

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:

(Prof) Gareth G Morgan

Email address:

[REDACTED]

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

Scottish Grantmakers representative in SORP Engagement process

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 :

Scottish Grantmakers

Please select what best describes the organisation:

A charity applying FRS 102 and the Charities SORP

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

A sector body

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?

Under £100K

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?

Funder

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?

51-100 member charities

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 are responding as USERS of charity accounts – as grantmaking charities that make extensive use of accounts and reports of charities that are applying for grants (or other forms of funding).

We have been concerned in the past at the excessive demands on reporting for smaller charities and we strongly welcome the three tier approach for charities preparing SORP accounts.

However, we wish to place on record that we are very happy with receipts and payments (R&P) accounts for non-company charities up to £250K income (so long as they are properly prepared – in Scotland this means complying with the Charities Accounts (Scotland) Regulations 2006 and OSCR guidance

We do not want any charity to feel pressured into preparing SORP accounts just because they feel that this might advantage them with funders or that this is what funders expect.

So it is vital that R&P accounts are clearly seen as an alternative to the three tiers in the SORP. But where SORP accounts are appropriate, we agree that these tiers make sense.

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?

Yes

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

Broadly speaking, yes, though we wonder whether Tier 1 should go up to £1M income – the same as the audit threshold for charities in England & Wales and also in Scotland from 2026. We do not feel there is a great need for the additional requirements of Tier 2 mandatory for charities with incomes in the £500K to £1M band.

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)

Broadly speaking we feel the requirements for each Tier are clear, but the level of clarity varies between modules – please see more specific comments below.

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)

Stick to the terminology in the Exposure Draft. To reverse the tiers at this stage would cause massive levels of confusion.

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

No.

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)

The questions in module 1 are generally helpful, but it is overstating things if you are implying that a TAR can be prepared purely by answering these questions. Someone using the SORP needs to read module 1 as a whole (at least all the elements applicable at their tier).

But many more questions could helpfully be added – in particular on the reserves policy – and in other modules of the SORP where the preparer is effectively responding to a question from a prospective reader.

As funders, we regularly include questions of this kind on our application forms. But it is much better if a standard question is answered in the TAR and accounts, rather than funders having to raise supplementary questions.

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)

We strongly welcome the much simpler approach to narrative reporting on the activities of the charity and the level of each tier (as compared to the previous SORP).

However, we feel it might be better to use the term "public benefit reporting" rather than "impact reporting" because: (a) it ties up much better with the mandatory requirements for public benefit reporting in several UK jurisdictions; (b) it makes clearer that the requirement is to report on how the charity is advancing its objects for public benefit; (c) it reminds trustees that the impact of a charity must be considered in relation to its charitable objects and beneficiaries.

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)

As funders we are certainly interested in sustainability issues for charities we support, so comments on the TAR on sustainability is helpful. Some of us are signed up to the Funders' Commitment on Climate Change. But it is also important that any requirements for sustainability reporting do not impose excessive demands on small charities. So we welcome the very straightforward wording in para 1.60 for charities in Tiers 1 and 2.

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)

The requirements in Module 6 (not to put a monetary value on the contribution of volunteers) makes sense from a funders' perspective.

We also agree that the TAR should explain the contribution of volunteers in charities of all sizes. But this explanation of requirement in Module 1 is very obscure. It is hidden away in a single para 1.22 under the broad heading "Objectives and activities" – in fact we only found it by doing a word search. This will be missed by many readers of the SORP.

There is no mention of "Volunteers" in any of the headings in module 1. We suggest it should be a standalone section of Module 1 in the same way as "Sustainability". It would also help to have a prompt question: "In what way have volunteers made a contribution to the work of the charity?"

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, it is unacceptable to provide such a crucial definition ONLY in the glossary. There isn't even a cross-reference from the Module 1 to the glossary definition. The definition should be added to para 1.37. Reserves are very important to funders considering grant awards, but relatively few charities include a clear explanation of their reserves, even under the current SORP.

It would help enormously to provide a table in module 1 on similar lines to other tables in the SORP showing how the current level of reserves is calculated in accordance with the principles that are currently hidden away in the glossary.

There are three elements to a reserves policy and the SORP should set this out more clearly:

- (a) the current level of reserves (with calculation if necessary)
- (b) the trustees' view on the desired level of reserves AND the rationale for this
- (c) an explanation of how the trustees hope to bring the actual reserves into line with the policy. The SORP should make clear that this might include increasing the level of expenditure on charitable activity if the reserves are higher than needed OR plans for building reserves if they are too low.

