

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:

Stuart McKay on behalf of MHA

Email address:

[REDACTED]

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

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 :

MHA

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?

No

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

We note the concurrent DCMS consultation on charity financial thresholds on which we have separately responded. We consider there should be a linkage between the considerations of both consultations with the aim of greater consistency and a simplified regulatory structure with fewer thresholds. We recognise that this means potentially different thresholds to those noted in this exposure draft.

Whilst the three tier reporting does cut down the administrative burden of charities, this is not outweighed by the burden of opting a three tier approach that adds complexity and increases the risk of non-compliance especially for charities with volatile income streams where the need to repeated switch between reporting tiers could arise. Given Charities cannot adopt the micro entity regime (FRS105) for reporting it would appear to us that the receipts and payments option for unincorporated entities offers an appropriate level of disclosure for very small charities. We do not see a significant benefit by adding a middle tier and given the proposed other changes to the SORP do not see any tangible exemptions between the middle and top tier that would warrant the creation of a three tiered approach. We would recommend maintaining the current two tiered approach.

We appreciate the desire to adopt a proportionate approach, particularly for smaller charities, but past experience, such as when there was a FRSE based Charity SORP, demonstrates that the simplified compliance regime is only seen as attractive if the reduced compliance requirement is significant.

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 would suggest Tier 1 is aligned to the Charities Act audit threshold, for consistency and to avoid any undue complexity. As noted above we would recommend the abolition of a tier 2.

We consider that in absolute terms the audit threshold of £1m as currently (or £1.5m as proposed) is a level below which charities are small in scale and resources, and often do not have the required resources to prepare the complex financial statements required by the SORP.

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)

The Exposure Draft is clear on the reporting requirements for each tier. However, technology could be used to better create bespoke versions of the SORP for each Tier which only includes the reporting requirements for that Tier.

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?

No opinion

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

we would suggest that rather than having tiers 1-3 there is simply two versions of the SORP, one for larger charities (within the audit threshold) and another for smaller charities beneath the audit threshold. Alternatively we can see some merit in charities below the audit threshold having the option to prepare receipts and payments accounts.

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

No

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)

Yes, but we think this has limited value.

The prompt questions offer useful guidance and encourages reflective reporting guiding trustees away from just reporting upon financial matters, this will hopefully increase consistency and comparability as well. The real benefit of this reporting will be for the users of the accounts and we do not necessarily feel this will increase public understanding as the level of detail provided by each charity will still vary considerably.

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)

No – the requirements for demonstrating impact are insufficient for larger charities in our opinion. We feel that the impact a charity makes is its greatest performance measure. Therefore we agree that all tiers should make a statement on the impact they make – however for larger charities the 'should' requirements set out in para 1.32 of the exposure draft should be a 'must'. This is reasonable as charities are given the latitude to consider how they comply. There are a wider range of methodologies and approaches which charities can take, which we consider provides the proportionality aspect.

The draft uses the word "change" as well as "impact", which we consider helpful as it both links to the academically based concept of Theory of Change as well as being an accessible term which most SORP users will be able to understand. The concept and option for charities to report on impact has existed for over 25 years yet is still poorly understood, only sporadically considered, and is often either poorly adopted or highly inconsistent when used. We agree it is an essential and fundamental responsibility for impact to be considered by charities, hence we would strongly support an approach which increases adoption.

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 an encouragement for smaller charities and a must requirement for larger charities is proportionate and reasonable (though this subject to our comments above regarding having just two tiers) However we do not consider the reporting requirements are sufficient to merit a separate heading within the Trustees Annual Report. We also encourage the cross referencing within the exposure draft to other reporting requirements for charitable companies under the Energy and Carbon Reporting 2018 regulations – we would encourage this to be continued as the sustainability reporting requirements evolve. We should note a concern about sustainability reporting burdens for charities when the requirements for companies are for organisations that are many multiples larger, typically above the large company threshold of income above £54m

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)

However It would help Tier 1 charities if para 1.22 of the exposure draft were to be amended as follows: "The report must include an explanation to help the user to understand the scale and nature of the activities undertaken by volunteers and the input from volunteers, where the activity generated for the charity is material to its operations or objectives."

