

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:

Jake Green

Email address:

[REDACTED]

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

Head of Department for Professional Practice - Accounting 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 :

KPMG LLP

Please select what best describes the organisation:

An accounting firm / auditor

A charity applying FRS 102 and the Charities SORP

What was the last reported gross income as set out in the charity's last annual accounts?

No Response

A user of accounts prepared under FRS 102 and the Charities SORP

In which capacity were you using accounts prepared under FRS102 and the Charities SORP?

No Response

An accounting firm / auditor

How many charity clients do you supply your services to?

Between 21-50 charity clients

An accounting firm providing independent examination services to charities

How many charity clients do you supply your service to?

No Response

A sector body

How many member charities does your organisation have?

No Response

Responding as an individual

Which of the following describes you?

No Response

Question 1: Do you support the move to three tiers?

Yes

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

No Response

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)

No Response

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)

While KPMG is of the view that it would make sense to have the largest charities described as Tier 1 and the smallest as Tier 3, we appreciate that this would require a major redraft of the entire document with a corresponding increase in the risk of error and therefore may not be worth the effort involved.

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

We support the objective of reducing the reporting burden on smaller charities, but by introducing tiers the SORP-making body needs to be mindful of the impact on charitable companies and the interaction of these tiers with the Companies Act rules in the various jurisdictions. In particular, additional guidance in Module 15 on the reporting impact on medium and large charitable companies in Tier 3 would be welcomed

Question 6: Do you agree that including prompt questions will help trustees to develop their Trustees' Annual Report?

Yes

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

No Response

Question 7: Do you consider the requirements for impact reporting for each tier to be proportionate?

Yes

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

No Response

Question 8: Do you consider the requirements for sustainability 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)

When compared to companies required to report climate-related information (turnover greater than £500 million), the proposed threshold of gross income of £15 million for charities is not proportionate. We recommend aligning with companies' thresholds for sustainability reporting.

We recommend the inclusion of further guidance as to what is expected to be reported under paragraph 1.61. The examples in paragraphs 1.62 and 1.63 are helpful, but there is a risk that these examples will result in charities providing only the example information. An explanation of how a charity is responding to ESG matters is more than reporting on KPIs and targets. The charity's strategy, the policies it sets, and the governance around ESG matters are all important components of how an entity is responding. The Task Force for Climate Related Disclosures (TCFD) provides a framework for sustainability reporting and whilst we would not suggest requiring the detail that is in TCFD, we suggest the four headings of the TCFD framework could be referenced as an example of components for charities to consider when reporting.

In respect of 1.64, we do not agree with permitting different locations for this reporting based solely on how a charity has reported in the past. Instead, we would suggest either requiring all charities to include sustainability reporting in the trustees' report within the annual report (as is the case for companies in the strategic report), or permit all charities the flexibility to report outside of the annual report with a link in the annual report.

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)

The SORP making body should keep this under review to ensure that it does not place undue reporting burdens on smaller charities.

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 support additional disclosures on the treatment of legacies in the accounts, but these might better be placed in the accounting policies note.

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

We have no other comments on Module 1.

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?

We have no other comments on Module 4.

Question 17: Does the module explain the relevant requirements of the five-step model in FRS 102 in a clear and understandable way?

Yes

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

No Response

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

Yes

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

No Response

Question 19: Do you consider that the guidance on exchange and non-exchange transactions should be set out in separate modules of the SORP rather than separate sections of the same module?

Yes

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

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)

The inclusion of disclosure requirements at the end of each Module would match the approach taken in the Standard.

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)

No Response

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)

No Response

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)

Any additional guidance on this complex topic would be helpful.

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

In respect to paragraph 5.42, it appears to be missing the following underlying words: "...stand-alone selling prices of the goods or services..."

The last sentence of paragraph 5.52, being "If the charity cannot reasonably measure its progress towards complete satisfaction of a performance obligation (e.g. in the early stages of a contract), but the charity expects to recover the costs incurred in satisfying that performance obligation, then it recognises income only to the extent of the costs incurred." This is repeated in paragraph 5.56 and, in our view, is not required in paragraph 5.56.

In paragraph 5.53, there is an interpretation of the over-time recognition requirement, but the wording used is similar to the requirements of the old UK GAAP. We are not clear what was the purpose of this paragraph. If the guidance is still required, we would expect it to be more closely aligned with the wording of the new standard (including references to a representative measure of progress) which is reflected in paragraphs 5.47-5.48 and 5.51-5.52 of this SORP.

It is stated in paragraph 5.57 that "Income received in advance should therefore be deferred until the 'significant risks and rewards' of ownership are transferred to the service user." Under revised FRS102.23 revenue [(income)] should be recognised when the control is transferred and indicators of the control are listed in paragraph 5.50 where "risks and rewards" are only one of indicators of control transfer. Therefore, this sentence does not seem to be reflective of the revised FRS102.23 requirement.

