



Research exercise on charities SORP (FRS 102)

ICAEW welcomes the opportunity to comment on the *Research exercise on charities SORP (FRS 102)* published by CIPFA on 4 May 2016, a copy of which is available from this [link](#).

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MAJOR POINTS

1. We welcome the opportunity to comment on how Charities SORP may be improved in the longer term, but Charities SORP 2015 is still relatively new and we think that the immediate focus of the review should be to clarify aspects that are already proving problematic, many of which we have identified in this response. We suggest that some broader themes, including some of those raised in the consultation, should be considered as part of an ongoing exercise alongside other aspects of charity law and regulation with a view to government producing a simpler and more cohesive regulatory framework for the sector, rather than looking at SORP in isolation. This approach could also fit with that being adopted by the Financial Reporting Council (**FRC**) in its triennial review of FRS 102. The current SORP review raises some issues about the operation of FRS 102 in the sector so that it will be necessary for the SORP making bodies to liaise with FRC as its triennial review progresses.
2. One general theme, however, does need to inform the review, which is that many charities, particularly smaller ones, find the existing regime taken as a whole to be too complex and burdensome and, therefore, an unwelcome drain on scarce resource. We believe that the review should focus on these concerns and whether and how they might be addressed in the SORP, particularly whether the requirements are resulting in overly long annual reports. We have made some suggestions on making the document easier to follow, for instance by including decision trees covering size thresholds with relevant definitions at the beginning.
3. These comments on scope are particularly relevant as regards proposals for additional disclosures in the accounts or additional content for the trustees' report. While the charity regulators might find additional information useful, SORPs should not be used by them to achieve broader regulatory objectives. For instance, a requirement for charities to declare their funding sources from individuals would have wide ranging implications that should be considered in the context of charity law and regulation more generally. Additional requirements for matters to be covered in the trustees' report may detract from the ability of a charity to 'tell its story' in the report, add to length and a general appearance of clutter in the reports. If the regulators believe that information of this kind should be disclosed, they might cover the issues elsewhere, for instance in requirements for a charity's annual return.
4. The comments also have a bearing on costs borne by the sector because, following recent regulatory changes, audit opinions will need to say whether or not any material misstatements in the trustees' and other relevant reports have been identified. The more information that is included in these reports, the more difficult and costly this exercise may be. In general we believe that a financial impact assessment should be carried out on the costs of possible additional disclosure requirements before they are made.

RESPONSES TO SPECIFIC QUESTIONS

Q.1 Do you agree that the new format of the SORP meets the needs of all those preparing accounts using the SORP, including smaller charities? If not, what improvements should be made and why?

5. Broadly speaking, the new format of SORP 2015, with its division into modules, is a clear improvement on SORP 2005. The approach that each module first tackles issues applicable to all charities using SORP, before covering additional issues for larger charities (i.e. the 'start small' approach) is very welcome. This certainly makes SORP more accessible for many charities.
6. However, we think that the approach for smaller charities could be further improved, for instance by identifying more clearly which provisions do not apply to them (including requirements for cash flow statements). For instance, a summary of the requirements and

exemptions for small charities might be included in an appendix along the lines of that included as Appendix 5 to SORP 2005, with flow charts at the front showing how the size of charities are determined for the purpose (including how 'gross income' is calculated).

7. In the longer term we hope that it would be possible for the SORP making bodies to consider creating a more flexible on-line version of SORP to enable a charity to download a version tailored to its key circumstances such as legal form; size; whether registered in England and Wales or elsewhere; and whether preparing cash-based receipts and payments accounts (to which accounting recommendations do not apply). It might also be possible to improve the presentation of the standard printed version of SORP from this perspective. For instance, tables and decision trees might be included at the beginning and different fonts or colours could be used throughout for issues that apply only to some categories of charities.
8. Where we suggest here that further guidance would be helpful, the intention is not to lengthen the SORP or impose new obligations on the sector as a whole as the overriding aim should be to simplify and shorten where possible (although there may be a case for further disclosures in some cases – see our response to Q14). Further consideration may be required as to whether the matter needs to be addressed in SORP or elsewhere, such as guidance by the charity regulators, and, generally speaking, we envisage guidance would be in relation to best practice rather than further mandatory requirements.

Q.2 Is more assistance required to help smaller charities? If so, please explain what is needed and why.

