

# 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:

Pesh Framjee

Email address:

[REDACTED]

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

Trustee, Accountant, Treasurer, Charity Auditor and Advisor

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):**

I have been a member of the SORP Committee for over 20 years. I have been a trustee and the auditor of charities of all sizes for over 35 years. I am also Special Advisor to the Charity Finance Group and a member of the Practitioner Advisory Group that has been assisting in the development of the International Non Profit Accounting Standard

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)

*No Response*

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 2 seems to be very wide but I don't have a strong view on this  
We also need a balance sheet test as charities may have a high level of assets but relatively low income.

**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)**

Consider arrangements to cater for the situation where a charity may jump from one tier to another due to one off circumstances. Perhaps something like the "two year rule" in company law. I can see that this needs to be nuanced where a charity in tier 1 clearly exceeds the tier 1 threshold by a significant amount

**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)**

This is the convention followed in most tiering regimes

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

*No Response*

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

No

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

The intention is helpful but the way they are presented risks charities using a tick box approach to answer specific questions rather than using these as an indication of the areas that can be covered

**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)

Paragraphs 1.31 - 1.33 on impact reporting do not properly explain what must be included - the terms must and should are used in a manner that can be confusing. Also the third bullet in paragraph 1.32 appears to use the terms outcomes and impact interchangeably. In fact there is a recognised difference.

Outcomes are the benefits or changes for intended beneficiaries/objectives. They are often less tangible and therefore less countable than outputs. Usually planned they should be set out in the objectives.

Impacts are all the changes resulting from activities, projects and programme. They include intended as well as unintended, negative as well as positive long term as well as short term effects. They are harder to evaluate.

The danger is "perfection at the risk of the good" and the difficulty of striving for absolute purity in impact reporting can be detrimental by making charities think it's all too hard to do.

Perhaps recommend that charities report on outcomes and explain what they think their impact is.

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)

The use of the word 'encourage' for Tier 1 and 2 charities is not helpful. SORP should stick with the 'may' or 'should' or 'must' protocol.

Question 9: Do you consider the disclosures for volunteers to be proportionate?

No

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

Paragraph 6.6 of the ED explains, "where for instance, the service provided by a volunteer would be normally provided as part of their trade or profession for a fee, it would be capable of reliable measurement and therefore will be recognised at the time it is received. This approach has created difficulties in the past. For example, a practicing accountant sitting and advising on a charity audit committee could be seen to be providing a service that would normally be provided as part of his / her trade or profession for a fee but another volunteer also sitting on and advising in the same way would not be so seen if the service was not provided as part of their trade or profession. This is inconsistent and has led to challenges in the past with the expectation that the SORP requires the practicing accountant's time to be quantified in the financial statements.

Good narrative reporting can be more useful rather than inconsistent inclusion of some volunteer values in the financial statements.

Question 10: Do you consider the explanation of reserves in the glossary helpful?

Yes

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

*No Response*

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

Yes

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

SORP should recommend that the Trustees Annual Report starts with all funds as shown on the bottom of the balance sheet and then shows what adjustments (reductions) are needed to come to the level of reserves being held.

It is questionable whether expendable endowment and designated funds should be excluded from reserves. Contrary to popular understanding charities can massage their reserves policy by creating expendable endowment and / or designated funds from unrestricted funds

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)

All charities should consider their plans for the future. The SORP has historically been very useful in improving charity governance and management - getting charities to report on something makes them think about it.

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)

Only if done well - Consider also noting 1) the amount of accrued legacies and 2) the average time taken to receive the funds.

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)

*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?

No

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

This looks like a paraphrasing of FRS102 without providing useful discussion or examples in the charity context

Should clearly clarify when a performance related grant should be treated as an exchanger transaction

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)

There should be some example disclosures

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?

No opinion

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

*No Response*

Question 22: Does the module set out the accounting requirements for legacy income clearly?

No



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

The ED focuses on two recognition criteria - probability of receipt and measurability.

Recognising a legacy not yet received requires the existence of a debtor as an asset on the balance sheet. The ED defines an asset as: "A present economic resource controlled by the entity as a result of past events." FRS102 explains that "Control links an economic resource to an entity. Assessing whether control exists helps to identify the economic resource for which the entity accounts. An entity controls an economic resource if it has the present ability to direct the use of the economic resource and obtain the economic benefits that may flow from it."

