

# 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:

Giles Kerkham

Email address:

[REDACTED]

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

Auditor 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:

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 :

Larking Gowen

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)

A third tier makes it possible to require additional, complex disclosures to much larger charities, which they are more likely to apply to and which will have the resource to deal with them.

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)

Any cut-off is to some extent arbitrary. £500,000 seems reasonable and is consistent with the extant SORP. £15 million seems reasonable being consistent with the small company threshold.

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?

None

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

No opinion

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

We agree that using prompt questions can provoke more thoughtful response.

However, in paragraph 1.25, use of the present tense and "this year" leads the writer to describe the charity's current aims etc, which is actually content for "Plans for future periods". Past tense would lead to more consistent reporting.

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)

1.28 REQUIRES Tier 1 charities to report on how the charity's work has made a difference to the circumstances of its beneficiaries and to consider wider benefits to society as a whole. This wouldn't be any burden on a charity that is used to bid-writing and larger charities are more likely to have capacity to develop this narrative. However we consider this inappropriately burdensome to impose on all smaller charities. "Should...if practicable", as in the extant SORP, would be better for Tier 1.

This requirement is appropriate to Tiers 2/3.

**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 believe the sector should demonstrate best practice on ESG reporting. Encourage for Tiers 1 and 2 and mandating for Tier 3 is proportionate.

**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)**

In many charities, the resource applied to operations cannot be properly understood without knowledge of their volunteers. Narrative on volunteers is essential to understand the financial reporting

**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 welcome the amendments regarding reserves disclosure, which we expect will lead to better understanding and better disclosure. Tier 1 charities will however require help to comply with their new requirements (the same requirements of explaining response to difference from target and designated funds which already apply to larger charities often require guidance in those charities)

We have one specific comment:

"1.39. The figure for reserves in the trustees' annual report must be consistent with the accounts and, where this is not evident, the charity must provide a reconciliation, either in the funds note or as a separate note." We agree with the requirement – but it's not a trustee report disclosure, and as such should be stated in Chapter 2 in the list of funds disclosures – that disclosure could also be cross referenced from the trustee report.

**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)**

We disagree that disclosing future plans would not increase the reporting burden on Tier 1, and we disagree that it's a proportionate reporting requirement at that level. Some smaller charities currently disclose future plans, but it needn't be mandatory. Encouragement would be more appropriate.

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?

1.7 refers readers to the 2016 Act to find out the fundraising practices disclosures – the rules should be stated in the SORP and it would be helpful to give guidance on interpretation – ie acceptable levels of disclosures. We shouldn't have to read the 2016 Act.

1.22 Delete "often" – volunteers are never accounted for

1.23 Re consistency – unhelpful be referred to Tables 3 and 4 and Section B of Module 4: when writing the trustee report, compilers will look at their accounts, not the SORP, to ensure consistency

1.35: "a review of financial position". It's often interpreted in small charity accounts by summarising the financial result, and not by stating the position. Adding explanation of "financial position" would lead to more consistent interpretation.

Should Tier 1 charities also be required to comment on the financial result, income or expenditure? We think so, but the SORP doesn't ask that.

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 opinion

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?

No

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

*No Response*

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?

No

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

We welcome the new extra explanations.

However, the probable test in 5.90 is still problematic. It says "Receipt of legacy income is normally probable when: there has been probate....". Is that intended to tell us that receipt will not normally be probable before probate etc? Subject to the other conditions, will receipt normally become probable at point of grant of probate? If the SORP were to add new clarity here, then we think it would then be clearly stating the legacy accounting requirements.

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)

The SORP should contain the full legacy accounting guidance – there should be no need to refer outside it.



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

5.56 re recognition of income in early contract stage duplicates part of 5.52

5.67 to 5.74: Much if the meaning of the section hangs on "when the resources are ... receivable" [5.68]. It would be helpful to explain what receivable means, to aid interpretation. This could be in the Glossary.

Linked to that:

5.72: "In the case of a grant without any performance-related conditions, it is likely that when the formal offer of funding is communicated in writing to the charity there is a valid expectation that payment will be made, and the income is receivable."

- Does this mean that it's the valid expectation making the income receivable? If so, please amend the sentence to clarify that principle.

**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:**

Nothing to add

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?

none

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)

*No Response*

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

No opinion

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?

20.15 lists trustee report disclosures for charities applying the total return basis. It would be helpful to insert a flag to this in Module 1.

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)

The tables at the front of Modules usefully clarify how they apply to each Tier. In Module 1, the new format of splitting first by trustees' report section is successful in making it more straightforward for Tiers 2/3 to locate their requirements, while not obscuring the Tier 1 requirements. We consider that generally the drafting, structure and proposals in the SORP are successful in supporting the needs of smaller charities and the needs of accounts 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)

*No Response*

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

Introduction: 11: Trustees are encouraged to assess whether receipts and payments or accruals basis are more relevant to accounts readers; and told that, where charities elect to prepare R&P accounts, the SORP does not apply. Until now, R&P charities have referred to the SORP for guidance on the trustees' report. It would be helpful to indicate whether that remains the case and, if not, where charities electing for R&P would refer to for trustee report guidance.

Introduction: 25: this paragraph re transactions in a group doesn't fit under the heading "Choice of accounts preparation methods"

2.35: The bottom two bullets don't fit in this list unless introduced by "In deciding on the most suitable form of presentation, the charity should consider", as in the extant SORP

Table 2: It's illogical that numbered funds are included for Designated and Endowment, but not Restricted.

Table 5 charitable activities costs analysis now doesn't have a row for support costs, but suggests more descriptive, multiple headings. But table 6 analyses support costs: it seems likely that in many charities table 6 will awkwardly duplicate the equivalent rows in table 5.

15.13: This states that a company combined SOFA and I+E account must include net income/expenditure as a prominent subtotal. Our understanding is that the net income/expenditure line couldn't include endowment fund movements. Please take the opportunity to clarify this for the SORP user (as was done in SORP 2005).

P273 Glossary: Gross income – this omits stating that this is the test for the Tiers in the SORP, as we presume to be the case! That's a big omission, given how fundamental the Tiers are to reading the SORP. Also, no definition of Gross income is given, instead saying it "may vary by jurisdiction", not even giving reference to where to look outside the SORP. We shouldn't have to look outside the SORP. The SORP should clearly state the definition, particularly as it's fundamental to navigating the requirement of this document.