

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:

Mike Bath

Email address:

[REDACTED]

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

Audit Partner

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 :

Kreston UK accounting firms

Please select what best describes the organisation:

An accounting firm / auditor

An accounting firm providing independent examination services to charities

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?

more than 50 charity clients

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 tiered reporting in principle, but our view is that three tiers for charities preparing accruals accounts, in addition to the existing receipts & payments option for charities with income of less than £250,000 is too many tiers. With a higher number of tiered thresholds the potential for charities to apply thresholds incorrectly will increase. We recommend that the threshold for tier 1 be aligned with the lowest audit threshold for the jurisdiction in which the charity operates.

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)

Assuming that the option to prepare receipts and payments accounts will remain for the smallest charities, we would prefer to see SORP-reporting thresholds for 'smaller' and 'larger' charities aligned with the charity statutory audit thresholds in the relevant jurisdiction. We also note that the tiers in the consultation are framed exclusively around gross income and our view is that the absence of an asset test would lead to certain charities' reporting requirements not aligning appropriately with the amount of charitable funds under management. Further we note there is no 'two-year' rules in place as for companies and we would recommend this is considered as large grants or legacies can create significant year on year variation in the revenue recognised. If a third tier is considered necessary we would like to see it being aligned with the large company thresholds

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)

We believe that the reporting requirements are clear, but could be made clearer for preparers by publication in electronic form with tailoring questions. i.e. we would like to see electronic publication of the SORP where a reporter can enter key information and have its reporting requirements and options tailored on the basis of that response

Further, we do not believe that the draft SORP is clear on transitional arrangements where charities move between tiers as income fluctuates. We would like to see provisions along the lines of the small company reporting rules from the Companies Act so that charities only move tiers on the basis of two consecutive years.

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?

Disagree – should be referred as tier 1

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

We would ideally prefer tiers to be named small/medium/large or something similarly intuitive. Giving tiers numbers does not immediately indicate which way the size scale goes.

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

There is relatively little difference between tier 2 and tier 3 reporting as drafted and therefore the administrative burden on some smaller charities in complying with the rules remains comparatively high.

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)

Provided that the prompt questions are clear about which disclosures/sections are required and which are encouraged. It would shorten the SORP and make the must requirements clearer if it was accompanied by an information sheet which included more guidance and encouraged information.

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)

We feel that more guidance is needed over what is required for impact reporting, particularly when considering quantitative versus qualitative measurement. We also note that all impact reporting must be in the annual report and financial statements - there is no option to refer to a separate impact report as there is for sustainability reporting. As the audience and timing of many small charities impact reports are different from the readers and preparation of the financial statements the demand to include that information directly in the financial statement will increase the burden of preparation and may reduce the quality of information generally available about the charity.

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)

We consider that the requirements are proportionate in that only the larger charities are required to make these disclosures. We believe that the requirements for reporting are not clear in terms of what must and what might be reported. Depending upon where the threshold for the largest tier is set, there is an argument for extending the Streamlined Energy and Carbon Reporting framework to those charities which are not already caught by these regulations.

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)

We are happy that the requirements for reserves disclosures are proportionate, but we do not feel that the requirements go far enough in asking reporters to explain how the stated policy was decided upon. We would like to see further analysis of the thinking behind the stated policy, specifically linking into key risks and the assessment of going concern

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

Yes

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

We believe that a discussion of plans for the future is inseparable from the assessment of going concern and of an appropriate reserves policy.

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

No

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

Our view is that, where there are significant issues around legacy recognition, these should already be discussed as significant judgements and/or estimates within the accounting policies. We have a concern that providing additional disclosure narrative may be viewed as a substitute for rigorous application of the existing recognition and measurement rules.

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

No

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?

As noted earlier, we would like to see more guidance on what happens when a charity moves between reporting tiers, especially for one year only. If there is not some equivalent of the two year rule from Companies Act reporting, we believe that comparability might be compromised where charities are moving between tiers based only on one year's results.

We also note that Table 5 in Module 4 show fundraising costs as a component of charitable activities. We are not clear on whether this is intended as a revised presentation for fundraising costs.

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)

The draft explains the requirements clearly, but we think that more is needed in terms of practical examples, especially for more complex revenue contracts (e.g. those involving multiple services and deliverables). We also feel that the draft is lacking in support/examples for helping charities distinguish between exchange and non-exchange transactions in the context of the new revenue rules.

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)

Moderately although it could be made clearer, perhaps with decision trees to help users understand the nature of different revenues in the context of the reporting requirements. Specifically we feel that more clarity is required on the differences between grants and contracts.

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)

We would prefer to see the guidance on exchange versus non-exchange included, including examples of common scenarios, within the revenue 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?

Yes

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

We are happy with keeping all of the disclosure requirements relevant to a module in one section. We would like the SORP to explicitly set out all of the disclosure requirements rather than referring preparers back to FRS 102 in certain areas, even if this means duplicating within the SORP what is already in the FRS.

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)

We feel that paragraph 5.100 could be clearer that an adjustment to a previously-recognised legacy debtor does still go through the SoFA, but through an income line and not as an item of expenditure.

Question 23: Accounting for legacies can be a complex area for charities to navigate. Is there a need for further guidance on this topic outside of the SORP?

No

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

We believe that any further guidance should be retained within the SORP itself rather than creating a further tier of material behind the legislation, the FRS and the SORP.

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

None, except for a wish for more worked examples of common scenarios.

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.

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 would like to see more detail on 'peppercorn rent' scenarios, and those arrangements which contain a lease where there is a non-exchange element to the grant of use of the asset. There is insufficient guidance in section 6 as to key factors to differentiate between an asset and a service in the peppercorn rent scenario. E.g. Where donated assets are fair valued is that based on the asset or the value of the asset to the charity? Again examples showing fact patterns leading to each outcome would be useful.

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)

We feel that further clarity and examples are needed.

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 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?

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?

We would like the SORP committee to revisit the questions on total return once preparers have had more experience of this in a few years' time.

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?

No

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

"21.6 Previously the SORP has divided social investments into programme related investments and mixed motive investments. This has been simplified in this SORP by only referring to social investments. Comparative information must be restated as far as practicable on a like-for-like basis."

If programme related investment was made to secure long term capacity to deliver charitable objectives and never expected to make a financial return (at any level) then we do not understand the treatment of a programme-related investment when restating comparative information i.e. - is it a grant and written off - but the investment presumably still has service potential if not a financial return so that does not seem to be the right answer but it does not fit the current definition of a social investment

We recommend that the definition of social investment is revised to include consideration of service potential as part of the considerations instead of requiring a financial return or that the definition programme related investment and its accounting is reinstated.

Question 36: Do you agree that the simplification of how gains and losses on social investments are reported is beneficial?

No

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

Our reading is that the draft SORP has removed programme related investments and their accounting rather than actually simplifying. Given that many programme related investments will not meet the definition of social investments, we are not clear if we expecting to write them off through charitable expenditure as a prior year adjustment or on transition as a loss on investment - either scenario will significantly impact charities' financial statement reporting. We would like to see more guidance on how preparers should be reporting the changes to such investments on transition.

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?

Yes

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

We believe that more explanation is needed as to when restatement of comparative information might reasonably be regarded as not "practicable". We are concerned that different interpretations of this word may lead to a lack of comparability between different preparers.

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)

On balance our view is that the benefits and responsibilities of charitable status are such that a higher level of public disclosure should be required.

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

Section 9.18 of the draft seems to remove the exemption from disclosure of related party transactions between 2 or more members of a group, typically between a parent charity and a trading subsidiary. We are not clear if this was the intention, or the rationale behind it.