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Dear Sir

## Charities SORP Consultation

We are pleased to respond to the consultation on the new Charities SORP. We support the consistent application of reporting frameworks, such as FRS 100 and FRS 102, across all reporting entities within the UK, acknowledging that a Charities SORP is required to provide additional guidance for the charity sector.

We have set out our detailed responses to the consultation questions in the Appendix. We have also attached a copy of our latest survey of trustees' annual reports for information as we refer to its results in some of our responses.

We would be happy to discuss our letter and the draft proposals with you. If you have any questions or comments, please contact Philip Lenton on 020 7007 1772.

Yours faithfully



Veronica Poole  
National Head of Accounting and Corporate Reporting

**Appendix – Response to consultation questions****Q.1. Do you agree that the modular format adopted in the Exposure Draft improves accessibility to issues and therefore better meets the needs of the preparers of charity accounts? If not, what alternative format should be adopted and why?**

Yes. We believe that the modular format improves accessibility to users, but as we have noted in our responses to questions 2 and 4 below, there are still a number of ways in which accessibility could be improved.

**Q.2. Do you agree that the Exposure Draft better meets the needs of smaller charities compared to the current SORP, if not, what are your suggestions for further improvement that will better help smaller charities?**

While we agree that the Exposure Draft better meets the needs of smaller charities, there are still a number of ways in which the SORP could be made more useful to smaller charities. There is still a considerable amount of detail and it often takes careful reading to distinguish between the FRS 102 and FRSSE requirements.

We would recommend that an icon or text be added to all SORP requirements or sections to indicate whether they apply to entities that follow FRS 102, the FRSSE or the Companies Act. This is discussed further in our response to question 4 below. As an alternative, an additional guide summarising only the FRSSE requirements could also be published.

**Q.3. Does the use of the terms ‘must’, ‘should’ and ‘may’ when making a recommendation or explaining requirements clearly distinguish between those requirements that have to be followed to comply with the relevant accounting standard and the SORP from those recommendations which are good practice and those that simply offer advice on?**

No. While the distinction between these terms is explained in paragraphs 3.31 to 3.33, we do not believe that a lay reader would distinguish between the terms “must” and “should”. In addition, as FRS 102 uses the term “should” in a number of places, we do not believe that it is helpful for the word “should” to have a different meaning in the SORP and in the accounting standard on which the SORP seeks to provide guidance.

We recommend instead that against each requirement of the SORP, the source of the requirement is noted so it is clear whether the requirement comes from the Charities Act, Companies Act, FRS 102, FRSSE or is derived solely from the SORP. The introduction relating to the scope and application of the SORP could then make clear that the source of the requirement determines the extent with which it must be complied. This would also make it easier to identify which areas of the SORP will need to be updated when FRS 102, the FRSSE, the Charities Act or the Companies Act are revised.

**Q.4. Do you have any suggestions as to how we can improve the SORP microsite and web navigation of the Exposure Draft?**

We have the following suggestions to improve the SORP microsite:

- For FRSSE and Companies Act entities in particular, it would be helpful for it to be possible to generate a version of the SORP giving only material relevant to those entities. As we noted in our response to question 2, there is still a lot of detail in the SORP that will not be relevant for FRSSE entities and making the SORP more customisable will make it much easier to follow.
- We also recommend there be an option to obtain only the disclosure requirements of the SORP. This would enable users to prepare a tailored disclosure checklist for their particular circumstances.
- In order to prevent inappropriate tailoring of the SORP, the definitions should also appear when producing a customised SORP so that users can more easily determine whether particular modules apply.

**Q.5. Do you agree with the proposed structure and content of the trustees' annual report? If not, what changes do you recommend and why?**

Yes. We agree with the proposed structure and content of the report. However, the SORP makes no mention of how the trustees' annual report will interact with the new strategic report that will be required for large and medium-sized charitable companies for periods ending on or after 30 September 2013. In particular, the requirements for the trustees' annual report will overlap with many of the requirements of the strategic report and directors' report. We recommend that specific thought be given to aligning with the contents and headings of the strategic report where possible.