9. Please see our introductory comments above regarding making the SORP simple for smaller charities to use.
10. When initially published, the 2015 SORPs were clear that 'smaller' charities were those below the audit threshold in the jurisdiction concerned. But the amendments made by SORP Update Bulletin 1 (February 2016) have created confusion on this issue; the definitions at the back now say that a larger charity is one where the gross income is over £500,000 or €500,000, without defining 'smaller charity'.
11. The amendments in the Update Bulletin have not yet been carried through consistently in the body of SORP 2015; there are still many places where it says 'smaller charities below the audit threshold may ...' So in these cases, the relevant exemption currently applies to all sub-audit charities, which would include most charities registered only in England and Wales up to £1 million income and this will need to be addressed when the opportunity arises.
12. There are other concerns about the SORP 2015 definition of 'larger' charities in the context of the definition of the audit threshold for charities in England and Wales. What is now s.144 of the Charities Act 2011 provides that a charity with an income over £250,000 (but below £1 million) and assets over £3.26m would be considered a larger charity for audit threshold purposes; the SORP definition does not have an asset test, and it might be helpful to clarify that a charity could therefore be both a smaller charity for the purposes of SORP and a larger charity for the purposes of the audit threshold (assuming that this is the intention). The Charities (Reports and Accounts) Regulations 2008 state that certain requirements do not apply to 'non auditable' charities (see s.40 of the Regulations).
13. We doubt that SORP can require charities to do something that is specifically exempted by regulations; in particular reg.40(7) of the Charities (Accounts and Reports) Regulations 2008 specially states that six specific requirements for the Trustees' Annual Report¹ do not apply

¹ The disclosures specifically exempted by reg.40(7) are the requirements of paras (j), (k), (m), (n), (o) and (q) of reg. 40(3) which can be summarised as follows: (j) trustee induction and training policies; (k) organisational structure of the charity; (m) grant-making policies; (n) investment performance statement; (o) investment management policies; (q) trustees' aims and objectives for future periods.

‘to a charity which is not an auditable charity’ so that clarification will be required in this respect. Also, the latest Annual Report requirements for registered charities in England and Wales, added by s.13(4) of the Charities (Protection and Social Investment) Act 2016 are specifically only applicable to charities over the audit threshold. Whilst the SORP may wish to encourage such disclosures by charities in England and Wales below the audit threshold, especially those between £500,000 and £1 million income, it should not make them mandatory.

14. On a separate point, the SORP body might consider whether the additional annual Report requirements added in England and Wales by the 2016 Act would also be valuable for charities in other jurisdictions, but similar thresholds should apply before saying ‘this SORP requires ...’.
15. It would be helpful if the SORP could contain a table or decision tree to help a charity determine whether it is small and for what purpose. A tool on the website could do this.

Q3. Is the use of the terms ‘must’, ‘should’ and ‘may’ successful in distinguishing 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 how a particular disclosure or other requirement might be met? If not, what alternative format should be adopted and why?

16. The definitions of ‘must’ and ‘should’ in SORP 2015 are reasonably clear in themselves, but it would be preferable if simple everyday words like this could be used in their ordinary sense. Paragraph 3.28 refers to ‘requirements’ and the following paragraphs refer only to recommendations (whether of the ‘must’ or ‘should’ variety) so that, despite all the explanations, the position is not as clear as it might be.
17. SORP 2015 has been written using these definitions throughout and a plain English approach to drafting would involve reconsideration of the document in its entirety. However, in general, we believe that the position could be improved by reducing the use of ‘should’ in the document. ‘Should’ has a natural meaning more akin to ‘must’ when used in this sort of context and alternatives such as ‘charities are encouraged..’ could be used instead. The word ‘must’ has a natural meaning and, even without definition, it would be reasonably clear that a provision that ‘must’ be followed is akin to a ‘requirement’ and that failure to follow it would be a ‘departure’ from the SORP (or result in reports and accounts that are not ‘compliant’ with the SORP, or which are not ‘prepared fully in accordance with the...recommendations’ of the SORP’ under paragraph 3.28).
18. If defined terms are used, it is important that they are used consistently throughout the document. There are some inconsistencies at the moment. For instance paragraph 4 of SORP 2015 says that the preparer ‘should’ refer to the relevant SORP module and, later, ‘should’ refer to FRS102 as the disclosures list in the SORP are not exhaustive. However, in this context it would be necessary to refer to FRS102 so that ‘must’ would be more appropriate than ‘should’ in the second case.
19. The terms ‘must’ and ‘should’ are also defined in publications by the Charity Commission. It would be preferable if the definitions could be used consistently by regulators in all publications for which they are responsible to avoid possible confusion. For instance, CC3 applies ‘should’ in a more prescriptive way. If there is any practical difficulty with this suggestion, then that in itself is a reason for the SORP making body and individual regulators not to attribute specialised meaning to everyday words at all.

