

# 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:

Liz Pepler

Email address:

[REDACTED]

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

Small charity organisational resilience consultant and lead Associate at Embrace Finance

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?

Other (please specify):  
Sector consultant

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)

Charities of different sizes have different needs - and capabilities and capacities. Smaller charities need accounting and reporting rules that are proportionate and deliverable. The tiered approach allows for a proportionate approach.

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)

Tier 1 is too low and would be better set at £1m. This would scoop just 3.6% of the register but might mean that the SORP is actually Think Small First.

My - purely anecdotal - but extensive experience of working with many 100s of small charities at Embrace Finance over the past 6/7 years is that charities with an income sub £1m pa struggle to have the budget to have access to sufficiently specialist finance support that the SORP requires. Preparing and understanding SORP accounts requires a good working knowledge of charity accounting and reporting regulations that many leaders and trustees simply do not have in smaller charities. In addition, the quality of IEs is often poor and recruiting volunteer Treasurers is a challenge as we know from various recent reports

For example, understanding the difference between - and implications of, say, restricted v unrestricted deficits is limited. As is knowing how to accurately calculate reserves. Both lead to a low level of understanding of the financial position - and financial risks - inherent in the charity.

This means that levels of meaningful engagement with and good understanding of the financial position of the charity in organisations of this size is often low.

Given the financially challenging environment many charities find themselves in - even NCVO's Small Charity Week's focus this year is financial resilience - now is a good time to simplify the accounting and reporting burdens in order to maximise the chances of them being actually understood.

**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)

If the SORP is Think Small First tier 1 needs to be the lowest income range.

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

It is a shame that the thresholds consultation was not done before this. If the R&P threshold is increased to £400k and the SORP T1 remains at £500k we end up with an unnecessarily complicated set of combined thresholds.

**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)

I am strongly in favour of a questions based approach. V helpful. But I couldn't find many. A consistent approach would be v helpful.

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)

The current T2 proposal is too burdensome for the smaller end of this category. It feels a little blunt knifed to expect charities with an income of £500k to report on a similar basis to those with an income of £15m.

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)

Grouping T1 and T2 is a good move here

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)

This is a good definition but would be significantly improved by removing the word 'normally' from this sentence  
This definition of reserves normally excludes. Given the following paragraph it would not change the meaning of the definition but would enhance the utility of it by making it super clear that ACTUAL reserves only come from unrestricted funds while the TARGET reserve may be impacted by the restricted fund position of the charity. This is something that is commonly misunderstood the word normally keeps this door open. Best to close it.

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

No

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

Presenting the balance sheet by fund should be mandated (bringing the funds by asset type onto the BS) to make clear where assets and liabilities are held and exactly how much unrd funds are held that are freely available.

Failing this there needs to be a pro forma standing disclosure note that walks charities through this. I looked for this but couldn't find it - apologies if I missed it.

The revised wording is a good move forward but more is required. Reserves are poorly understood, way too complicated and in urgent need of simplification.

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?

No opinion

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?

*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)

This is very helpful.

It will make the preparation simpler. It will also make the analysis easier by clarifying how the YE accs reconcile with the M12 management accounts and other in year reporting.

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?

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?

No

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

I think it is as clear as it can be but it is way too much to digest for small charities. Most - in my experience - haven't heard of SORP and certainly not FRS 102. This change of practice may well post significant challenges for charities that deliver public sector contracts. This is going to require a really good, plain English guidance note and good clear examples.

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)

I think the first step is to determine the type of contract and then determine the accounting treatment to be applied.

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)

At the end of each section - but with a free checklist - by Tier, with plain English explanations - of all disclosure requirements to accompany the SORP. Please do not leave small charities without the means to understand how to apply their SORP to their numbers. This would be highly regrettable.

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 opinion

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)

If the ED remains as is there is a need for plain English further guidance on ALL OF IT for T1 and the smaller end of T2.

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

Yes, this really really needs a plain English version for small charities.

Question 25: Do you find the module easy to navigate as drafted?

No

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

I understand that greater clarity on leases is beneficial in understanding liabilities and their impact on the financial position. My view is that the current wording is hard to engage with for people without a formal finance background which is most people in small charities. Even with professional support this is hard to access. A very clear plain English guide is required.

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

No - do not understand recognition exemptions

No - do not understand disclosure requirements

No - do not understand time value of money (free text box will be provided for more information to be added)

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

A plain English version for T1 and the smaller end of T2 is required

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)

A plain English version for T1 and smaller T2 orgs is required

Question 28: Are the additional disclosure requirements set out in paragraphs 10B.95 and 10B.129 reasonable for charities with such arrangements?

No

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

A plain English version for T1 and smaller end T2 orgs is required

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

How is this Think Small First?

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?

*No Response*

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?

*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?

No opinion

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?

No opinion



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?

No opinion

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 opinion

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)

There are some things to welcome. The creation of tiers is a helpful recognition that the needs of smaller charities are different. However, the burden of reporting is still increasing given the changes to contract recognition and lease accounting and these are very burdensome for small charities.

T1 needs to be up to £1m and it needs a standalone plain English version with very clear examples and a free checklist.

The current balance is towards the professional reader of the accounts - and mainly finance professionals I would think. I find it hard to see how the current balance supports small charities in understanding their numbers - and the attendant risks within them. The burden is heavy and the wording is inaccessible.

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

Do not understand the position enough to comment

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

I am not familiar with section 1A of FRS 102 but if that has the potential to make the accounting and reporting simpler for small charities the SORP committee cannot both discount it and claim to be Think Small First.

This is an interesting question and would be easier to respond to if a more meaningful reason for both the discounting and the needs being met were actually explained. This is a bit too vague at present to respond to I'm afraid.

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

1. When it comes to smaller charities the SORP needs a fundamental rethink. There is an urgent need for a stand alone plain English version which really is Think Small First.

2. It is very hard for smaller charities to access high quality charity specialist support wrt financial recording, reporting and decision making. It is a very niche, specialist area - as evidenced by the ED - which is just one bit of good financial stewardship. Many small charities simply do not understand the financial accounts - and hence their understanding of their financial risks are limited. The SORP contributes to this lack of clarity.

3 Tier 1 needs extending to £1mpa to relieve a further 6k small charities from overly burdensome requirements.

4. T1 and T2 need a plain English version and up to date example accounts to support it. The current example accounts are great and I use them regularly when training for NCVO and the Association of Chairs and others but they are out of date.

5. The claim to be Think Small First needs to be dropped. Sorry. I love the sentiment. I just cant see it in the ED. If you really want it to be Think Small First you need to speak to people who work in and for small charities. I appreciate that a lot of the content can't be changed but the presentation and the accessibility of the presentation can.