

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:

Kevin Lally

Email address:

[REDACTED]

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

Audit Partner and Senior Statutory Auditor

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 :

Knox Cropper LLP, (Chartered Accountants and Registered Auditors)

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?

More than 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?

No

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

We consider that the proposed upper income threshold for Tier 1 charities is too low and that it should be increased from £500k to £1m. This would align the Tier 1 upper income threshold with the current audit threshold. Charities with income below £1m are often very dependent upon external professional advice to assist with disclosure requirements, particularly in relation to the trustee report.

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)

No Response

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

No Response

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?

Yes

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

No Response

Question 9: Do you consider the disclosures for volunteers to be proportionate?

Yes

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

No Response

Question 10: Do you consider the explanation of reserves in the glossary helpful?

Yes

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

No Response

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

Yes

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

No Response

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

Yes

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

No Response

Question 13: Do you consider that the additional disclosure will help to explain the treatment of legacies in the accounts?

Yes

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

No Response

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

Sustainability Reporting:
Charities in Tiers 1 and 2 are encouraged to set out how they are responding to and managing environmental, governance and social matters. However, the only guidance on what this may entail is set out very briefly in paragraphs 1.62 and 1.63 which, in our view, is inadequate. Most trustees of smaller charities will have very little knowledge of what subject matter is normally included with the general ESG heading and will need practical examples, relevant to charities, to guide them in drafting their report.

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?

None

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?

No

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

There are some non-exchange transactions, such as performance related grants, which are very similar in nature to contracts for services and, therefore, it is more helpful to have all income recognition guidance in the same module.

Question 20: In the Exposure Draft SORP, all the disclosure requirements are listed at the end of the module. Would it be clearer instead to set out the relevant disclosures at the end of each section within the module?

No

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

It is helpful to have all the disclosure requirements in one place.

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)

The SORP makes it clear that this is an option and not a requirement. Many of our charity clients do set up a designated reserve for this purpose and therefore we welcome the inclusion of this guidance in the SORP.

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)

Additional guidance could address specific scenarios. An example would be where the executors of an estate use a deed of appropriation, granting ownership of an estate asset to the charity prior to the distribution, to mitigate estate taxation.

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

There are two areas where we consider additional guidance is required:

1) Performance related grants.

Given that they are now dealt with in two different sections, we consider that guidance should be provided on how to distinguish a performance related grant from a commercial contract for services. In practical terms the activities can often be identical, particularly where the performance is a requirement to achieve a certain number of outputs (for example, the grant could be based on the number of individuals receiving advice or support). Additionally, we consider that the guidance on income recognition for performance related grants (5.80) should be enhanced. For example, to what extent should a charity refer to the 5 step model to determine when a particular grant condition, based on performance, has been met?

2) Donor Imposed Terms: Time period

Paragraph 5.82 deals very briefly with this. However, in our experience, this is one of the key income recognition judgments which is in need of additional guidance. It is very common for grants to fund, over a set period of time, a particular employee, or a number of employee posts, or a strict budget comprising both employee posts and other direct costs. In these cases, the charity cannot spend the funds otherwise than over the time period specified in the grant agreement. Would any or all of the above meet the time condition referred to in paragraph 5.82? We consider that, without guidance, this will continue to be a contentious issue.

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)

No Response

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:

None

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, this should be required of all tier 2 and 3 charities

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

Although we agree that the cash flow statement does not provide much additional information for a very small charity, it can be a very important statement for those charities with significant investments and property assets, and we consider that the £15m income threshold would exclude many such charities.

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

None

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?

None

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?

None

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?

We consider that too much detail has been included in the Lease Accounting module 10B much of which could have been dealt with by reference back to FRS 102. It will be the largest module in the SORP, by far, implying that it will be the most important and/or complex aspect of charity accounting. After the first-year implementation, this clearly will not be the case.