Glossary Appendix 1 – we are concerned about the definition of general volunteers. We also recognise that the definitions reference to persons from trades and professions has a link to the Charities Act requirements for remuneration of trustees, however we do not consider this is necessary when defining a volunteer. We consider the distinguishing of a "lay" trustee from one from a trade or profession is both unhelpful and potentially demeaning. For example, a charity could recognise the value of a volunteer bookkeeper but not one that was a beneficiary visitor or cleaner of premises.

We consider where the volunteering is material to the activities of the charity and is able to be reliably measured in number and value terms, then it is reasonable for a charity to be accountable for this important resource which it is managing and for which it has stewardship responsibilities. Accordingly, we do not agree with the prohibition in para 6.20 that the value of general volunteers MUST NOT be recognised. We consider the valuing of the input provided by volunteers should be recognised where it is material and can be reliably measured.

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)

Yes – having the definition back in the SORP is helpful and helps charities navigate this issue. The changes are matters which charities have considered in practice for decades, so it is helpful to include them explicitly in the definition. Though we consider it is important that there is then consistency with the Charity Commission guidance on Reserves, CC19. This agreement is subject to the inclusion of the proposed reserves reconciliation note so that there is clarity regarding the actual reserves disclosed.

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)

Yes – charity reserves are often misunderstood and a topic of contention so should be a MUST requirement. We strongly support the MUST requirement for a reconciliation to be provided where there is inconsistency between freely available reserves and the unrestricted income funds carried forward at the year end.

We consider the disclosures regarding going concern and material uncertainties, and the absence of such uncertainties are all consistent with the long standing Financial Reporting Council guidance for company directors. It is therefore helpful for non-company charities to have these requirements codified in the SORP.

For larger charities we consider it would be helpful for there to be a MAY requirement for make fuller disclosures regarding financial resilience.

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)

Yes, all charities - regardless of size – should be able to articulate their plans for the future and therefore this requirement is appropriate. However, the requirement does not detail what level of disclosure is required and therefore could be assisted with the inclusion of a number of prompt questions to help give more clarity and guidance, without adding any mandatory must requirements.

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)

No – we do not consider this a helpful addition. Accruals accounting is an accounting concept and covers a wide range of topics/items that the readers of accounts often struggle to understand. However, it is not our experience that the reason for including legacy debtors in the accounts is problematic is not because the reader is confused with the application of the accruals concept – the issue is because of the nature and value of legacy income such that it can increase the volatility of the accounts. Requiring an explanation as to how legacies are included within the accounts (on an accruals basis) is unlikely to resolve this issue, instead the majority of charities will choose to enhance their disclosure within their financial review to explain the volatility or uncertainty behind the income stream. An explanation of the recognition of income should also be already included in the accounting policies.

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

Yes in relation to para 1.27 reference in the trustees annual report for Tier 2 charities would be strengthened if the disclosure of numbers and activities was a MUST requirement, and the details of volunteer hours or staff equivalents was a SHOULD requirement.

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)

Yes – it will help preparers of the accounts understand the difference between the two approaches. Natural classification is under utilised so hopefully this will encourage wider adoption.

Question 16: Do you have any other comments on module 4?

No

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)

Yes - the presentation of the approach is well considered and understandable.

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)

No - whilst the module is drafted in a similar manner to that of the other SORP modules which makes it understandable, the complexity involved in a new recognition model of contract income only makes it harder to navigate. More consideration should be given to the first section on 'understanding the nature of income, a greater use of headings and sub-heads could help avoid misunderstandings. The 5 step recognition model is only applicable to exchange transactions – this could be highlighted by using a flow chart. Performance related grants are placed in, what appears to be, their own section. The module then flows quickly away from theory and into specifics like membership subscriptions and income from royalties rather than having a section break which would be beneficial.

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)

Yes – we think a separate module would help avoid confusion over which types of transactions need to apply the 5-step process.

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)

Yes – unless the module is going to be split into two modules then the disclosure should follow each transaction group.

Question 21: Do you consider this clarification a helpful addition to the SORP?

