

# 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:

Tim Gonzaga

Email address:

[REDACTED]

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

Technical Director

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 :

Moore Kingston Smith LLP

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)

Yes, we support the move to 3 Tiers, though would also support the introduction of an intermediate tier, say for incomes between £5m and £15m. This would help address our concern that there is a big difference between a charity at either end of the current tier 2 range.

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)

The tiers need to be aligned with the audit thresholds. Trying to introduce tiers that sit outside this causes more complications and will result in confusion for many charities and advisors. The gap between the Tiers also needs to be reconsidered. A £1m charity should not be treated the same as a £15m charity. At the moment the Tiers are based on income levels but possibly consideration should be given to introducing expenditure levels and/or asset levels. There is inconsistency around the use of income in respect of investment income (included) and unrealised or realised capital gains (excluded) and our concern is that charities with very large investment portfolios should be included in the higher tiers.

Question 3: Do you agree that the Exposure Draft SORP clearly sets out the proposed reporting requirements for each tier?

No

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

If the format is to remain the same then we would recommend colour coding to be introduced to clearly identify each tier. We recognise that charities often like the full SORP in one place however we believe there is an argument to have a separate summary for just the Tier 1 charities which will make it easier for them to comply.

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)

*No Response*

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

There seems to be very little difference between Tier 2 and Tier 3. There are also issues around using the wording 'encourage'. We believe this causes confusion and it would be much better if Charities were given a definitive guide to what they Must comply with. For example, if charities are being encouraged to comply with SECR then this information when included on the Trustees report will need to be audited. If they do not need to comply with this reporting they should not be including it in their accounts.

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)

More detail added in question 14

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)

In the SORP Consultation draft, the "impact reporting" requirements escalate from Tier 1 through to Tier 3. We think that the word "encourage", which appears a number of times throughout this consultation, should not be used and should be replaced with the more widely understood Charity legislation and guidance terms of must/should/may.

The tier 1 impact reporting requirements are minimal, and the two prompt questions are areas that would be included in a well drafted trustees annual report anyway.

For tier 2, there are a number of references to well understood impact reporting terms (inputs, outputs, outcomes) but this section could be improved by including some relevant actual examples of the types of impact reporting required. As tier 2 is currently drafted, there would be a wide spread of interpretations by charities of these requirements reducing comparability.

We do not agree that reporting of material fundraising activities against targets should only be a tier 3 requirement. That would mean, as currently drafted, a £14.9m income charity (who would be a significant fundraising charity in the sector) would not have to report on these requirements.

We believe a fact sheet or further guidance on impact reporting for the sector would be an important addition to include:-

- that impact reporting doesn't just have to be numerical/quantitative data
- the key principles of impact reporting
- the widely recognised practice of SROI calculations
- Turning principles of impact reporting into good practice.

Question 8: Do you consider the requirements for sustainability 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)

See question 14

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)

Disclosures are clear and proportionate, but we have a concern as external auditors as this is a further step towards potentially requiring the value of volunteer assistance to be included in the financial statements, an area that would be fraught with inconsistencies, comparability issues and estimation uncertainty. In conclusion, we would not support the inclusion of a financial measure of the impact of volunteers.

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)

Using "free reserves" as the general definition of reserves is helpful to ensuring that charities with large fixed assets don't get complacent as to their reserve levels.

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)

Designated reserves – smaller charities seem to suffer from not being able to designate funds after the year end. Quantifying an amount on an existing fund post year is acceptable but introducing a new fund post year end is not. Most small charities will not be in a position to designate funds until post year end. Is this something that a tier 1 specific SORP could provide additional clarity on?

The disclosures are the same as they were before but they were never policed successfully. The disclosures are broadly fine but they need to be policed to ensure that they are actually followed. This should be linked to CC19 to make sure that the guidance matches the SORP.

Charities need to be realistic / honest about the level of free reserves they hold especially if they hold significant endowment funds but minimal other reserves. It is an area which lacks consistency so linking to CC19 would be helpful

We also note that paragraph 1.42 gives an explanation of going concern being the ability of the organisation to operate for the foreseeable future. We feel that this should be expanded to refer to intention as well as ability to reflect the definition of going concern in FRS 102.