Q.4 Given the requirements for financial reporting that are now explained in FRS 102, is the retention of a SORP still necessary in the charity sector? Please give reasons for your answer.

- 20.** Yes, we believe that a SORP is still required for the purposes outlined in SORP 2015. In particular, it supplements or explains the FRS 102 requirements in the context of charities. For instance, FRS102 does not deal with fund accounting by charities, so the SORP 2015 fund accounting module is useful. It is also required to set out the requirements of the trustees' annual report and requirements on the analysis of expenditure, which are more rigorous for a charity than is required by FRS 102. However, SORP should not be used for broader regulatory purposes.

Q.5 Do you have any suggestions as to the changes needed to address issues on implementation or in meeting the SORPs requirements? If so, please explain what are they are and where possible please give examples.

- 21.** Please see the Appendix to this response for our detailed suggestions, covering areas not only of ambiguity, but also inconsistency and overlap.
- 22.** We suggest that Paragraph 15 of SORP 2015 could be expanded to explain how certain entities that are covered by another SORP such such as registered charities (or exempt charities) that provide education (and therefore follow the Further and Higher Education SORP) could apply the Charity SORP to charity specific matters, such as donated assets or legacy income when accounting for these sorts of item.

Q.6 Do you agree that there needs to be a third tier of reporting by only the largest charities and if so at what level of income should that reporting requirement apply?

- 23.** We do not believe that a third tier is required in relation to existing requirements. Please see our answer to Q14 in relation to any possible additional requirements.
- 24.** The reporting and accounting environment for charities is already extremely complex and terms like 'small' or 'smaller', or 'large' and 'larger' are applied in different ways in different contexts by different people. At present the term 'smaller charity' as used in publications such as SORP 2015 and guidance from charity regulators can mean any of the following:
- (a) charities under £25,000 income (which in England and Wales do not require an independent examination)
 - (b) charities eligible to prepare receipts and payments accounts (non-company charities not over £250,000 income in the UK jurisdictions)
 - (c) charities not over £500,000 income – the current SORP definition and the upper limit for independently examined accounts in Scotland and Northern Ireland
 - (d) charities not over £1M income
 - (e) charities not required to have an audit in the jurisdiction concerned (note that in England, Wales and Scotland this is determined by assets as well as income)
 - (f) charities which fall within the 'small company' bands in company law.

There is a risk that any advantage in adding another tier would be outweighed by further complicating an already complex regulatory environment.

Q.7 If you agree that there should be a third tier of largest charities, what items in the existing SORP that apply to larger charities should be restricted to just these largest charities?

- 25.** Not applicable.

Q.8 Do you agree with one or more of the four suggested areas for review of the trustees' annual report recommended by the SORP Committee? If so, which ones do you support

and if you do not support any of these suggestions, please give your reasons as to why not?

- 26.** We do not believe that a broad thematic approach of this kind is required at this time. SORP 2015 already addresses: integration of the report and accounts; detail of reporting; and reserves definition. As noted in our introductory comments, we suggest that the review should be directed towards addressing any specific technical shortcomings arising from the current approach in these respects. In relation to the key facts summary, any 'simple' summary is likely to give rise to difficulties (see further below). Where further guidance would be useful, it might be provided in the financial review section on how to report well, or outside the SORP altogether (for instance the Charity Commission already provides guidance on charity reserves).
- 27.** We suggest that the review should focus on how to minimise any unnecessary burdens imposed on charities so as to help charities to 'tell their story'. There is a risk that even well intentioned further 'guidance' or requirements would be counterproductive in this respect. There is also a risk that increased focus on matters contained within the financial statements will detract from the broader regulatory purpose of the reports, as set out in the 2008 Regulations. In general, we believe that SORP guidance in this respect should be shortened rather than lengthened.

Q.9 Do you agree with either of the two suggested areas for the review of the accounts recommended by the SORP Committee? If so, which ones do you support and if you do not support any of these suggestions, please give your reasons as to why not?