We find the wording in the section on Income from royalties in paragraphs 5.61-5.64 to be unclear and it is not obvious that it is a reflective of the requirements with respect to licences as set out in revised FRS102.23.105-112.

Long-term contracts are discussed in paragraph 5.56. However, the term "long-term contracts" is not used in the revised FRS102 Section 23 and is a legacy term from old UK GAAP. We suggest the Charities SORP uses similar wording to the revised FRS102.23 referring to "over-time" revenue recognition and if appropriate clarify the revised approach to "Long-term contracts".

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)

Module 10B has a lot of general Section 20 references and we feel would benefit from more specific references to the Standard being included.

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

Yes

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

No Response

Question 27: Does the section (paragraphs 10B.68 to 10B.84) on arrangements that are significantly below market value provide clarity on how to account for such arrangements?

Yes

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

No Response

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:

We make the following suggestions:

In paragraph 10B.3, the final sentence be changed to "The party granting the lease is called the lessor and the party making use of the asset is called the lessee".

In paragraph 10B.4, adding a cross-reference to the scope exclusions in Section 20.1 of the Standard.

In paragraph 10B.7, the reference to operating lease arrangements should either be removed or the wording should make it clear that the reference is to how operating leases are accounted for under the existing standard.

In paragraph 10B.8, the final bullet on peppercorn leases be changed to "Peppercorn arrangements with nil or nominal consideration – such arrangements have the legal form of a lease, but are unlikely to meet the FRS 102 definition of a lease. Where this is the case, charities should consider whether other sections of FRS 102 apply. In most cases such arrangements will be accounted for as a non-exchange transaction."

In paragraph 10B.33, make clear that where a charity determines that an arrangement does not contain a lease, it should first consider whether other sections of FRS 102 apply. If it determines that no other sections are applicable, then the payments made under the arrangement should be expensed on an appropriate basis over the term of the arrangement.

In paragraph 10B.35, the reference to rent free periods should be removed, as this is relevant to the determination of the lease term, not to the determination of the date on which a lessor makes an asset available for use by the charity.

Paragraph 10B.42, should be aligned to FRS 102.20.31, which states that "For a contract that contains one or more lease components and one or more non-lease components, a lessee shall allocate the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components."

Paragraph 10B.46 states that "a portfolio approach can only be taken where the leases have similar characteristics such as having a similar term and being with the same lessor." The standard does not state that a portfolio needs to be with the same lessor or provide it as an example characteristic, meaning, as drafted, this may be unnecessarily restrictive.

Paragraph 10B.48 states that the initial cost of a right of use asset includes "any amount recognised in accordance with Section 21 Provisions and Contingencies at the commencement date as an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories". This does not apply to dilapidations where a provision is recognised in accordance with Section 21 as the damage/wear and tear is incurred, not at the commencement date. We note that dilapidation provisions should be expensed, not added to the cost of the right of use asset.

Given the complexity of the calculation of a charity's incremental borrowing rate it is unlikely that the charity's bank would be able to provide this information as stated in Paragraph 10B.51.

Paragraph 10B.86 - as noted in our response to paragraph 10B.48, this paragraph should distinguish between provisions recognised at the commencement date and included in the cost of the right of use asset and provisions for dilapidations/wear and tear recognised over the life of the lease as liabilities are incurred, which are expensed.

Paragraph 10B.87 - the changes in provisions recognised at the commencement date as part of the cost of the right of use asset should be adjusted through the asset, not expensed. In our view, changes to dilapidations provisions recognised during the life of the lease should not be accounted for as an impairment or the reversal of an impairment as such provisions are not included in the cost of the right of use asset.

Finally, in paragraph 10B.88, it is not clear how the expected costs of improvement works undertaken by the charity as lessee would be accounted for under the market lease option set out in bullet 4. Where a lessee incurs costs on relation to the construction or design of an underlying asset IFRS 16.B.44 states that the lessee should account for these costs applying other applicable standards, not as payments made by the lessee for the right to use the underlying asset.

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?

We have no other comments on Module 14.

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?

We have no other comments on Module 20.

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?

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?

Yes

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

No Response

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?

Module 6 - The SORP should clarify whether the carrying value of donated goods for distribution recognised as stock should include the cost of freight (paragraphs 6.25 to 6.27)

Module 9 – Clarification should be included where a trustee is employed by an affiliated corporation and performs charity duties during work hours. Does this constitute remuneration even though the individual is given no extra salary to be trustee?

Module 9 – In paragraph 9.31 it is stated that “The information provided for staff costs and employee benefits must also include any expenditure on staff working for the charity whose contracts are with and are paid by a related party”. Clarification should be added as to whether the disclosure of employee benefits received by its key management personnel should also include any staff meeting that definition whose contracts are with and are paid by a related party.