

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:

Amahl Smith

Email address:

[REDACTED]

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

Finance 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 :

Royal Commission for the Exhibition of 1851

Please select what best describes the organisation:

A charity applying FRS 102 and the Charities SORP

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?

£1M - £5M

A user of accounts prepared under FRS 102 and the Charities SORP

In which capacity were you using accounts prepared under FRS102 and the Charities SORP?

No Response

An accounting firm / auditor

How many charity clients do you supply your services to?

No Response

An accounting firm providing independent examination services to charities

How many charity clients do you supply your service to?

No Response

A sector body

How many member charities does your organisation have?

No Response

Responding as an individual

Which of the following describes you?

No Response

Question 1: Do you support the move to three tiers?

No

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

I believe more than three tiers are required. In particular, there should be an additional tier for smaller company charities (e.g. those with gross income less than £250,000, which would be able to prepare receipts and payments accounts if they were not constituted as companies) with significantly reduced reporting requirements, based on section 1A of FRS 102, probably with a separate, completely self-contained SORP. It is not reasonable to expect smaller charities, especially those without qualified accounting staff, to follow Tier 1 requirements.

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)

Please see my response to Q1 re the need for an additional tier for smaller charities with a threshold set at the same level as for receipts and payments accounts for non company charities. I think the Tier 1 threshold should be aligned with the charity audit threshold, so set at £1m currently but raised in line with the threshold if it increases as a result of the current consultation. I think aligning the Tier 2 threshold with the small company income threshold makes some sense.

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)

I think it should be possible to enter your tier and pull off a SORP with all and only the requirements for that 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?

No opinion

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

I don't think it matters which way the tiers are labelled, but I do believe an additional tier for smaller charities is required.

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

Proposals for tier thresholds and reporting requirements should start from consideration of what it is reasonable to expect from the charities doing the reporting, and the reporting requirements themselves, especially for smaller charities, should, as far as legislation allows, be as simple and self contained as possible. The current SORP - and the ED even more so - is a huge disincentive when recruiting trustees for small charities without accounting staff.

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)

I think prompt questions could be useful, but the module contains very few (I counted two or three) and those it does contain are very brief and little more than a restatement of the requirement. To be useful, there would need to be far more and they would need to give examples of the sorts of things trustees might want to consider including to meet the requirement.

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)

I don't think the requirements are properly thought through. To take my own charity (a grant maker providing Fellowships to young scientists and engineers) as an example, societal benefit / impact will be very long term and will require significant investment in impact research to uncover and to attribute in any meaningful way. Requiring such reporting on an annual basis is either meaningless or an unwarranted drain on charitable resources that would be better spent on the core activities. I think the requirements will merely provoke more boilerplate verbiage.

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)

I do not think the level of reporting being encouraged (where not already set out in legislation) is at all clear from the brief remarks in the SORP, and I am relieved therefore that this is not mandatory for Tier 1 and Tier 2 charities. However, if the SORP is even encouraging Tier 1 and 2 charities to provide a level of reporting similar to that required of larger charities by the Energy and Carbon Reporting regulations I suspect that is unhelpful - doing so would inevitably divert resources from delivering the core mission in a way I believe it is irresponsible to encourage.

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)

I think any requirement to try to value volunteer time distorts the whole nature of volunteering as a voluntary activity. I think measuring full time equivalent hours also ignores the reality that much volunteer time is about bringing social (and other) benefits to the volunteers rather than providing resource to the charity in the most time efficient way. If any such requirement is included (even if only encouraged) the SORP needs to provide much more guidance on who counts as a volunteer (e.g. do non-trustee committee members count?), at what date volunteers are to be counted (e.g. only those active on the balance sheet date), how time is to be measured etc, otherwise any disclosures will be largely meaningless and not at all comparable across charities.

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

No

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

To take my own charity as an example, we are a grant maker with approx. £160m of unrestricted funds that are all expendable at the discretion of the trustees. If I understand the definition correctly, we are required to disclose reserves of £160m. This strikes me as at best misleading and a backwards step from the current position where we provide a narrative explanation that we don't hold reserves as commonly understood as we have capital resources we can draw on if and when required.

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

No

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

Please see the answer to the previous question. Again, this requirement risks simply producing more unhelpful disclosure.

Question 12: Do you consider the requirement for tier 1 charities to provide a summary of their plans for the future is proportionate?

No

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

I think scenario planning to assess going concern is quite different to the sorts of disclosures of future plans that would be helpful to a reader of the accounts and the idea that this would not increase the reporting burden is therefore disingenuous. As a general matter, I think the reporting burden on Tier 1 charities is already unrealistic and that no additional requirements should be imposed without drastically reducing the current burden first.

Question 13: Do you consider that the additional disclosure will help to explain the treatment of legacies in the accounts?

No opinion

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

No Response

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

I do not believe the SORP has taken a 'smaller charities first' approach in any meaningful way and that a complete rethink of the requirements for the smallest charities is in order. More broadly, I think the SORP should be rethought from scratch with a view to making annual reports much more succinct and genuinely useful and accessible. I think it is very difficult to provide genuinely meaningful annual (as opposed to say 10-yearly) impact reporting (as opposed to straightforward output reporting) and that if the SORP is going to require this, convincing examples of what such reporting would look like for non-service delivery charities should be provided. Even the requirements on activities and achievements are to my mind only likely to provoke more needlessly repetitive, boilerplate reporting that is of no help to readers. Annual reports are far too long to be of interest to most potential readers and I suspect annual reports therefore mostly ignored in favour of other publications. This SORP will only make the situation worse.