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 support these requirements, but as explained in our answer to Q10, the relevant requirements in Module 1 need to be much clearer, without hiding away crucial requirements in a glossary.

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)

The very brief requirement (para 1.48) for Tier 1 charities is perfectly reasonable – and very relevant to funders. If small charities do not say anything about future plans in their TAR it often means that there is no clear case for future funding.

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 are not persuaded that an explicit discussion of legacies in the TAR is helpful. In any case, the requirement in Module 1 para 1.46 is easily missed.

In most cases the main discussion of legacies (if applicable) will be in notes to the accounts in relation to the "Donations and legacies" line on the SoFA, as explained in Modules 4 and 5. It is unhelpful when the SORP asks for an issues to be discussed partly in the accounts and partly in the TAR. So we suggest removal of para 1.46.

Of course SOME charities may wish to mention legacy income in their financial review in the TAR but we do not see any need to make this compulsory. Moreover, where such a mention is appropriate in the TAR, it would often be best for this to be mentioned in the reserves policy.

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

In general, Module 1 of SORP 2006 is drafted much more clearly than in the previous SORP. We particularly welcome the very concise requirements for Tier 1 charities.

However, the structure of the module is hard to follow. For example, why does "Sustainability" come after "Reference and administrative details".

And within each section of the module, the secondary heading for Tiers are not easily distinguished from the main headings. It might be clearer for readers if text only applicable to Tiers 2 and 3 appeared in a slightly smaller font (and throughout the SORP) so that the core requirements for Tier 1 – which are applicable to all – stand out more prominently.

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)

As funders we are generally very happy with smaller charities using the SoFA with natural headings, but in the past relatively few charities have opted for this – many, it seems, believing that the functional breakdown was essential. But in practice this often leads to a near-meaningless breakdown of expenditure.

We strongly support the inclusion of the example table which we hope will illustrate the simplicity and acceptability of the SoFA with natural headings.

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

In general the wording of Module 4 is clearer than before and the simplifications allowed in Tier 1 are much more obvious.

We welcome that fact that (for once) a new version of the SORP has NOT introduced any substantive changes in the layout of the SoFA.

However, we believe the wording of paras 4.16 and 4.17 could be clearer as this subsection is applicable to 'all charities'. It might be clearer if these provisions come AFTER the explanation of the two forms of SoFA breakdown (paras 4.23-4.29). It might help to make clear that for Tier 1 charities, providing a SoFA with natural headings is normally sufficient, and no further breakdown is needed if the SoFA headings themselves identify all material items of income or expense (which will usually be the case).

It would also help to move special information that is only rarely applicable to the end of the module – e.g. paras 4.18-4.22 on discontinued operations.

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)

The explanations here are good and clear – though perhaps rather lengthy. Some of the detail could perhaps be relegated to definitions in the glossary.

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)

It is generally clear, with helpful headings so most users will only need to engage with specific elements of this module.

However, para 5.88 "Capital grants" covers several important issues in one para and would be clearer if broken down.

Moreover, this para seems to lack an explicit statement that capital grants should be recognised in full at the point of entitlement. This was seen as quite fundamental in previous SORPs but now seems vague. This issue is important for grant-making charities that award capital grants in reading the accounts of grant recipients.

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)

It is helpful to have this guidance in one place.

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)

The checklist at the end of the Module is helpful – no need to change this.

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)

The suggestion for use of a designated fund is good – many funders already encourage this. But this needs to be linked with a clearer explanation of the grant recognition principle: see our comments above.

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

No opinion

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

Grant makers are not generally concerned with the detail of legacy income so long as it is clearly explained

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 opinion

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

There is scope for further explanations beyond the SORP itself on almost any topic! But it is important to distinguish between the SORP itself and other optional guidance.

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

No.

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)

This is a hugely complex area and for any charity that has leasehold assets this will make the accounts MUCH harder to read. We are concerned that even the smallest charities applying the SORP are expected to comply with this.

Nevertheless, we note the comment, that in law charity accounts on the accruals basis are prepared in accordance with the following (in order of priority): (I) the relevant Charities Act as applicable in the jurisdiction concerned; (II) the Charity Accounting Regulations in the jurisdiction concerned and (III) the SORP.

There is no reason why the Charity Accounting Regulations could not require a simpler approach to lease accounting than that required by FRS102 in the case of straightforward leases of premises or other assets for charitable purposes (whether the charity is the lessor or lessee). This would be highly beneficial at least for charities in Tiers 1 and 2 and for funders as users of charity accounts. In a Scottish context this could be implemented through the forthcoming update to the Charities Accounts (Scotland) Regulations 2006. Similar provisions could be made to the charity accounting regulations for England & Wales and for Northern Ireland.