No opinion

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

No opinion – this practice already happens and certain sectors, like academies many charities, use designated funds to represent their entire balance of fixed assets. The Academies Accounts Direction includes all fixed assets in a separate restricted fund and depreciation is then allocated against this fund each year. Other SORP's (such as the Further and Higher Education SORP) advocate the deferral of capital grants which are then released in line with depreciation of the asset. This approach would be well received by the users of the accounts in our opinion and reduce the volatility in results due to full recognition of a capital grant in the SOFA on entitlement.

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)

Yes – however we would note that the portfolio approach to legacy accounting is not well used within the sector yet it has prominence within the module which could be removed and highlighted within an appendix.

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)

Yes – in our view the removal of entitlement recognition criteria will not fundamentally change the recognition point of the majority of legacies. However there are certain processes that most legacies follow, such as the granting of probate and the creation of estate accounts – both of which could be given greater prominence in determining when a legacy is recognised. Indeed the term 'normally' is used in para 5.90 of the ED. However if a stronger more prescriptive approach were given this might lower levels of inconsistency and judgment – for example a legacy is not normally recognised until probate has been granted or a reliable measurement is not normally arrived at until the draft estate accounts are produced.

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

As noted above, we consider exchange transaction and non-exchange transactions should now have their own modules. The British Universities Finance Directors Group have published their considerations on the Further and Higher Education SORP and in doing so have created two guidance notes that explore situations that are likely to arise when applying the new revenue recognition criteria for exchange transactions -Revenue BUFDG : British Universities Finance Directors Group. A similar document would be well received for the Charities SORP.

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)

Yes - the module is easy to navigate.

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)

Yes - the module is well written and understandable, however it could benefit from the use of flow charts and worked examples.

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)

No – the second example on page 158 deals with a social donation lease – however it is not clear how the social donation element would then be recognised – in full in year one or over the life of the lease and would it then form part of the lease liability or would it be recognised as deferred income.

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)

Yes – however you may wish to consider charities with large and/or complex estates and consider whether any aggregation could take place to ensure the accounts remain concise.

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

The Exposure Draft could make better use of flow charts and diagrams to help aid the user. Secondly, the British Universities Finance Directors Group have published their considerations on the Further and Higher Education SORP and in doing so have created guidance notes that explore situations that are likely to arise when applying the new lease accounting model - BUFDG : British Universities Finance Directors Group. A similar document would be well received for the Charities SORP.

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)

No – this should be required of all tier 2 and 3 charities. Cashflow is a fundamental primary statement and should apply to all charities other than those small charities.

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

No

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)

Yes – the borrowing from a permanent endowment fund is a complex and comes with increased compliance risks. Trustees must do all that they can to ensure that such acts are properly documented for prosperity. When fund accounting issues arise they can be as a result of historical mistakes or misinterpretation so understanding decisions that have been made on the trust for investment are important.

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)

Yes – this is an area of complexity and contains legal risks.

Question 34: Do you have any other comments on module 20?

We would encourage table 19 to contain a glossary of terms beneath it to help users understand the terminology used and how it is applied in para's 20.5 to 20.12.
It would be helpful to specify which section of the Trustees' Report the required disclosures should be located.

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)

Yes – the old terms were not well understood and inaccurately applied. However it would be helpful to expand the definition of social investments in the glossary to provide the user with a better understanding of the term.

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)

Yes – this is a useful simplification.

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)

Yes – the SORP could be clearer on the ramifications of this change to comparative figures and what it would expect the disclosure to be. An information sheet on SORP26 transition could cover this.

Question 39: Do you have any other comments on module 21?

No

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)

We feel that the reporting requirements for smaller charities continue to increase whilst, in the corporate environment they are decreasing due to increase in small company thresholds. Whilst we appreciate public trust needs to be maintained – there must be a balance between proportionate reporting, and administrative burdens and cost implications of the reporting requirements either with the recruitment of suitably qualified/experienced staff or third parties. This SORP does not provide significant decreases in reporting requirements.

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)

Yes – given that FRS105 is not permitted to be adopted, FRS102 will offer little exemptions that can be afforded to charities.

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

With regards to lease accounting specifically, the separation of the consultations on SORP and audit thresholds means that the impact on gross assets might be being overlooked. We have some 700 charities in Scotland who could potentially benefit from the increase in the income threshold from £500k to £1m; however, bringing right to use assets onto the balance sheet could mean their gross assets exceed £3.26m and they won't qualify for the audit exemption after all.