

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:

Gemma Archer

Email address:

[REDACTED]

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

Senior Manager - A&A and Compliance

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 :

Mercia Group Limited

Please select what best describes the organisation:

Other (please specify):
Provider of training and support services to the UK and Ireland accountancy profession

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?

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 transition to a three-tiered reporting framework, as a way of ensuring proportionality in financial disclosures tailored to charities of different sizes.

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)

We are of the opinion that the proposed thresholds have been set at an appropriate level. However, in some cases the requirements for different tiers are not sufficiently marked to make the difference required. Please see response to question 5 for further considerations here.

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?

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)

Convention is usually for Tier 1 to be the largest and this would align with other areas of accountancy where Tier 1 denotes the largest classification.

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

Whilst tiered reporting seems to be a sensible approach for reporting in the trustees' report, there may not be enough of a distinction between tiers for other modules. Many of the accounting modules have no distinction between tiers due to the nature of the accounting standards and the fact that small charities are not permitted to adopt FRS 102 Section 1A (see response to question 41).

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)

We agree with this approach, particularly as it is more accessible to preparers who are less familiar with the reporting requirements.

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)

Broadly, the requirement for only Tier 3 to report on sustainability, whilst encouraging the approach for Tier 1 and 2 is proportionate. However, users of the financial statements of charities operating in particular sectors may be more or less interested in sustainability disclosures, so in some cases, size may not be the appropriate factor for reporting in this area.

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)

The explanation of reserves in the glossary strikes an appropriate balance between ensuring comparability between charities and recognising the different models existing in the sector which can affect the perception of reserves.

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)

Understanding reserves is critical for users of the financial statements and these require careful explanation in the financial review to aid non-financial readers of charity accounts. Charities should be monitoring this as part of good governance so it should not be particularly burdensome to provide this explanation.

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?

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)

The inclusion of the table of a SoFA prepared using natural classification of expenditure is helpful in highlighting how this may look and increasing the prominence of this approach as an option for Tier 1 charities.

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)

The module would benefit from more examples of the types of income charities receive which are recognised under the five step model. It would also benefit from such examples being highlighted more clearly.

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 is a risk of confusion and overcomplication of the SORP if there are two separate modules for this information. This could result in preparers referring to the wrong section.

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 much easier for a user of the SORP to navigate to the end of a module for the disclosure requirements. Adding them to the end of each section could result in elements being missed.

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)

This is an area which has caused confusion for many years. The clarification will hopefully ensure more consistent approaches.

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?

No

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

Such information would be better placed or at least, linked or referenced within the SORP. Whilst it is pleasing to see that examples are given of different approaches to legacy income recognition, it would be more helpful to include explanations of different types of legacy, for example pecuniary or residuary legacies and consider how they are commonly accounted for. Given the volume of information included in other areas such as leases, it would not seem to be onerous to expand this module a little to make these accommodations.

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

No Response

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)

The format of this module is very helpful to preparers, using simple but technically appropriate language to explain how to identify and account for lease arrangements. Lessee and lessor accounting is split out for ease and the hyperlinked table is helpful for taking users to the section required. There are good examples of common issues which may arise, such as social donation leases, lease incentives and dilapidations provisions.

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:

No Response

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)

This proposal simplifies the preparation of small charity accounts and will be welcomed as an area where there is comparability between the charity and corporate sectors.

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

No Response

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?

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?

Yes

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

The new terminology reflects the language used in the sector more generally.

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)

The information provided in the module is sufficient to ensure consistent disclosure between entities, without being too prescriptive. This appropriately reflects the diversity of the nature of social investments in the sector.

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?

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)

Users of charity accounts are likely to have a greater expectation of transparency and therefore disclosure than a small corporate entity. Even small charities will have engaged and interested stakeholders who require the information included in disclosures which would be omitted under Section 1A. Whilst permitting the use of Section 1A would not preclude additional disclosures to be made by charities, comparability across the sector may be adversely affected if some charities were to restrict their disclosures to only those required by Section 1A and others chose to disclose more.

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

No Response