

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:

Helen Wilkie

Email address:

[REDACTED]

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

Partner

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 :

Saffery 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)

Charities come in a variety of different shapes and sizes. A move to 3 tiers reflects that a 'one size fits all' approach is not appropriate for the sector.

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 that a two year rule could help to ensure that reporting remains proportionate for smaller charities in receipt of large one-off sums.

Further, noting that one of the proposals in the DCMS consultation is to allow certain charities to prepare receipts and payments accounts where they have income up to £400,000, we consider that a Tier 1 threshold that applies to charities with income up to £500,000 could be too low. We recommend that the SORP committee considers raising Tier 1 to encompass all charities not subject to audit. This would provide flexibility for those subject to audit in Scotland with income up to £1m and could give greater clarity on reporting requirements for smaller charities

In a similar vein, aligning the Tier 3 threshold with the threshold for non-small companies set out in company law could help to avoid confusion and support charities to navigate different legislative requirements.

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)

From discussion with clients, many charities would appreciate a checklist or factsheet to help them identify which requirements are 'musts', 'encouraged' or 'may' for each tier to support them to comply with the SORP's reporting requirements. We consider that using 'encouraged' rather than 'should' could aid clarity.

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?

Agree with tier 3

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?

No Response

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 have received mixed feedback from clients on this. Some charities have explained that they find the additional guidance helpful. Other charities have said that the questions will not help them to develop their reports either because they do all of this already or because they propose to adapt what they have rather than start afresh which may lead to a 'tickbox' approach.

We note that in the Exposure Draft charities 'must' address the prompt questions. Where the questions are intended to be prompts to encourage good practice and not compliance requirements we consider that 'should' or 'encouraged' would be more appropriate.

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)

Further guidance for grant-making foundations would be particularly helpful as they are often one step removed from the delivery of the charitable activities that deliver public benefit.

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)

No Response

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)

Could there be an option for charities that do not rely on volunteers to deliver their activities to have an exemption from this requirement? This will be the case for many grantmakers. Inclusion of a nil disclosure may add clutter and thus not support charities to produce meaningful, focussed reports.

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, we consider that defining 'free reserves' separately from 'reserves' could help to aid understanding and improve the clarity of the SORP.

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)

Notwithstanding that there may be linkage, we consider that the SORP should address what should be disclosed in relation to the trustees' assessment of going concern separately from disclosures relating to reserves and the charity's reserves policy.

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?

No

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

We consider that the accounting policy should already explain the accounting treatment adopted and that to bring this into the trustees' report could add clutter. Where charities have significant legacy debtors, the SORP could instead encourage or suggest that charities add additional disclosure to the debtors note or explain their consideration of this in the reserves policy.

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?

Yes

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

Yes it explains it clearly but clients have asked for further guidance and worked examples to help them to navigate this successfully.

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)

72% of charity clients surveyed by us supported a move to two 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)

Whilst there may be benefits to signposting the disclosure requirements, keeping disclosure requirements at the end would be consistent with current practice and could help charities to more easily check that they have addressed all the relevant requirements and not missed any. Many charities have asked for a checklist of all disclosure requirements to assist them to comply with the SORP's requirements.

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)

This may be helpful for some charities and not for others.

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

Yes

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

We consider that charities will continue to find this a challenging area to navigate in practice due to the level of judgement required to assess the recoverable amount of a residuary legacy, particularly where property is involved and conflicting guidance regarding when income from residuary legacies should be recognised. Some practitioners advocate that legacies are not recognised until the charity has control of the asset which may be some time after probate has been granted. The draft SORP says that receipt is 'normally' probable when probate has been granted subject to certain conditions. Clarifying or providing examples of the circumstances in which it is not probable could help charities to apply SORP requirements more consistently and with greater confidence.

Feedback from our clients shows us that examples are appreciated to help them to apply SORP. The draft SORP does not include examples.

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)

See previous answer. A factsheet or further guidance with practical examples of accounting treatments and disclosures could help charities to navigate this area.

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?

Yes

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

A flowchart could help charities to navigate the requirements in practice, as lessees and lessors.

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)

Whilst as charity specialist auditors, we can follow the module, our clients have told us that this is likely to be a challenging area for them.

We surveyed our clients. 27% of those surveyed answered 'yes' to this question. The remainder explained that they did not understand: specific sections (12%); recognition exemptions (15%); disclosure requirements (12%); the time value of money (18%). The module is lengthy and we consider it may be daunting and difficult to digest for some charities, many of whom lack the resources of larger organisations. Our clients have told us that they would appreciate further guidance and examples, including worked calculations and example disclosures covering a range of different scenarios.

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)

see comments on question 26

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)

Yes for those charities subject to audit. However, we consider that this is an area where charities are adversely affected by the requirement to comply with FRS 102 in full. The disclosure requirements set out in FRS 102 Section 1a may be more proportionate for smaller charities.

Our clients would appreciate examples of what 'good' looks like.

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?

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?

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?

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?

The example table in module 20 does not allow for any of the total return generated by the trust for investment to be added to the trust for investment. Many charities are keen to maintain the real value of the trust for investment and thus track the inflationary increase in value outside of the accounts. It would help some charities to have guidance on whether they can track this in the accounts, and how to do this in practice, to provide a clearer picture of the amount of unapplied return available for expenditure on current beneficiaries.

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)

Whilst using the terms to align to charity law is appropriate, all of the wording/ definitions here now assume that your investments have dual purpose of financial and social purpose. Charities often make loans for social purpose only and that is no longer reflected in the SORP. We consider that the SORP should acknowledge that some investments are made for social purpose only.

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

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

We are responding to this question in the wider context and not just in the context of social investments.

Our clients have told us that they would appreciate a factsheet or further guidance to help them to navigate year 1 implementation including clear guidance on where accounting treatments may be different to current practice and how adjustments arising from this are to be presented in the accounts including guidance on where adjustments or restatements will and will not arise and related disclosures.

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

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

Whilst we appreciate the move to three tiers, the benefit of this will largely relate to the trustees' report narrative and cashflow statement. In all other areas charities will be required to comply with FRS 102 and related disclosure requirements in full. The burden of reading and complying with the SORP, which extends to 304 pages in the draft published for consultation, will be significant for some smaller charities which lack the resources of larger organisations, particularly for incorporated charities which do not have the benefit of the option to prepare receipts and payments accounts. We consider that a separate SORP for smaller charities could be beneficial.

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)

See comments on question 40

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

We were hoping the bandings used for the higher paid employee disclosures (£60k bands) would be increased at least in line with inflation. The £60k threshold was included in the 2005 SORP - £60,000 in 2005 would be worth almost £90,000 today if adjusted for inflation.

Guidance for other organisations in the not for profit sector such as academy trusts and universities requires affected organisations to disclose the number of employees whose employment benefits exceed £100,000. We recommend that the SORP Committee reviews the threshold used and what is captured in the bandings (eg salaries or total employment benefits) taking into consideration inflation and wider sector practice with a view to aligning SORP requirements where appropriate to ensure that they are proportionate and consistent where it makes sense to be consistent.