- 28. More specific definitions of support costs and fundraising costs.** We do not believe that it is particularly onerous to identify these under the current regime, although allocating cost between different activities in charities with only a small number of employees is likely to be on an estimated basis or would be unduly burdensome. However, providing greater specification would add to the regulatory burden and we do not see that concerns in this area would justify this, particularly for smaller charities. We comment further on fundraising costs below. As regards support costs, it is difficult to see how these could be defined and applied consistently from charity to charity.
- 29. Mixture in the SoFA between 'revenue' and 'capital'.** The use of the term 'capital funding' in the consultation paper is confusing. Income remains income even if it is to be applied to construct or purchase a fixed asset and SORP is already clear on this. We understand that there are differences of opinion regarding when income in the form of fixed assets (or grants) should be recognised (and have touched on some aspects of grant recognition in the Appendix). Different principles may be applied in other sectors (eg Registered Social Landlords), but this is not necessarily an issue for the Charity SORP.

Q.10 Do you agree with one or more of the six themes for review of the SORP suggested by the charity regulators? If so, which themes do you support, and if you do not support any of these suggested themes, please give your reasons as to why not?

Making a difference for public benefit

- 30.** We agree that this theme merits further consideration, but this should be in the context of reporting impact and the trustees' report, rather than in relation to the financial statements. See also our answer to Q14 in this context.

Risk Management

31. We believe that this is already adequately covered by SORP 2015. The theme may be particularly relevant for the very largest charities, in relation to which, please see our answer to Q14.

Going Concern

32. We do not believe that the substantive provisions need to be changed, but the review might, for instance, consider whether key issues arising in FRS 102 could be better highlighted (for instance, going concern disclosures in 3.8-3.9 of FRS 102 are not always understood) and whether links to the existing disclosures about risk, uncertainties and reserves should be included.

Analysis of expenditure

33. While we understand public interest in this issue we do not believe that **administrative and fundraising costs** should be itemised in the financial statements. It may not be easy to allocate costs (for instance, those attributable to a particular central function such as HR) to those particular activities. The accounts already disclose the overall costs and users of the account are, therefore, able to get a reasonable picture of costs versus funds raised (and spent). A great deal of fundraising is carried out by volunteers, which would not appear as a cost in the accounts and there is often a time lag between a promotional activity and any return. It is difficult to see how more detailed requirements in this area would result in meaningful insights for users of the accounts.
34. Similarly, we would expect the trustees to highlight in their annual report if **activities in any particular jurisdiction** are noteworthy. To impose an obligation of this kind in financial statements would be a significant additional burden. That fact that some people might find the information 'useful', is not sufficient to justify imposing additional burdens of this kind on the sector through SORP. However, relevant charities do need to be aware of particular concerns that may arise in relation to overseas spending (including tax implications) so that general guidance in this area may be helpful, whether in the SORP or elsewhere.
35. We are yet to be convinced that SORP should impose requirements going beyond FRS 102 in respect of **executive or staff pay disclosures**. There may be legitimate reasons why individuals would not wish to have their remuneration disclosed to the public (and, therefore, why charities might not wish to disclose that information). There seems no particular reason why, if a disclosure requirement were to be introduced, it should be limited to 'key' staff, because it might be of concern were a charity (or any business) to be paying high salaries to staff who are not 'key'. Any salary threshold for reporting would necessarily be arbitrary in the sense that it would have a different impact on different charities and there might be unintended consequences. It is open to charities to disclose on an individual basis if they see fit and the staff concerned have agreed and if this an important issue for a particular charity it may highlight the point in its annual report. (See also our comments in the Appendix, para 9.29).
36. However, further guidance on how the requirements on key management personnel apply to consultants and the self-employed may be particularly helpful for the charity sector.

Disclosure of key facts

37. Regarding key facts, we have reservations about a key facts section being required at all. Different matters will be 'key' to different users and as long as the financial statements provide the relevant information users have, in effect, had the key facts disclosed. The emphasis of particular measures may be counterproductive because they are not necessarily the best or only way to measure any given charity's effectiveness.

