

# 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:

Jenifer Richardson

Email address:

[REDACTED]

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

Trustee, Treasurer, Finance Director and Independent Examiner

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:

As an individual

## Responding on behalf of an organisation/body

If responding on behalf of an organisation or body, please provide its name :

*No Response*

Please select what best describes the organisation:

*No Response*

## 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?

Independent examiner of charity accounts

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)

The tiers should be aligned to the results from the DCMS consultation. The new SORP was supposed to reduce the regulatory burden on small charities. A huge proportion of registered charities are under £500k and those between £100k and £500k will be in a more complex and challenging environment a lighter touch regime would be welcomed with perhaps a micro SORP option.

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 thresholds should have been set with differentiation between a £100k income truly small charity up to the audit threshold (wherever that ends up following DCMS consultation) with two larger tiers under £15m and over £15m. The £500k point is too messy with the changes in charity law thresholds and there are huge differentials in complexity and skilled staff and volunteers in charities under £1m (current audit 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)

There are nine uses of the word encouraged for tier 1 charities. The SORP needs to focus on actual requirements and eliminate encouraged. If a small charity wants to give increased disclosure they can look at the requirements for tier 2 or tier 3. Use of the word encouraged creates confusion. Example accounts for all tiers and encompassing different types of charity, for example, grant giving or front line contractual services, MUST be produced as soon as possible.

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)

*No Response*

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

There is no guidance in moving between tiers. I suggest that a charity should only move from one tier to another if it exceeds the threshold in two financial periods out of three rather than the huge administrative burden of moving up or down a tier each year due to multi year grants or a legacy.

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)

See comments on use of the word encouraged. This word needs to be eliminated from the final SORP.

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)

Charities can refer in the annual report to sustainability reporting contained in an external document (eg on the charity website). We suggest that this should also be permissible for impact reporting to reduce the length of reports and the need for consideration of the material by auditors and independent examiners where applicable)

**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)

I agree that this should just apply to the largest charities.

**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)

Cl.1.22 of the exposure draft says valuing the contribution of general volunteers, "often" prevents this being included in the statement of financial activities, but 6.20 says that "Given the absence of a reliable measurement basis, the contribution of general volunteers must not be included as income in charity accounts", which seems inconsistent. It should be very clear that the contribution of general volunteers should not be valued.

**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)

The reserves explanation is very clear and I welcome the clarity.

**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)

This is a critical statement.

**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)

All charities should be considering future plans as part of the reserves policy and therefore it should not be arduous to include a statement in the TAR on future plans for every tier of charity.

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)

I suspect that the treatment of legacies will continue to be a point of discussion but this does seem to be clearer. More examples would be useful of when the SORP would expect a legacy to be recognised and when it would not either in the SORP or as an income recognition help sheet.

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)

The additional materials provided in relation to use of natural classification for tier 1 charities are helpful. Table 5 includes fundraising costs as an example heading in the analysis of expenses incurred on charitable activities - this appears contradictory.

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)

Too much of the text repeats the FRS102 requirements and will be difficult for charities to understand. There is not a clear definition of a grant with performance conditions as an exchange or non-exchange transaction. Examples and lots of them are required either in the SORP or as a help sheet. Specifically on different types of grants.

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

Yes

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

Very sensible but WE NEED EXAMPLES or a decision tree to assist preparers of accounts.

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)

*No Response*

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)

Relevant disclosures and examples next to the guidance text makes it clear what is applicable to that particular section of guidance.

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

No

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

FRS 102 allows the accounting for grant recognition on either a performance or accruals basis, but the current and proposed SORP only allows the performance model. This means a charity in receipt of capital grants used to purchase fixed assets has to recognise the grant in full when the asset is purchased but the cost of the asset hits the SOFA in the form of depreciation over the life of the asset. This results in a 'lumpiness' in reported results, with an artificially enlarged surplus in year one when the asset is bought, and higher costs in later years as the depreciation charges are recognised. It would be simpler for charity accountants to be able to defer the (capital) grant and release the income to match the SOFA charge over time, in accordance with the matching principle inherent in GAAP and aligning with non-charity reporting. We would like to see the draft SORP amended to remove what we consider to be an anomaly in this respect.

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)

SORP paragraph 5.95 refers to a third party will notification service provider. I do not think that it is appropriate for the SORP making body to highlight a specific commercial entity in this sort of way.

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)

Examples and help sheets need to be provided for all areas of income recognition including legacies.

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)

The module could benefit with more examples being given of lease arrangements found within the charity sector that may give rise to specific accounting challenges and how they should be accounted for under FRS102, for example:

- How to differentiate a social lease from a commercial lease;
- How to differentiate a social lease from a peppercorn arrangement;
- How to value the non-exchange transaction element of a social lease/peppercorn arrangement. There are potentially matters of subjective judgement and they are likely to impact smaller charities without experienced staff or volunteers. Social donation and non-exchange being of particular concern.

Question 26: Does the module explain the relevant requirements of FRS 102 in a clear and understandable way? Please select all options that apply.

Yes

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

NEED plenty of examples in this new area which will disproportionately impact charities due to social donations and peppercorn rents/

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)

Needs to be supplemented with 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)

Need examples and a help sheet.

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

*No Response*

Question 30: Do you agree with the proposal in the Exposure Draft SORP that only tier 1 and tier 2 charities, that do not meet the small entity threshold, and all tier 3 charities are required to prepare a statement of cash flows?

No opinion

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?

Yes

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

*No Response*

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

Yes

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

*No Response*

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

*No Response*

Question 35: Do you agree with the new approach to using the generic term 'social investments' instead of referring to 'programme related' and 'mixed motive' investments?

Yes

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

The current definition of social investments means the investment must be held for both financial return and to further the investing charities' purpose. As a result, what is currently considered a programme related investment is not captured by the new definition of social investment (as there is no financial return associated with a programme related investment). This means the SORP provides no further guidance to charities that are making an investment purely to further their charitable purposes. The SORP should provide further clarity (and a separate definition) for investments which are exclusively for a charitable purposes. The resulting presentation and disclosure would continue to identify the two alternative types of investments which are not exclusively financial investments.

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)

The regulatory framework is too complex for smaller charities. The exposure draft does not make the framework easier to navigate and will place an additional burden in respect of new reporting requirements, such as, leases. There should be a MICROSORP and the tiers MUST be aligned with the changes in charity law thresholds to reduce complexity. The 75% of charities below £100k income need to have the option to produce R&P accounts regardless of their constitution or a MICROSORP which is reflective of their needs and those of their stakeholders/

Question 41: Do you agree with the SORP-making body's decision to continue to disallow the application of Section 1A?

No

Please provide reasons for your answer or suggestions on how you think Section 1A could be applied differently: (250 word limit applies)

The Exposure Draft's explicit prohibition of the adoption of Section 1A in FRS102 should be deleted as it is unnecessary and a potentially unlawful imposition when it comes to charitable companies.

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

The SORP tiers MUST be aligned with the thresholds discussed in the DCMS consultation.