However, if the SORP-making body feels that the SORP must comply fully with FRS102 as it stands (with no other provision in regulations) we appreciate that there was little choice but to include this Module in the SORP. We welcome the attempts to explain the issues – though more clarity is needed as indicated by our comments below.

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 recognition exemptions

No - do not understand disclosure requirements

No - do not understand time value of money (free text box will be provided for more information to be added)

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

The SORP has made a good attempt at explaining the issues – for example the definitions in para 10B.8 are very helpful. But much is still unclear. Unless exception is made by the charity accounting regulations, this Module is applicable to all – even Tier 1 charities. So we feel much more work is needed to make the language more accessible.

For example para 10B.4 – right at the start of the module – introduces the idea of exempt leases with no further explanation except a reference to FRS102: should this refer to paras 10B.15-20?

Also para 10B.25 requires complex thinking about suppliers, but the supplier of a lease is not even defined in para 10B.8.

The examples are helpful but often they do not come to a clear conclusion as to whether or not the example is to be treated as a lease. MUCH SIMPLER EXAMPLES are needed: e.g. a charity with a 5 year lease on a shop unit but with a no-subletting condition: is this to be treated as a lease or not? And give a straightforward example calculation in a normal case before going on to social donation leases.

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)

The whole new framework for lease accounting is so complex and will make charity accounts so hard to read that it is difficult to comment meaningfully on a specific provision like leases below market rate.

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:

As noted above, we appreciate the efforts to explain these issues, but much simpler language is needed and more straightforward examples are needed before discussion of more complex scenarios.

However, a much better way forward would be for the Scottish charity accounting regulations (and the equivalent regulations in other jurisdictions) to allow a different treatment for charitable leases – see our comments on Q25.

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)

A historic Statement of Cash Flows is of no real use to funders or other readers of charity accounts – it just adds an extra page to the accounts which is of no real benefit. So we warmly welcome the removal of this requirement for most charities.

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

No.

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)

This module is not applicable to Scottish charities.

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.

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)

The single term "social investment" is much clearer and is widely used in a funding context.

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 have not reviewed this in detail but all simplifications are welcome.

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)

We assume Q37 and Q38 relates to the SORP as a whole. There is a clear statement in para 3.62 about the need for comparatives, but it would help to add a definition of "comparatives" in the glossary.

However, we remain concerned, as funders, at the excessive requirement for comparative information which came in with the 2015 SORP FRS102 and seems to be continued. It is very unhelpful for readers of the accounts to insist on prior year data for everything – and often risks confusion between current year and prior year information when whole tables have to be presented twice, for example. A cross-reference to the previous year's financial statements should be permitted where these are available online

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)

As explained above, the comparative requirements are demanding in all modules and examples of how to present information succinctly would be helpful.

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

No.

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)

Broadly speaking, the draft SORP 2026 is much better than previous SORPs in distinguishing the requirements for charities of different sizes. We firmly welcome the three Tiers.

We also support the approach in each module in starting with the Tier 1 requirements and then going on to the additional requirements for Tiers 2 and 3.

However, some modules are much better drafted from this perspective than others. Module 1 is generally very clear. Module 4 is reasonably clear, but as we comment above, some reordering is needed to keep the Tier 1 requirements and the option of a SoFA with natural classifications before the more complex issues.

But other modules do not seem to be drafted at all from this focus on starting from simplicity. As we comment on the Module 10B (Leases) – which is applicable to all including Tier 1 – there is a lot of focus on complex scenarios without first providing a clear explanation of how to account for the simplest leases likely to be applicable to Tier 1 charities.

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 we favour simplicity and would generally be in favour of allowing smaller charities to follow FRS102 Section 1A we accept that so many additional issues would then need to be applied to provide proper disclosure for charities that it would give little benefit.

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

Although in many respects the draft SORP 2026 is clearer than the 2015 SORP FRS102 there is still massive scope to simplify the language, and to ensure that every module focuses on the issues that will apply in the typical charity before going on to specific complications that will only apply to a few charities.

As funders reading charity accounts we feel it is vital the charity accounts prepared under SORP 2026 are as clear and simple as possible so that (a) charity trustees properly understand the accounts they are approving and (b) users such as ourselves get a clear picture of the work of the charity and its financial resources in order to support meaningful decisions on grant awards.