38. In particular we are concerned by possible proposals for ‘pence in the pound’ disclosure requirements. A simplistic and enforced method of calculation serves little useful purpose due to the diverse nature of the charity sector. Charities should be free to explain how their expenditure has been used to meet their objectives in the way that suits them best and to calculate and disclose amounts in a way that is relevant to their own circumstances as long as this is properly explained.
39. That said, where pence in the pound figures are used, it is important that they are not misleading and that the basis of calculation is properly disclosed. Given the variety of methods of calculation currently being used, it might be helpful for guidance to be provided on the different approaches possible and best practice. While fundraising ratios might be covered by a trustees’ annual report, it could also be covered elsewhere, such as on the charity’s website or a separate fundraising report to avoid excessive information being included in the front of the accounts and to make it more accessible to potential donors and funders.

General comments on the proposed themes

40. Please see our introductory comments regarding the scope of the SORP review. We agree that the report and financial statements should be accessible documents communicating what a charity does, but they should not be over-burdened by information that is, or might be, available from other sources (for instance, the purpose of a charity will be stated in its constitution). We suggest that this SORP review should be relatively narrowly focused and aimed at areas where guidance to date has proved insufficient or matters can be simplified, particularly for smaller charities.
41. Both SORP 2015 and FRS 102 are still new and we believe that it is too early to assess their impact fully at this stage. In particular, any review of SORP will need to take into account feedback on FRS 102 during its triennial review. The main focus of the review should, therefore, be on addressing technical difficulties arising rather than broader policy related issues. There may well be a case for a wider review of the regulatory regime to be conducted, but this should be done in the round by government having regard to the legal and regulatory framework as a whole.
42. As the issues covered by the SORP consultation overlap with issues being considered by the FRC in its FRS102 review, it is important that the SORP bodies make appropriate representations to FRC to ensure that any relevant issues arising are addressed.
43. The SORP review should not cover issues that might appropriately be addressed through other channels, such as the Charity annual return. For instance, the Charity Commission already provides guidance on reserves and it is far from clear why it would contemplate imposing additional requirements in this respect in SORP. Where the requirements result in additional work for preparers or reviewers financial statements, they may add to the costs of charities, which is at odds with the government’s aim of reducing costs that led to audit threshold in England and Wales being doubled to £1 million.

Q.11 If you do support one or more of the suggested themes, which, if any, of the specific issues identified within each theme do you agree needs attention in the next SORP? Alternatively, if you support none of these suggested issues, please identify the issues that need to be addressed and explain your reasons why?

44. Please see above for our suggestions on the identified themes and our views on the potential scope of the review more generally.

Q.12 Are there any items in the report or accounts which could be removed. If so, what are they and what are your reasons for removing them?

45. Please also see the Appendix for our detailed feedback on SORP 2015 provisions.

46. The current regime imposes more onerous requirements on charities than the commercial sector as the micro entity regime for companies does not apply and neither do the exemptions in Section 1A of FRS 102. While different considerations apply to the charity sector, some believe that the blanket disapplication of Section 1A goes too far and we suggest that the review consider whether the approach could be explained more fully in SORP or whether any of the exemptions in Section 1A could, in fact, usefully apply to charities.

Q.13 Are there any items in the report or accounts which could be changed to improve the information provided to the user? If so, which items would you change, what would the change be, and how would it improve the information to users of the report and accounts?

47. Please see the Appendix for our detailed feedback on SORP 2015 provisions.

48. There are a number of exemptions available under FRS 102, for example for qualifying entities under FRS 102.1.11 or for related party transactions with wholly owned subsidiaries under FRS 102.33.1A. There are also various exemption available to entities incorporated under Companies Act 2006, for instance, the section 408 exemption from presenting the individual profit and loss account in a set of group accounts. The SORP does refer to exemptions within each section, however, this is confusing to the reader. It would be helpful for the SORP to provide further clarification as to which exemptions may or may not be applied by a charity, but also taking into account any restrictions due to legislation or jurisdiction, where relevant.

Q.14 Are there any items you would like to add in to the report or accounts? If so, what are these items and how would their inclusion help the user of the report and accounts?

49. There are a relatively small number of very large charities that might be equated with large listed companies in the commercial sphere, in terms of assets, income or number of paid staff. While they are few in number, they account for a significant proportion of the economic impact of the sector and have a high public profile, affecting perceptions of the sector as a whole. They may wish to make additional disclosures and some currently do so on a voluntary basis. However, they may also find it useful for comparable charities to be required or encouraged to make similar disclosures. For instance, some find disclosures on comparatives over, say, 5 years, rather than 2 years to be useful and this can enable the reader to analyse trends more easily, which may be particularly useful with application of fair value accounting and income recognition policies.