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)

We agree that additional disclosure to explain the treatment of legacies would be helpful, but the only guidance we can see in "Module 1 – Trustee's Annual Report" (TAR) related to legacies is:

1.46. The financial review should also provide a narrative explanation of:

- the impact of any material legacy income recognised in the accounts prior to the resources being received. This explanation is to help users of the accounts to understand the effect timing differences may have on resources available to the charity

If this is the only disclosure requirement related to legacies in the TAR, it does not provide a great deal of information about how the charity is accounting for legacies, only being required to state the amounts it has accrued (and not how/why amounts are accrued). We recognise this detail may be included in the accounting policies, but we do not feel simply stating in the TAR that some legacy income is accrued and not received provides a great deal of extra, helpful information for the reader.

The definition of 'material' may also be open to interpretation.

The inclusion of this disclosure alone does not help address inconsistencies between charities in recognising legacies.



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

Detailed answer to question 6:

From a review of the SORP Trustees Annual Report ("TAR") consultation module 1, the only three areas that we could find prompt questions to assist the preparer of the TAR were in the following three areas:

**"Overview and Purpose of the TAR"**

1.3. The main purpose of the trustees' annual report (the report) is to ensure that the charity is publicly accountable to its stakeholders for the stewardship of the funds it holds. To communicate relevant information in the most helpful way, trustees should ask themselves:

- Who are the users of the report?
- What are the information needs of users of the report?

**Objects and Activities – Tier 2**

1.25. The report must provide answers to the following questions:

- What aims and objectives have trustees set for the charity this year and what issues do they seek to address?
- What significant activities does the charity undertake (including its main programmes, projects or services provided) and how do these contribute to the achievement of the charity's stated aims and objectives?
- What are the changes or differences the charity seeks to make through its activities?
- What are the charity's strategies for achieving its stated aims and objectives?
- What criteria or measures does the charity use to assess success in the reporting period?

**Achievements and Performance – Tier 1**

**Tier 1**

1.28. The report must contain a summary of the main achievements of the charity. To assist with this, trustees must provide answers to the following questions:

- In what way has the charity's work made a difference to the circumstances of its beneficiaries?
- Has the charity's work provided any wider benefits to society as a whole?

Use of infographics, statistics, beneficiary and volunteer testimonials may help communicate this information to users."

Whilst we agree that any prompt questions, providing they are well drafted, will assist the Trustees in developing the TAR, there does not seem to be many prompts and those that are included (particularly in 1.3 and 1.28) are of a very basic nature. We agree that the prompts shown above in 1.25 are very helpful for the objects and activities section.

If the overall aim here is to provide further guidance on all areas of the TAR, we recommend that this would be most useful to Tier 1 charities (where the TAR is often prepared by Trustees only and not by a team) and this could be expanded and included as a "TAR prompts" checklist appendix to Module 1.

Detailed answer to question 8::

Unlike the impact reporting SORP requirements in the consultation (where tiers 1 through to 3 have additional requirements), for sustainability reporting tiers 1 and 2 are "encouraged" whereas there are specific requirements for tier 3.

In line with our feedback in other areas, we do not think the word "encouraged" should be used and this should be replaced with the more widely understood Charity legislation and guidance terms of must/should/may.

We do not agree that tier 2 charities should only be "encouraged" to report on sustainability. As the thresholds are currently drafted, this would mean significant size (£10m to £14.9m income) charities not having to report which does not feel proportionate.

We feel sections 1.62 and 1.63 are a largely "scattergun" list of potential ways of reporting on ESG, whereas a more focussed list of potential charitable areas, linked to example disclosures would lead to a more robust SORP and comparability/consistency in the sector.

There does appear to be elements of duplication in the sustainability reporting requirements. The "S" for social is largely already covered throughout the trustees annual report and the "G" for governance already has a section under "structure, governance and management". Therefore, perhaps this section should concentrate on the "E" for environmental only and cross reference for S and G.

We find it remiss that the SORP consultation does not include any reference to the Charity Governance Code, a key document for charity governance and something that replaced CC11 as sector guidance.

Section 1.64 suggesting a reporting link can provide difficulties for external auditors of Charities – auditing these links is troublesome as the link could be amended or changed post approval of the financial statements.