**Q.6. Do you agree with the requirements and recommendations set out in the Exposure Draft for reporting a charity's achievements and performance. If not, what changes do you recommend and why?**

Yes. In particular we support closer alignment between the discussion in the trustees' annual report and the list of activities included in the SoFA.

**Q.7. Do you think there is any additional information which should always be included a trustees' annual report that is not required in the Exposure Draft? Alternatively, is there any information currently required by the Exposure Draft that you think is unnecessary?**

No. We do not believe there is any additional information which should be included in a trustees' annual report subject to our comments above about the interaction with the strategic report required for large and medium-sized charitable companies.

We have identified in our annual financial reporting survey of larger charities the following areas where the current requirements are not complied with particularly well and for which further guidance may be required:

- methods of appointment of trustees (1.25). Although 88% of charities surveyed complied with this requirement, we identified that only 60% of larger charities gave

additional information so that the methods of appointment and election could be more fully understood.<sup>1</sup>

- induction and training of trustees (1.52). 92% of charities surveyed gave details of induction and training, but only 52% expanded their information on the induction process beyond stating that new appointees receive an induction pack or induction training.<sup>2</sup>
- fundraising and investment performance (1.41). Our survey identified that while 76% of charities included a discussion of fundraising performance, only 26% actually related that performance to the objectives set. In the case of investment performance, the respective percentages were 77% and 27%.<sup>3</sup>

**Q.8. The format and headings of the SoFA have been simplified. Do you agree that these changes will assist preparers whilst still providing users of the accounts with relevant information about the income and activities of a charity? If not, please explain how the SoFA could better present information about a charity's income and activities.**

Yes. We agree that these simplifications will assist preparers whilst still providing relevant information to users. However, we would also recommend that:

- the heading "Gains/(losses) on revaluation of fixed assets" be amended. "Fixed assets" is a general term that could also include investments and investment properties which should not go through other recognised gains and losses;
- the heading "donations" be amended to read "donations and legacies" as where there are legacies, these are often significant;
- investment income be shown separately on the face of the SoFA and not just in the notes to the financial statements; and
- there be totals for the rows in addition to the columns in Table 4 (part of paragraph 8.14).

**Q.9. The current SoFA adopts a columnar format for presenting restricted income and expenditure from restricted funds. Do you agree that this columnar approach for reporting restricted funds in the SoFA should be retained? If not, please explain why you prefer a single column presentation combining restricted and unrestricted funds.**

Yes. We agree that the current columnar approach for reporting restricted funds should be retained as this is consistent with the current approach and familiar to both preparers and users of financial statements. We also support the continued use of a single column presentation for the comparative financial information in the SoFA.

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<sup>1</sup> *Time for change... Surveying trustees' annual reports in the charity sector* 4.6 Structure, governance and management

<sup>2</sup> *Time for change... Surveying trustees' annual reports in the charity sector* 4.6 Structure, governance and management

<sup>3</sup> *Time for change... Surveying trustees' annual reports in the charity sector* 4.12 Fundraising and investment performance

**Q.10. Do you agree that the Exposure Draft of the SORP addresses those issues which are of particular relevance to charity accounting and reporting? If not, are there specific accounting or financial reporting issues faced by the charity sector or in the sphere of activity that your charity operates in that the SORP should address?**

No. We believe that more guidance is needed in the following areas:

*Preparation of a parent charity SoFA where group financial statements are prepared*

The previous version of the SORP included some guidance (in paragraph 397) stating that the Charity Commission would not insist on a separate parent charity SoFA provided that gross income/turnover and results of the parent charity were clearly disclosed in the notes to the financial statements. We recommend that this more flexible approach be retained as we believe it is unnecessary to require a separate parent charity SoFA provided that relevant information is disclosed in the notes to the financial statements.