50. While there may be reasons to require or encourage additional disclosures in this segment of the market, it is important that the Charity SORP remains relevant for the vast majority of charities that are not of this sort of scale. There is, as noted above, a risk that introducing another tier where additional regulation would apply would add to complexity and cost of regulation applying to the sector as a whole. If the SORP review does contemplate adding a third tier with this segment in mind, we suggest that the relevant thresholds should be set at a high level (say, £100 million income) and that a consultation exercise is conducted with potentially affected charities.

Q.15 Are there any disclosures in the notes to the accounts that you believe can simply be removed altogether? If so please state the disclosure, the relevant SORP paragraph(s) and give your reasons as to why this disclosure is not useful to the user of the report and accounts?

51. Please see the Appendix for detailed comments on SORP 2015, including disclosure on aggregated donations made by trustees, pensions disclosures and comparatives.

APPENDIX

(Detailed comments on Charities SORP 2015)

SORP PARA	SORP Module and comments
Intro 3/18	<p>Introduction</p> <p>The introduction to SORP 2015 makes clear that FRS and legal requirements take precedence over SORP. It is therefore important that SORP is consistent with those requirements at the time it is made and our introductory comments regarding size thresholds are relevant in that context. Paragraph 18 of SORP 2015 states that it cannot be adopted until the applicable regulations are made allowing for its adoption. However, the Charities (Accounts and Reports) Regulations 2008 have not yet been updated to refer to SORP 2015 and still refer to SORP 2005. This leaves non-company charities in England and Wales that apply the current SORP in the uncomfortable position of relying upon the true and fair override principle to justify departing from the express legal requirements of the Regulations. While the Charities Commission has provided guidance on this, the position remains unsatisfactory and it is important that the issue is resolved before the updated SORP is issued.</p>
1.4/ 15.7	<p>Trustees annual report</p> <p>The requirement for relevant charitable companies to provide a strategic report in addition to a trustees' annual report under SORP has given rise to a number of practical difficulties and can complicate the narrative flow of the trustees' report. While the SORP 2015 already provides useful guidance, if all matters to be covered by a strategic report are, in fact, covered by the trustees' report, there should be no need for a strategic report as well.</p>
1.22/ 1.48	<p>The treatment of reserves might be reconsidered. For instance the definition in the glossary simply refers to the relevant module and paragraph 1.22 does not explain what is meant by the term. The main detail in paragraph 1.48 might usefully be moved to 1.22 with additional provisions applicable only to larger charities retained in 1.48. The expectation that funds, whether restricted or unrestricted, should generally be spent within a reasonable time of receipt could be clarified by more consistent treatment in the relevant paragraphs, principally 1.48 (which does not apply to smaller charities), 2.6 and 2.11.</p>
2	<p>Fund Accounting</p> <p>Para 2.15 provides that restricted costs include support costs associated with the activities undertaken by restricted funds, but para 8.7 prohibits the inclusion of support costs if prohibited by the terms of a gift. These provisions need to be made consistent.</p> <p>See also 1.48 above regarding paras 2.6 and 2.11.</p>
4.1- 4.8	<p>Statement of financial activities</p> <p>We suggest that charities should be able to alter the order of lines on the SoFA, in particular so that expenditure can be presented first and as being financed by income generated. This would emphasise that charities exist to spend money, not to generate it like a commercial company.</p>
4.2	<p>As regards comparatives, the latest example accounts do not show much in the way of comparatives, covering only the funds note and net assets notes from the prior year, but not the prior year SoFA. This does not appear to conform with para 4.2 and this could usefully be clarified.</p> <p>The requirements for comparative figures to be given extensively in the notes to charity accounts are not always understood, and further guidance might be</p>