We believe Section 1.65 in relation to SECR would be better included in the Charitable Company section of the SORP, rather than within sustainability.

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?

*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)

Detail given in question 24

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)

Yes, but see our responses in question 24 for further comment

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 opinion

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)

Whilst we agree that this clarification is a helpful addition to the SORP, we are not sure that this is needed as, from our work in the sector as external auditors, we see that the use of a designated fund to match the depreciation charge against is common practice.

However, we encourage a rethink in the accounting for capital grants. We feel that the ability to spread the income for capital projects, in line with FRS 102 and the practice used by entities following the extant Housing SORP should be applied to charities.

**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 believe that further clarity is needed and, as drafted, the Exposure Draft will still lead to inconsistent approaches to recognising legacy income. For example, where information enabling the charity to measure the legacy is received post year-end, but they were aware the legacy existed pre-year-end, it is not entirely clear whether this is an adjusting post balance sheet event and should be accrued. We see clients adopt both approaches in this scenario and the PBSE guidance (module 32) only gives an example of what to do if a legacy is no longer expected to be received

We are also aware of clients that will accrue legacies immediately upon notification and receipt of probate/estate accounts (or other alternative sufficient information to allow an estimate to be made,) but others will wait until as long as six months after this point 'in case it is challenged' before accruing. As drafted, the Exposure Draft does not necessarily prohibit either approach leading to inconsistencies.

A number of our clients will also apply an 'uncertainty discount' to reduce their accrued legacies, whereas others will simply accrue the full notified amounts, leading to inconsistencies in approach, and again the Exposure Draft does not necessarily prohibit either approach.

**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)

Guidance and examples would be helpful to try and ensure a more consistent approach across the sector, around entitlement (recognition before or after the potential 6 month window for the Will to be challenged, for example), recognition (when information on valuations comes to light post year end) and probability of receipt (just because a property hasn't sold doesn't mean it won't and do estate accounts have to have been prepared before probability of receipt is obtained?)



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

Para 5.81 uses the phrase "reasonable assurance" in relation to recognition of performance related grants where conditions may be outside of the control of the receiving charity. We feel that the term reasonable assurance is more akin to an audit methodology than the Charity SORP and this should be replaced with the more recognised term "it is more probable than not".

We also don't feel comfortable with the naming of third party providers to charities in paragraph 5.95.

Detailed answer to question 17:

We would welcome some further clarification on performance related grants – are these always non exchange transactions, so not within the scope of Section one of Module 5?

- Para 5.6 below:-

"the terms of a contract limit a charity's income from the contract to amounts spent by the charity on specified purposes or restrict the charity's use of any surplus. Income that is restricted by contractual terms may be presented as restricted in the accounts if the restrictions are in substance the same as would apply to a restricted donation or grant"

We are not aware of any of our client base who are charities that obtain contract income that has a restriction on the surplus made, so not sure how widespread this restricted income treatment would be in the sector?

- Para 5.12 distils down to one paragraph, a test that can sometimes be very difficult to conclude upon – can any further guidance be provided upon the following:-

"Before applying the income recognition model, it is necessary to identify if the income is from an exchange transaction (involving the charity providing goods and/or services in exchange for money or other consideration) or if it is not."

- Section 5.56 would benefit from a couple of charity specific examples in relation to creating a contract cost asset.

In general we feel more charity examples would be very useful throughout the section, sections, e.g. for paragraphs 5.25 – 5.27.

We also feel there is an inconsistency in FRS 102 requirements being replicated in some sections and not in others. We feel that including as much detail as possible in the SORP would be the best option.

**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)**

We feel that the section has been able to present an area which will be the biggest challenge for charities adopting the new SORP in easy to understand language and provided detailed explanations. However more examples and possibly more repetition of FRS 102 requirements will aid smaller charities in complying with the standard.

**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)**

With the caveats reflected in the questions above.

**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)**

Detail provided in question 27

**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:**

Detailed answer to question 27:

We feel that the guidance in this area needs further consideration. There are several areas where judgement will need to be applied which will result in complications that may be addressed. This includes the distinction between nominal/peppercorn rent (these terms need to be defined) and rent significantly below market rates – this is subjective and will result in significantly different treatments.