We would also recommend that OSCR adopt a similarly flexible approach as they currently require (through their strict interpretation of the regulations) a separate SoFA for all Scottish or dual-registered charities. Our annual financial reporting survey identified that of those larger charities registered in Scotland, only 21% produced a separate SoFA for the parent.<sup>4</sup>

As the English & Welsh and Scottish charity accounts regulations will have to be updated for the new SORP (as the current regulations refer explicitly to the 2005 SORP), this represents an ideal time to remove this unnecessary requirement.

*Donated goods and the retail Gift Aid Scheme*

There is an inconsistency between the recognition of goods for resale in the draft SORP and the recognition of any gift aid on any such goods. Any gift aid can only be recognised subsequent to confirmation from the donor and it would be helpful if the SORP made this clear and also indicated into which income category the gift aid should be disclosed.

*Requirements of FRS 102 not covered by the SORP*

While the SORP is attempting to be a “one-stop shop” for all charity accounting requirements, it does not deal with every aspect of accounting in FRS 102 that potentially could be applicable to charities, for example there is no mention of holiday pay. It may be helpful for the SORP to state explicitly in an appendix those areas where it has not given charity-specific guidance and refer to the relevant section of FRS 102.

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<sup>4</sup> *Time for change... Surveying trustees' annual reports in the charity sector* 4.10 Strategy to achieve the charity's objectives.

**Q.11. The Exposure Draft proposes that grant making charities disclose in the notes to their accounts details of the name of institutions in receipt of material grants and the amount of such grants paid to them by the charity. Do you agree that this information should be given by way of note rather than in a separate publication that can be obtained from the charity on request as currently allowed by the existing SORP?**

No. We recommend that the current approach be retained, requiring disclosure either in the notes to the financial statements, as part of the trustees' annual report or by means of a separate publication that can be obtained on request.

**Q.12. The SORP requires larger charities to disclose staff salaries paid in bands of £10,000 for employees earning over £60,000. Should larger charities also be required to also disclose the job title and remuneration of their highest paid employee?**

We believe that the disclosure of staff salaries in bands is appropriate and as a result, we do not believe it necessary to require larger charities to disclose the job title and remuneration of their highest paid employee.

We also believe there should be consistency about the disclosure of remuneration and bandings across different types of entity such as registered social landlords and further/higher education institutions, both in terms of the bandings and the type of remuneration included within them.

**Q.13. The Accounting Council has suggested that a clearer distinction is desirable between those disclosures required by accounting standards and those resulting charity law or from the higher level of accountability expected of charities. Which one of the following options do you consider to be the best way of achieving this distinction?**

- a. Remove the disclosures related to accounting standards altogether and simply substitute with cross references to the relevant standard.**
- b. Provide a brief summary to explain what disclosures are required by accounting standards along with cross references to the particular standard.**
- c. Retain the current approach of the Exposure Draft but separately identify in each module those disclosures that are required by charity law or for the public accountability.**
- d. Move the disclosures required by accounting standards into a separate appendix and refer in the text to the appendix and/ or accounting standards as necessary.**

We believe that option c is the appropriate response so that the disclosures are next to the relevant accounting treatment. We also believe that the source of each disclosure requirement should be given, so that is clear if the disclosure is derived from charity law, company law, accounting standards or is an additional requirement imposed by the SORP.

Rather than further adding to the length of the SORP by including a separate appendix with disclosures, as we noted in our response to question 4, it would also be helpful if there were some way that the SORP microsite could be used to produce a version of the SORP that only contained the disclosure requirements.

