

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.

No

Name:

No Response

Email address:

[REDACTED]

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

No Response

Are you happy for the SORP-making body to contact you if needed to discuss your responses?

No Response

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 :

RSM UK Audit 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)

We agree with the move to three tiers as it supports proportionate reporting and reduces the burden on smaller charities.

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 consider the proposed Tier 1 threshold of £500,000 to be too low and would be in favour of lifting this to £1m (in line with the existing audit threshold) or up to £2m should a similar increase in the audit threshold be confirmed following the recent DCMS consultation on this point. Subject to this, the Tier 2 and 3 thresholds appear appropriate. As noted in our response to the DCMS consultation, these thresholds should be reviewed regularly to ensure they remain appropriate.

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)

We consider that it is very easy to see which requirements apply to each tier. We suggest that a cross reference from paragraph 34 to Module 4 (paragraph 4.4) would be appropriate to explain the reference to the activity basis and why it is not mentioned in relation to Tier 1 as this is the first time the activity basis is referred to.

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)

Our view is that the largest charities should be described as Tier 1 as intuitively this best describes the largest charities.

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

We have no additional comments in relation to the proposed tiered reporting structure.

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 that it is helpful to have prompt questions as they give context to what the Trustees' Annual Report is trying to achieve. We suggest that two further actions would enhance the quality of reporting:
a) the existing model annual reports should be updated to reflect the requirements of the new SORP; and
b) the charity regulatory bodies should highlight examples of good practice on (say) an annual basis. These examples may be restricted to specific areas of the Trustees' Annual Report on a thematic basis.

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)

We question whether Tier 2 charities at the smaller end of the scale will be able to capture the data needed to meet the expectations of paragraph 1.32. On the other hand, we consider that the expectations of Tier 3 charities do not go far enough. For example, paragraph 1.32 is only a 'should' rather than a 'must' paragraph. We suggest that this paragraph and paragraph 1.33 are redesignated as 'must' paragraphs for Tier 3 charities.

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 that the requirements are proportionate as the reporting is encouraged for Tier 1 and 2 charities and whilst it is required for Tier 3 there is flexibility for those charities to summarise their response as appropriate in light of their specific circumstances.

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)

We consider that it is appropriate to extend the requirement to provide a narrative explanation of the scale and nature of activities undertaken by volunteers to all charities given the importance of volunteers to the sector. Given the requirements for charities to submit volunteer data to each charity regulator, the proposals do not appear onerous. We suggest that the disclosure requirements could be made more stringent for Tier 3 charities which rely heavily on volunteers as without volunteers there may be some activities that could not be delivered (e.g. paragraph 1.27 could be converted to a 'must' paragraph for Tier 3 charities).

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)

However, given the importance of this area, we consider that the explanation of reserves should not be relegated to the glossary.
We also consider that the requirement in 1.42 should be softened (potentially with the addition of wording such as 'unless this is self evident from disclosure provided elsewhere') as in some circumstances where a charity has no reserves (e.g. where a charity only has expendable endowments) it may be unnecessary to explain to a user why the charity is still operating as a going concern

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)

We consider that the disclosures for reserves are proportionate given the importance of this area to users of the financial statements.
We suggest that the requirement in paragraph 1.39 to provide a reconciliation (where not evident) of reserves disclosed in the trustees' report and the accounts is amended to allow for this reconciliation to be presented in the trustees' report so that this information is available in one place.

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)

We consider that the requirement for Tier 1 charities to provide a summary of their plans for the future is proportionate. This is on the basis that future intentions are of significant interest to users of the financial statements and that this narrative is important context for the going concern disclosures.

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 consider that the additional disclosure will enhance the user's understanding of the impact of legacy recognition on the results for the period including the charity's cash position providing that the disclosures are not boilerplate (i.e. they should go beyond the description of the charity's accounting policy and be specific to the period in question).