The ability to direct the use of an economic resource means the charity must be able to decide whether to use the resource, when to use it, and in what way to use it.

The use of the term 'entitlement' has been dropped in the ED because it is now considered subsumed within the concept of 'control' as defined by FRS 102. Control is a prerequisite to recognise an asset under FRS 102 and the SORP and it is important that this is clarified in the section on legacy accounting.

SORP should continue to allow different approaches that can be justified and in certain circumstances recognising at probate can be acceptable. However, rather than defaulting to recognising legacies on the grant of probate, the rebuttable presumption is that a legacy should not be recognised unless there is control.

**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)

CFG and ILM can do this together

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

It is questionable that the SORP should refer to (endorse?) a privately owned for profit organisation by name. Perhaps it would be better to just refer to "probate search agency".

ED paragraph 5.82 discusses time restrictions. It is important to look beyond the obvious. For example, it may be clear from the funding application that the charity had asked for funding to cover a specific time period. The charity may have submitted a three year budget with the application indicating how much will be spent each year. In some cases the grant will be clearly to meet the salary of an employee over the next three years or pay the rent over the next three years.

In such cases the grant agreement may specify that a specific amount of the grant relates to those three years. In many cases the agreed yearly amount or budget is specified with a clause that this cannot be varied without the funder's agreement.

Sorp 2015 clarified this area and explains that time-related conditions may be implied, for example when a multi-period grant is approved and is to be paid on the basis of agreed annual budgets, the charity may not be entitled to spend part or all of that income in advance of its budgeted year(s) without the further prior approval of the grant-maker.

The current SORP is clear on this and includes "Specification of a time period may amount to a pre-condition for use that limits the charity's ability to spend a grant or donation until it has performed the activity related to the specified time period". I recommend that this sentence is reinstated in the 2026 SORP

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

No opinion

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.

No opinion

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

*No Response*

Question 27: Does the section (paragraphs 10B.68 to 10B.84) on arrangements that are significantly below market value provide clarity on how to account for such arrangements?

No opinion

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

When do concessionary / peppercorn arrangement have to be accounted for under the new rules.

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

No opinion

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?

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 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

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

Total return funds are managed on a total basis - the overall performance is important and having to report on individual classes of assets can be unhelpful



**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?**

Yes

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

Comports with the law and aligns with CC14 and the statutory definition of social investment in the Charities (Protection and Social Investment) Act 2016.

**Question 36: Do you agree that the simplification of how gains and losses on social investments are reported is beneficial?**

No

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

the ED proposes that social investment impairment / losses must now be included within gains losses on investments. Under the current SORP losses on programme related investment are treated as charitable expenditure.

Many charities make social investments - for example making a loan rather than a grant. As many charities see the write off of such an investment as akin to making a grant it is queried as to why one is to be treated as charitable expenditure and the other is to be treated as an investment loss.

Charities don't exist to make money - they exist to make a difference. So why should a social investment made primarily to deliver impact be treated like a "failed" financial investment when impaired? Many of these investments are made in pursuit of charitable purposes, not profit. When they need to be reduced in value or written off this resembles grants not investment losses

It is important for the new SORP to continue to reflect this. When an investment is driven by mission and not by financial return, shouldn't that be recognised in how we report it?

A change in treatment where the impairment is taken below the line can be problematic when considering the application of funds for charitable purposes. SORP should continue to allow such losses on social investment to be treated as charitable expenditure.

**Question 37: Is the Exposure Draft SORP clear on the requirements for comparative figures and disclosures?**

No

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

Module 21 is not clear on when / how comparatives need to be adjusted

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)

*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 opinion

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?

No opinion

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

*No Response*

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

There are too many places throughout the ED that require readers to refer back to FRS102. I recognise that the SORP should not repeat everything in FRS102 but simply saying see xx paragraph in FRS102 without some explanation is counterproductive.

The £ 60,000 starting point for remuneration disclosures could be updated in line with inflation

It is important that there is a comprehensive destination table between the current and new SORP