**Q.14. Do you agree that charities should not be able to adopt the reduced disclosure framework provided by FRS 102? If not, please explain why you think charities should be able to take advantage of this framework?**

No. We believe that charities should be able to avail themselves of the disclosure exemptions provided in FRS 102 for subsidiaries and ultimate parent charities. In particular, we see no reason why charitable subsidiaries and ultimate parent charities should not be able to take the following exemptions, recognising that the exemption in respect of shares and share-based payments are unlikely to apply to charities:

- the reconciliation of the movement in number of shares outstanding (4.12(a)(iv) of FRS 102);
- preparing a cash flow statement (3.17(d) of FRS 102);
- the disclosure requirements in respect of financial instruments (11.39 to 11.48A and 12.26 to 12.29 of FRS 102); and
- the disclosure requirements in respect of share-based payments (26.18(b), 26.19 to 26.21 and 26.23 of FRS 102).

We understand that the reason why the draft SORP proposes that charities should not be able to take any of the disclosure exemptions was because of concern that the exemption from disclosing compensation to key management personnel (33.7 of FRS 102) would mean that remuneration paid to trustees would also not be disclosed. As relatively few trustees receive remuneration, we do not see why the SORP could not state that the disclosure exemption in respect of key management personnel would not apply to trustees' remuneration.

We also recommend that the term "reduced disclosure framework option of FRS 102" be revised (introduction, paragraph 27). FRS 102 does not use this term, presumably to avoid confusion with FRS 101, and instead uses the heading "Reduced disclosures for subsidiaries (and ultimate parents)" to describe these disclosure exemptions.

**Q.15. Do you agree that the next SORP should support both charities that prepare their accounts using FRS 102 and also those that are eligible and choose to use the FRSE? If not, please explain why.**

Yes. We believe that the next SORP should support both FRS 102 and FRSE charities.

**Q.16. Do you agree that the Exposure Draft successfully supports the use of the FRSE and FRS 102. If not what changes would you suggest and why?**

Yes. We have, however, noted in our response to question 4 methods in which this could be improved.



**Q.17. Do you agree that investments held both to produce an investment return and also for the contribution the funding makes to a charity's purposes (mixed motive investments) should be classed as a component of financial investments and separately disclosed on the balance sheet or in the notes to the accounts when material? If not, what alternate approach to classification do you recommend and why?**

No. We believe that there is no need for mixed motive investments to be split between the element relating to investment return and the element held for charitable purposes. We recommend that the current treatment be maintained and these investments are classified according to their primary purpose rather than artificially to try and split into two elements.

Where material, we believe that investments held for charitable purposes should be disclosed separately on the face of the balance sheet.

**Q.18. Do you agree that an impairment loss arising on a mixed motive investment should be analysed as an investment loss in a charity's SoFA? If not, how else might the loss be analysed in a charity's SoFA and why?**

No. As discussed in our response to question 17, we believe that mixed motive investments should be analysed according to their primary purpose and the treatment of any loss would follow this primary purpose.

If, however, the final SORP retains the requirement to apportion mixed motive investments, then the treatment of the loss should be apportioned between investment loss and charitable expenditure in the same proportion as the investment itself is apportioned between investments held for investment return and for charitable purposes.

**Q.19. Are there any circumstances in which a separate corporate body can be regarded as a branch and included in a charity own individual entity accounts? If so, how would you distinguish a separate corporate body that is a branch from one which is a subsidiary and included in a parent charity's group accounts?**

No. We do not believe that there are circumstances in which a separate corporate body would be regarded as a branch. Therefore, we believe that all separate corporate bodies that meet the definition of a subsidiary should be accounted for in the consolidated financial statements and not the parent charity's individual entity financial statements.

**Q.20. The Exposure Draft requires a charity's share of any surplus or deficit in an associate or jointly controlled entity to be shown as a single line in a parent charity's consolidated SoFA. Do you agree with this accounting treatment? If not, should the charity's share of income and expenditure be shown separately so that the user of the accounts can better understand the scale of the charitable activities carried out by the associate or joint venture?**

Yes. We support the treatment showing the charity's share of any surplus or deficit in an associate or jointly controlled entity as a single line in the consolidated SoFA. Where considered necessary, any additional information about the scale of operations could be included within a note to the financial statements.