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

We have two further comments on Module 1.
Firstly, whilst legacy income can often be one of the main reasons for fluctuations in a charity's reported results, other income sources (such as grants) can also result in significant variation from one period to the next. Hence, we suggest that the proposal in 1.46 in relation to material legacy income is extended to all material income streams.
Secondly, we support the enhanced governance disclosures set out in the proposed SORP. However, we suggest that the interaction between these requirements and the disclosures suggested in the Charity Governance Code are acknowledged so that it is clear where there are requirements which go beyond the Code given that application of the Code is not mandated.

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 example table is helpful. However, we query whether one example is sufficient and whether as a result of only including one example, the categories identified will become the default where the natural classification basis of reporting is chosen.

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

We do not have any other comments on module 4.

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)

Whilst module 5 explains the five step model, we do not consider that it does so in a way which will support charities in applying it to their activities. Large parts of the content on exchange transactions merely replicate the Standard itself. It would be helpful for preparers if relevant application examples for common charity income types could be provided. This could be supplemented by worked examples similar to the approach taken in the FE&HE SORP. In particular an example to help clarify the difference between a contract and a grant with performance conditions would be useful as this is likely to be an area of significant judgement.

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)

Overall, we consider that module 5 is easy to navigate. However, whilst the split between exchange and non-exchange transactions is helpful it would be preferable to keep specific examples to the end of the module(s) (for example, membership subscriptions could be exchange or non-exchange transactions but they are addressed after exchange transactions).

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)

To assist further with navigation, exchange and non-exchange transactions should be presented in separate modules.

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)

We consider that listing all disclosure requirements at the end of the module(s) is preferable as it will ensure that the requirements are not 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)

We consider it helpful to provide the clarification around acceptable practice in this area given its frequency.

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 question why 'entitlement' has been removed as a recognition criteria for legacies. It must be the case that legacy income is recognised only when a charity is entitled to it and this is alluded to in paragraph 5.90.

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)

We consider that a SORP information sheet may be of assistance to build out the principles underpinning paragraph 5.92.

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

We have no other comments on module 5.

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 find module 10 easy to navigate and find Table 9 to be particularly helpful in this regard.

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)

Overall, module 10 explains the requirements of FRS 102 in a clear and understandable way. However, it could provide more relevant application examples on when the use of deposit, IBR or OBR is most suitable.

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)

The additional disclosure requirements set out in paragraphs 10B.95 and 10B.129 appear reasonable for charities with such arrangements to ensure that users have an understanding of the financial impact of the arrangements going forward.

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

We have no other comments in relation to module 10B.

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 agree 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 on the basis that this is broadly aligned with the FRS 102 requirement in relation to small entities and the updated Companies Act definition of a small company.

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

We have no other comments on module 14.

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)

We agree that the additional disclosures are helpful for users of the financial statements.

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)

We agree that the additional disclosures are proportionate given the likely user interest in this area.

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

We have no other comments on module 20.

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)

We agree with the new approach to using the generic term 'social investments' instead of referring to 'programme related' and 'mixed motive' investments as it will aid consistent treatment.

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)

We agree that the simplification of how gains and losses on social investments are reported is beneficial as it will aid consistent treatment.

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)

The SORP is clear on the need for restatement of comparatives. However, we question the 'must' requirement in paragraph 21.6 to restate comparatives in this area given that restatement is not required in some other areas.

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)

We do not consider that there is a need for further guidance in this area.

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

We have no other comments on module 21.

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)

For the most part we consider that the Exposure Draft is proportionate to the needs of charities of varying sizes and users of their financial statements. However, as noted in our response to Q1 above, we would like to see the limit for Tier 1 charities increased.

We also consider that the inclusion of a '2 year rule' under which a charity would meet size criteria in its first ever financial year or otherwise in two consecutive financial years, similar to that included in the Companies Act, would be appropriate to avoid a scenario where significantly more onerous reporting requirements are triggered due to the recognition of a one-off legacy (say).

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)

We agree with the SORP-making body's decision to continue to disallow the application of Section 1A given the public interest in charities.

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

We question whether the following text is required multiple times or whether it can just be stated once noting that it applies to all headings in the Trustees' Annual Report.

Tier 1 charities must comply with the requirements in tier 1.

Tier 2 charities must comply with the requirements in tier 1 and tier 2.

Tier 3 charities must comply with the requirements in tier 1, tier 2 and tier 3.