We encourage the SORP committee to rethink the approach to leases below market rates. This is for a number of reasons:

- The primary motivation behind recognising leases on the balance sheet is to adequately reflect liabilities. The recognition of imputed income and an asset requires estimations that do not improve comparability between charities, may result in some charities inadvertently being brought into a different tier or requiring an audit.
- The motivation for a rent below market rate may not simply be altruism from landlords. Many will want their properties to be occupied, there may be favourable rates rebates or other tax reasons. In doing this, it may be very hard to determine what a market rate might be. We certainly feel that a potential unintended consequence of this may be charities having to pay for professional advice on what a market rent for properties they occupy will be, particularly in different locations not typically occupied by a charity. For example, a charity that would occupy a small space in Brixton may be offered office space at top of the Shard, the value of which may not be comparable and could distort any interpretation of the financial statements, the tier the charity will need to comply with and / or bring it into the audit threshold.

Additional comment:

As discussed in the responses above we feel that some more examples would be very useful for preparers of accounts and indeed for auditors to avoid inconsistent interpretations. These will include examples of nominal rent compared to social donation leases, the treatment of VAT where a charity cannot reclaim some or all of it. We also feel that leases or informal property sharing arrangements within charitable groups or related parties should feature in examples.

**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)

We feel that there isn't a clear answer to this, but on balance we feel that:

- Charity statements of cash flows do not distinguish between the use of restricted or unrestricted funds. We feel that the consideration should be given to either mandating or recommending a split in the cash flows by fund type to provide more relevant information on the use of funds.
- If a fourth tier is introduced then we feel that this intermediate level, say, £5m would be the appropriate threshold to be used.

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)

Yes, as this updates the SORP consultation to be in line with CC14 guidance issued by the Charity Commission. However, the all encompassing terms "social investments" does mean that some of the specific clarity that was available from the three previous terms (financial investment, mixed motive investment, programme related investment) is lost to the readers of the financial statements.

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?

Yes

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

Module 21 states that This change may result in a change in accounting practice for some charities and may result in charities being required to adjust comparatives. It is not clear if this should be a prior year adjustment so just a restatement of prior year figures. Therefore further guidance may be required.

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)

We disagree that it supports the needs of smaller charities. We feel that there is still too much disclosure requirements for Tier 1 charities. We would suggest a Tier 1 prompt appendix (rather than just two prompt questions in module 1 TAR) to make it clearer on the requirements.

In developing the Exposure Draft SORP the SORP-making body has continued to disallow the option to apply Section 1A of FRS 102 for charities that are small entities under FRS 102. This decision is made on the basis that the application of Section 1A would not, without the addition of further disclosures, provide the required level of transparency and accountability that users of charity accounts are seeking. Furthermore, this would also present issues in respect of comparability which would impact on usability for users of charity accounts.

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

No

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

We feel that there is potential for charities in tier 1 to follow Section 1A, with appropriate additional mandated disclosures through the SORP to reflect the public interest nature of the charity sector. Whilst we understand that this may not be changed for this edition of the SORP, we encourage the SORP committee to consider this going forwards.

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

We believe the disclosures around salary bandings should be uplifted to reflect inflation. The same thresholds were used in the 2005 SORP, and uplifting £60,000 in 2005 to 2025 values would put that figure in excess of £100,000 which would be our suggestion for the starting point.

We also believe it would be useful to provide explicit clarification on salary sacrifice arrangements and the interaction with employer pension contributions. Currently, wording specifically states bandings calculations should exclude employer pension costs but sacrificed salary amounts become employer pension contributions so this can deflate the bandings people are shown in, which doesn't seem to be in the spirit of the disclosure.

We also feel there should be more guidance on ex gratia payments; what should be included and stated explicitly that this should be disclosed as an aggregated total.

We also feel there is merit in considering allowing charities to use the exemption from disclosing related party transactions with 100% owned group entities, in line with FRS 102 paragraph 33.1A. Our view is that these disclosures do not provide useful information for users of charity financial statements.

We note there is an inconsistency between the disclosures of key management personnel remuneration and the amounts included in the bandings. Whilst we can't see an easy way around this, increased thresholds will address some of the odd looking disclosures in smaller charities, for example where there is no one in the over £60k banding disclosures, followed by a disclosure that the CEO is the only person considered key management with remuneration and benefits over £60,000.