**Q.21. Do you agree that income from government grants should be recognised on the same basis as other grants and donations? If not, why should government grants be recognised on a different basis?**

Yes. This approach is consistent with current practice in the charities sector.

**Q.22. Do you have any comments on any other accounting principles or treatment within the Exposure Draft? If making a comment, please state:**

- the name of the module(s) and the paragraph number(s);
- your suggestion for change(s) to be made; and
- the reason(s) why change is needed

*“Larger charities”*

While this term is defined in appendix 1, the use of this term could cause confusion with a charity that meets the definition of “large” under the Companies Act 2006. We would recommend that an alternative term be used, such as “Entities required by statute to be audited”.

*FRS 102 terminology*

The SORP uses a number of old UK GAAP terms such as “stocks” and “tangible fixed assets” rather than the equivalent terms in FRS 102. We recommend that the new terms in FRS 102 are used in the SORP. The old terms could be included in the glossary with cross references to the new terminology.

*Going concern (1.23, 3.14 and 3.40 to 3.41)*

While there is some mention of going concern in the above sections, it would be helpful if the SORP explicitly referred to the FRC guidance on going concern. In our annual financial reporting survey, we identified that only 42% of charities clearly complied with the FRC guidance<sup>5</sup>.

By including a reference to the FRC guidance, this will give additional guidance to trustees on matters to consider and will also “future proof” the SORP against any future changes made to the FRC guidance.

*Time related performance conditions (5.22)*

We believe that it would be helpful to include more guidance about time-related performance conditions and whether a time-related performance condition by itself is sufficient to restrict entitlement to the income. We believe that the treatment should match the recognition of the expenditure by the entity providing the grant.

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<sup>5</sup> *Time for change... Surveying trustees' annual reports in the charity sector* 4.19 Compliance the FRC guidance on going concern

*Details of donated services received but not valued (1.38 and 6.31)*

There appears to be some duplication here between the requirement to disclose in the notes to the financial statements details of any donated services received but not valued, giving the example of unpaid volunteers, and the requirement to disclose information about volunteers in the trustees' annual report. We recommend that the disclosure in respect of unpaid volunteers only be required in the trustees' annual report.

*Reference to "performance-related investments" (1.49)*

There is no definition of the term "performance-related investments". We believe that this could simply refer to "investments".

*Definition of related parties (Appendix 1)*

We believe it would be helpful if the definition of related parties in the glossary made clear that this definition is wider than that contained in FRS 102.

*Thresholds for small companies (Appendix 3)*

The thresholds for small companies make no mention of the fact that a company may still be treated as small if it exceeds the size criteria in the current year provided that it qualified as small in the preceding year. In addition, the reference in paragraph A.2 should be revised to make clear that only the threshold for turnover/gross income is adjusted for shorter or longer accounting periods. We recommend that the particular size thresholds are not disclosed in the SORP as otherwise the SORP will need updating in 2015 when the law changes the small company size limits.

It would also be helpful if the appendix made clear that there were no restrictions on charities switching between the FRSSE and FRS 102 provided that they meet the relevant size criteria.

**Q.23. Do you agree with the simplifications made to the current SORP's recommendations and if not why do you consider a particular requirement should be retained?**

Yes. We support all of these simplifications.

**Q.24. Do you have any suggestions for further simplifications to the Exposure Draft and if so what are they and what do you believe are the benefits of the additional simplification(s) you propose?**

No.

**Q.25. In responding to the FRC's report 'Cutting Clutter' would you recommend that the joint SORP-making body:**

- a. cease publishing any illustrative examples of trustees' annual reports and accounts; or

**b. publish only two illustrative example of trustees' annual reports and accounts, one for a charity adopting the FRSSE and a second for a charity adopting FRS 102; or**

**c. publish a series of examples for different types and sizes of charity?**

Option c. We believe it is a useful service to publish example trustees' annual reports and financial statements and recommend that be continued. This will be particularly important when transitioning to the new SORP, so that charities can see how their trustees' annual reports and financial statements will change.