

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:

David Stevens

Email address:

[REDACTED]

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

Compliance 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 :

Price Bailey LLP

Please select what best describes the organisation:

An accounting firm / auditor

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?

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)

The use of tiers to layout differing reporting requirements is welcome. This allows Charities of differing sizes to report appropriately. However, this is subject our comments below in regard to the monetary thresholds adopted.

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 proposed thresholds are not appropriate for the following reasons:

1. They do not align with either the current audit thresholds or any potential changes from the DCMS consultation that is ongoing. This causes complexity which is not helpful or needed. These thresholds need to be aligned. The smallest charities below the gross annual income threshold over which certain "qualification requirements to be an independent examiner" apply, and below the gross annual income threshold under which a charity may prepare receipts and payments accounts, should be in the smallest tier. We therefore recommend that an income <500k would in fact put a charity in a 'micro tier' under which an unincorporated charity can choose to prepare receipts and payments accounts. The tier 1 threshold should be raised in line with the 1.5m audit threshold option proposed in the DCMS financial reporting consultation to allow those charities not being audited to have the benefit of streamlined reporting.

2. We advocate a '2 year rule' similar to that in the Companies Act to avoid many charities changing tiers every year due to e.g. a one off legacy or large donation.

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)

Clear and concise with breakdowns in each section. However, a simplified table for smaller charities would be useful as would example accounts at each 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?

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 language around tiers is confusing.

Tier 1 would often be thought of as the largest.

The Tier threshold descriptions should be reordered with Micro tier being the smallest, then Tier 3 up to Tier 1 being for the largest of charities.

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

Tier 1 as suggested takes nothing away from the previous SORP and adds even more complexity with sustainability and volunteering changes for example. We don't see much simplification for tier 1 and we believe there should be

We believe that £500k is set too low and very small charities will face a lot of pressure and burden complying with all of the disclosure requirements (the feedback we have received also reflects this). There is a too many and confusing number of thresholds to which charities need to consider. Different thresholds encompassing registration, public statements, annual returns, scrutiny, reporting frameworks and now tiered reporting requirements. The key theme of our DCMS consultation response was that there should be as much alignment as possible to simplify matters for the sector. As above we suggest a micro tier (income <£500k) and that the tier one threshold is in line with our proposed £1.5m audit threshold.

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)

But the language is still unclear. Most importantly in the accuracy of language – encouraged/must/should/may are all used frequently. We don't need 'encouraged' or 'should', just clear requirements (ie. 'musts or may'). Circumstances in which 'may' is used should also be kept to a minimum.

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)

The requirements themselves appear proportionate. However, many charities particularly in tier 2 may undertake activities where impact is hard to measure such as counselling and mental health services. There should be detailed examples given of good practice to assist such charities in assessing impact, particularly as there is wider scope for subjectivity here.

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)

Although again the use of non-committal language such as 'may' in many of these areas may create uncertainty in responses. Our concern is that many charities may end up producing boilerplate reports in response to this requirement.

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)

The requirements fall upon all tiers and at Tier one level this data will be unduly onerous, costly and time consuming to gather and report on. Smaller charities are unlikely to have robust enough systems to be able to measure and report this in any meaningful way. The draft SORP itself is not clear whether volunteer time includes volunteer Trustees time, which presumably could also have to be recorded and laid out in detail in the report. This carries with it a host of practical implications that don't appear to have been fully considered. Reconsideration and clarification on this matter is needed.

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)

No Response

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)

Whilst an additional level of reporting this is genuinely useful. More detailed examples should be provided. We currently see significant diversity in this area and so clear guidance, particularly for smaller charities is welcome.

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)

Legacies are already a confusing area and the new exposure draft does not offer much simplification here. A variety of means are used to account for legacies across the sector from aggressive to highly prudent estimation techniques. There is the potential for this additional disclosure to be alien to most of the general public and confuse matters further when comparisons are drawn between charities – particularly at tiers 1 and 2. We suggest a simplified legacy methodology that removes need for additional explanation in the annual report.

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?

The example SOFA is helpful but charities vary in activities, therefore some more detailed examples, and in particular, model accounts would be welcome. We historically seen examples of this from SORP making bodies (including this one) so a return to this would be welcome. Furthermore the concept of 'natural classification' has been introduced so some additional use scenarios around this would be helpful.