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 opinion

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

No Response

Question 18: Do you find the module easy to navigate as drafted?

Yes

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

No Response

Question 19: Do you consider that the guidance on exchange and non-exchange transactions should be set out in separate modules of the SORP rather than separate sections of the same module?

No 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)

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 guidance in the ED seems to be much the same as that in the existing SORP. Given the wide range of practice currently, it is hard to believe the new SORP will bring about greater consistency. Far more detailed guidance would be required in order to do so.

Question 23: Accounting for legacies can be a complex area for charities to navigate. Is there a need for further guidance on this topic outside of the SORP?

No

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

If further guidance is required, it should be in the SORP. Increasing the number of documents one has to consult in preparing accounts is not helpful.

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

No Response

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

No

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

There are too many cross references to FRS 102 - it would be far more helpful if the document was self contained. There are far too few examples and the examples that are included are too truncated.

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

No - do not understand disclosure requirements

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

Some sections are too vague to be helpful. In particular, clear definitions of what counts as nominal consideration need to be provided. It is also essential for the SORP to be accompanied by a set of template accounts providing full disclosure examples for each type of lease from both the lessee and lessor perspective. As an example, my charity is the freeholder for a number of properties (which we currently treat as very long term investment properties) that have been let to other charities for 999 years (with c850 years remaining) for a consideration that is nominal relative to the commercial value but not a peppercorn and not negligible (e.g. £5000 pa where commercial value may be £1m pa). I find it extremely difficult to work out how the SORP thinks these should be treated (investment property or fixed asset, finance or operating, nominal consideration or concessionary loan etc) and impossible to work out what disclosures are required. I have similar difficulties working out our disclosure requirements as lessee in respect of the space we occupy where there is a lease back to us at reduced consideration of space in a building for which we are the freeholder which we let at reduced consideration (but where the leaseback took place more than a hundred years after the initial lease). The accounting requirements are complex and full, detailed examples of all scenarios are required. Simply referring to FRS 102 (which has no examples) is not good enough.

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)

Some sections are too vague to be helpful. In particular, clear definitions of what counts as nominal consideration need to be provided. It is also essential for the SORP to be accompanied by a set of template accounts providing full disclosure examples for each type of lease from both the lessee and lessor perspective. As an example, my charity is the freeholder for a number of properties (which we currently treat as very long term investment properties) that have been let to other charities for 999 years (with c850 years remaining) for a consideration that is nominal relative to the commercial value but not a peppercorn and not negligible (e.g. £5000 pa where commercial value may be £1m pa). I find it extremely difficult to work out how the SORP thinks these should be treated (investment property or fixed asset, finance or operating, nominal consideration or concessionary loan etc) and impossible to work out what disclosures are required. I have similar difficulties working out our disclosure requirements as lessee in respect of the space we occupy where there is a lease back to us at reduced consideration of space in a building for which we are the freeholder which we let at reduced consideration (but where the leaseback took place more than a hundred years after the initial lease). The accounting requirements are complex and full, detailed examples of all scenarios are required. Simply referring to FRS 102 is not good enough.

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)

The disclosure requirements are not clear, especially as regards the level of detail required. Para 10B.130 for example is completely unhelpful.

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

The SORP making body should have pushed for the exemptions available under FRS105 to be made available to all charities that meet the definition of a micro-entity. (I think this applies in general, but especially as regards the new lease regime). If it truly believes the new lease regime is helpful (I cannot believe the disclosures will mean anything to 99% of users) it is crucial that full template accounts with complete sets of disclosures for both lessors and lessees of all main types of lease are provided.

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)

I think it is bizarre that there are exemptions for cash flow statements when understanding cash flow is the most important thing for any charity in terms of its finances. On the other hand, the current format of the cash flow statement is completely inappropriate for most charities and therefore unhelpful to most readers, so I support the proposal only in the sense that anything that reduces the size of the accounts and the amount of unhelpful information is to some extent a good thing.

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 opinion

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?

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)

No Response

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?

No opinion

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

No Response

Question 38: Do you think there is a need for further guidance on the treatment of comparative figures and disclosures in this area?

No opinion

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

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

Smaller charities need a fully self contained SORP, that does not requires cross referencing to other documents or wading through sections only relevant to larger charities. They need that SORP to simplify and minimise accounting requirements and disclosures and narrative requirements and disclosures as far as possible consistent with explaining to readers of the accounts what the charity does and its financial position. This would require a full rewrite of the SORP genuinely starting from a smaller charity perspective taking advantage of all exemptions available and then only adding back what is absolutely necessary. They also need fully worked example accounts. The drafting, structure and proposals in the ED come nowhere close, satisfying the desires of an out of touch regulator while doing nothing for the preparers and users of 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)

I think the starting point should be to adopt Section 1A and only to add the minimum required to make accounts genuinely useful. Charity accounts are largely incomprehensible to all but qualified accountants. Additional disclosures from for profit FRSs only make the situation worse. Trustee reports are far too long and unwieldy, driving most users to consult only other documents instead. Each iteration of the SORP makes this worse.

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

No Response