial thresholds. Charities in this position will face the added pressure of trying to find an auditor at short notice. Therefore, it is vitally important that serious consideration is given to introducing a valuation concession similar to the concession available in respect of heritage assets.

Charities may exceed the gross income criterion of an audit threshold due to having to credit income with the value of non-exchange income relating to a lease at under market rents or to nominal or peppercorn arrangements. There is also a possibility for the gross assets criterion of an audit threshold to be breached as a result of accounting for right of use assets arising from the single lease accounting model or accounting for a donated asset linked to a nominal or peppercorn arrangement.

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 have selected the answer closest to our view. However, we believe that charities which meet the FRS 102 criteria for exemption should not be required to prepare a statement of cash flows.

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

We have no additional comments.

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)

We have not considered the proposals on the revised total return approach.

Question 33: Do you agree that the additional disclosures are proportionate?

No

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

We have not considered the proposed disclosure on the revised total return approach.

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

We have no further comments.

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)

We welcome this as a simplification for charities which brings clarity to the requirements.

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)

We have no further comments.

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)

We are happy with gains and losses on social investments being treated in the same way as gains and losses on other classes of investment.

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)

We believe that the change in approach is clearly set out and should be easy to understand.

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

We have no other comments on module 21.

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)

While we welcome the introduction of an additional tier, the illustrative SoFA with natural classifications and the statement of cashflow concessions, we set out comments and recommendations in our responses to other questions on areas where we believe there is scope for improvement in aspects of the drafting and proposals.

In terms of structure, the requirements of each tier are clearly highlighted and start with the requirements placed on tier 1, which has a smaller charity focus and we welcome this.

We recognise that the ability to make concessions available in the Charities SORP is limited by the requirements of FRS 102 and that material from FRS 102 has been included within the SORP in a way that is intended to support charities. However, we are concerned that this means that the revised SORP has increased in length from 200 to 300 pages, and there is a risk of introducing unintended differences from FRS 102. Therefore, we believe that there is scope for reducing some of this material to be replaced by cross-references to FRS 102.

If our comments on the drafting and proposals are addressed these will have a positive impact on preparers and we believe this will help reports and accounts to better meet the needs of users.

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)

We believe there is no route for charities to apply Section 1A of FRS 102 within the legal framework which currently exists. It would be helpful if there was also a statement in FRS 102 to this effect. Previously, when the requirements of Section 1A had to comply with the EU Accounts Directive, there appeared no route for the UK government to disapply Section 1A for charitable companies. However, the overarching requirement for the accounts of (some) charities to give a true and fair view and the SORP being the route to that, effectively disapplied Section 1A.

We believe that the accounting requirements now being placed on most charities are excessive and overly complex, particularly the lease accounting requirements. The FRC took the decision not to introduce the lease accounting requirements into FRS 105 as they took the view that these may be too complex for micro-entities. Most charities applying FRS 102 and the Charities SORP meet the micro-entity size criteria, which supports our view on the level of complexity being introduced. For some charities, the lease accounting changes introduce additional complexity relative to other entities applying FRS 102 due to the related accounting requirements for the non-exchange elements of leases.

We continue our comments on question 41 in our response to question 42.

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

Yes, we have additional comments on several matters.

Our response to question 41 continues below

In relation to disclosure requirements arising from the SORP, it may become clear post implementation of the revised version that there is scope to reduce the disclosure requirements placed on charities. We would welcome consideration of this in a post-implementation review by the Charities SORP-making Body.

The accounting framework for charities has evolved alongside the framework for company law and UK standard setting more generally. In order for charities to gain access to recognition, measurement and disclosure concessions which would be more proportionate, a commitment from policymakers and standard setters to work together to find and implement a solution would be needed.

Pensions accounting

In recent years, having a Defined Benefit (DB) pension surplus has become more common resulting in a plan asset which meets the recognition criteria in FRS 102. We do not believe that the material in FRS 102 on this topic is sufficient for entities to understand the correct accounting treatment. We would welcome further material on this in the Charities SORP.

A few years ago, FRS 102 was amended to provide a pragmatic approach for entities moving from accounting for their participation in a DB scheme as a Defined Contribution (DC) scheme to DB accounting. However, there is no material in FRS 102 on how to cease DB accounting, for example, when a charity participating in a multi-employer scheme exits the scheme and makes an exit payment. As it is now more common for charities participating in multi-employer DB schemes to exit, discharging any future liability to the scheme, it would be helpful for the Charities SORP to address this topic.

Donated fixed assets

Section 34 of FRS 102 addresses accounting requirements for donated assets but does not specifically address accounting for donated fixed assets. There is a single reference in the draft Charities SORP at paragraph 10.15 to donated fixed assets which cross-references module 10 on the Balance sheet to module 6 on Donated goods etc. However, there is no reference in module 6 to donated fixed assets. Therefore, there is an overall gap in material on how to account for donated fixed assets. We recommend that this is addressed in this revision to the Charities SORP.

We make several references to accounting for donated fixed assets in our responses to other questions which are relevant to this general point.

Goods donated for distribution

Paragraph 6.10 states that "Donated goods must be measured at fair value." However, the revised paragraph on goods donated for distribution (paragraph 6.14) makes no mention of fair value. This is a change from the current SORP. Therefore, paragraph 6.14 appears to be inconsistent with paragraph 6.10. We recommend that this inconsistency is resolved.

Goods purchased for distribution

While the Charities SORP has commentary on accounting for goods donated for distribution to beneficiaries, it does not specifically address accounting for goods purchased for distribution to beneficiaries.

While there is probably sufficient material within the Charities SORP and FRS 102 to arrive at an appropriate accounting treatment. It may be helpful if further material on this matter was incorporated into the SORP.

Goods for distribution – presentation of stock where ownership, but not the stock, has been transferred

One area in particular where requirements/ guidance would be helpful is when a charity still holds the stock, but ownership has transferred, for example, a prize has been won in a competition, but the charity hasn't handed it over to the winner.

In this scenario, it may be reasonable to make deductions from stock to the extent that there has been a change in ownership (due to a prize being won). In which case, the accounting would be the same as if the prize had been distributed. However, it may also be reasonable, especially where the charity is a company, due to company accounts regulations, to disclose the 'deduction' in the notes to the accounts. This would mean disclosure of the stock of prizes on a gross basis less deductions in the notes to the accounts to reconcile to the balance sheet.

The drafting convention

The implementation of the 'must', 'should' and 'may' drafting convention continues to prove challenging. We provide some examples of this in our response to other questions. 'Should' is the most challenging part of this convention to implement as it is used in the SORP more generally than just in relation to good practice matters.

Another example of where the drafting convention hasn't been used correctly is at paragraph 3.18 which states that "This SORP requires that where there are no material uncertainties about the charity's ability to continue to report on a going concern basis, this judgment should be disclosed." The final clause of this sentence only needs to say, "this judgement is disclosed".

We recommend that when the revised Charities SORP is being finalised that it is also reviewed to ensure that the drafting convention has been applied correctly.