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)

The module is helpful but does not go into sufficient detail and more examples are needed especially in regard to the treatment of grants, Specifically whether grants represent exchange or non-exchange transactions and further specific guidance on this issue is required including suggested criteria to help charities decide, as well as practical examples.

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?

Yes

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

As stated above this is significant for charities and more detailed examples and clarity on how to decide this for grants is needed.

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)

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)

This is helpful as this often causes confusion as to whether the asset remains restricted for ever but actually the grant has been spent.

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 old paragraph 5.33 has been removed but the draft SORP does little to alleviate complexity and the diversity in reporting. We see little value in an accounting framework that may require income to be brought in a potentially substantial amount of time prior to being received. The SORP makes this area more complex than it should and allows for too much inconsistency in reporting. A simpler accounting policy with clear guidance on when a legacy might be regarded as probable and capable of reliable measurement would be welcome.

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)

In particular given the enhanced reporting requirements in the trustees report. This area can be hard to understand for the public, therefore some further guidance and examples here are needed, along with FAQs on legacy issues and how to treat them in the accounts.

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

Why has the SORP making body not taken the opportunity to align grants accounting with FRS102 in offering the accruals model as a policy choice? This would simplify grant accounting for all charities and provide a much clearer and simpler method. Needless time and expense is spent on complex grant accounting for charities.

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.

No - do not understand a specific section

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

Many smaller charities will struggle without professional advice. Example workings and a lease accounting 'decision tree' are needed to help them with this.

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?

No

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

We believe these requirements are time consuming and unnecessary and provide very little value to a user.

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

The additional disclosures required beyond the requirement of FRS 102 serve little purpose. Social donation leases can be a complex topic and the small number of examples given in the draft SORP are useful to help readers identify possible scenarios. More examples would be welcome.

Question 30: Do you agree with the proposal in the Exposure Draft SORP that only tier 1 and tier 2 charities, that do not meet the small entity threshold, and all tier 3 charities are required to prepare a statement of cash flows?

Yes

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

No Response

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

No Response

Question 32: Do you agree that the additional disclosures are helpful?

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)

These help add clarity and will only affect a small number with permanent endowments. There will be implementation costs initially, but this is useful disclosure

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)

This is much clearer language and removes a number of similar but confusing terms

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)

Much clearer and makes more sense

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)

This would be an ideal opportunity to clarify the requirements for comparatives in the trustees report, preferably whilst avoiding use of the word 'encouraged'.
For example, if using graphs, charts or other info graphics, is a similar image required with the prior year results? Should the financial review and reserves section include comparative information? Volunteers info with comparatives etc? And if comparatives are required in the Trustees Report - what are the transitional arrangements?

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

No Response

Question 40: Do you agree that the drafting, structure and proposals in the Exposure Draft SORP support the needs of smaller charities whilst addressing the needs of users of charity reports and accounts?

No

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

There is a significant amount of disclosure from the report through to the numbers and this will be difficult and time consuming for many smaller tier charities. There is a risk that some of the reporting will become boiler plate wording which will have little benefit to users. A micro SORP tier as proposed above would alleviate this.

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)

Although a specific micro SORP tier would be welcome (as above)

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

Food Banks

The treatment of donated goods seems much more straightforward for, and indeed may have been drafted with, charity shops in mind.

However, foodbanks have seen huge growth in the UK since 2010 and get a significant amount of donated food that is either at the end of its life cycle or close to. The current SORP is difficult to apply in practical terms it appears these entities have to try to value these donations at great expense.

The food often has no resale value and is unpredictable in terms of quality and type. Some charities use tonnage as an approximation technique but this is unsophisticated at best, furthermore a pallet of beans is very different to a pallet of bread, and were it so easy? Donations are, the vast majority of time, a mixed bag (or pallet).

These cannot be valued on 'sale' like with clothing and charity shops so trying to value either on receipt or on distribution is misleading and mostly heavily estimated. Please provide an example explaining the principles which should be applied to donated food to offer charities a path away from valuing this kind of food donation this would relieve a tremendous amount of complexity for the sector.

Biodiversity Net Gain

Another area where specific guidance is needed is in the context Biodiversity Net Gain and the credits associated. Many charities are now involved in this activity but there is a lack of clear and consistent guidance in the sector. This would be a fantastic opportunity for the SORP making body to demonstrate technical leadership in developing GAAP in this area.