4.35-4.36 4.45	<p>provided on this. Also, the comparisons may not be useful for users in every case but can involve considerable effort to produce and the SORP bodies may wish to consider this with FRC.</p> <p>If a fundraising event is held in order to elicit donations, we do not believe that donations should be treated as trading income and it would be helpful if the guidance on this could be clearer. For example, with the final bullet point “sponsorships’ could be construed to cover individual sponsorship of a participant in a sponsored event and, assuming this is not intended, might better refer to ‘commercial sponsorship’.</p> <p>The definitions and use of the terms ‘expenditure on raising funds’ (para 4.45) and ‘fundraising costs’ (glossary and 4.45) could be reconsidered with a view to simplification and clarification.</p>
5.5-Glos 5.10-5.11 5.29-5.37 5.58	<p><i>Recognition of income including legacies, grants and contract income</i></p> <p>The definition of grant income in the glossary to SORP 2015 does not sufficiently distinguish between this form of income, contract income or income from charitable donations and we believe that the definitions and related guidance in this area require further consideration generally. For instance, it is currently unclear whether a transaction should be characterised differently where the grant maker is a government or foundation and, if so, why (see para 4.32). The 2005 SORP contained more detailed guidance on some of the issues arising (under GL29 and 30) and it might be worth considering whether some of this could usefully be reintroduced.</p> <p>FRS 102 (PBE34.67) provides that relevant transactions with public benefit entities that do not impose ‘specified future performance-related conditions’ are recognised when the resources are ‘received or receivable’. SORP 2015 goes beyond this and there are various areas where these differences might be reconsidered or better explained. For instance SORP 2015 can result in multi-year grants with future entitlements due only on specified future dates being recognised before they are received, or indeed, ‘receivable’ (to use FRS 102 terminology). While this may mirror the grant funders’ liability for a multi-year grant, it is not necessarily helpful for the purposes of the grant recipient’s accounts.</p> <p>There is also room for uncertainty as to whether some grant models, in particular, grants made on a reimbursed expenditure basis, involve ‘terms or conditions that must be met’ before an entitlement arises.</p> <p>The guidance on recognising income from legacies has not prevented divergent practices by charities that might be expected to adopt a similar approach and it would be helpful if this aspect of the guidance could be reconsidered.</p> <p>See above regarding the grant related definitions generally. The definition of government grants includes references to compliance with conditions, making it unclear whether charities are required to disclose government grants that are not subject to conditions. It would be helpful if the glossary could address devolved government more fully, for instance whether a clinical commissioning group grant can be a government grant.</p>
9.18	<p><i>Disclosure of trustee and staff remuneration, related party and other transactions</i></p> <p>The requirement for all donations from a trustee or related party to be disclosed on an aggregate basis even if received without conditions is problematic and unlikely always to be accurate, because charities may not be aware of the identity of any given donor (for instance donations resulting from anonymous collections) and collating the information could be onerous. Unless the donations result in the</p>

	<p>trustee having undue influence, we do not believe that the requirements serve a useful purpose.</p> <p>The related party provisions may also have unintended consequences for instance deterring paid staff, such as teachers, from volunteering as unpaid trustees (including as governors of schools). The relevant provisions need to be focussed on situations where trustees are benefiting from the charity, rather than where the charity benefits from trustees.</p> <p>It might be helpful to provide guidance on good practice for routine expenditure attributable collectively to trustees (for instance for room hire for trustee training).</p> <p>Further clarification regarding treatment of redundancy costs would be helpful, for instance, whether elements of salary payable should be included here or under salary so that redundancy costs cover only additional costs resulting from redundancy. Guidance would be helpful on how to deal with possible conflicts between data protection or confidentiality requirements and disclosure requirements (for instance, where payments are made as part of a settlement agreement to one employee only). The requirement to include an accounting policy for redundancy payments is difficult to understand and should be removed as it should presumably be covered by accounting policies concerning expenditure.</p> <p>9.29-9.30 The requirements for head count information that 'must' be disclosed and additional information that 'may' also be provided might be reconsidered, in particular whether disclosing the average number of full time equivalent staff would be more helpful (and how full time equivalent would be defined).</p> <p>9.31 FRS102 [s.33.6] defines 'key management personnel' as the persons having authority and responsibility for 'planning, directing and controlling' the activities of the entity, including any director. SORP 2015 uses the term 'key management personnel' to mean the trustees and 'senior management of the charity', but does not explain why it has adopted a different definition, or what is meant by 'senior management' (which is of concern if it is intended to include people who are not, in fact, responsible for planning, directing and controlling the activities of the entity). The fact that trustees are not typically remunerated is not in itself a reason to impose more onerous disclosure obligations on charities than commercial companies (whose directors are typically remunerated).</p> <p>9.32 The definition of employee benefits is not consistent with that in FRS 102 and, in general, it is preferable for terms defined in FRS 102 to be used where applicable and cross references made.</p>
11	<p>Accounting for financial assets and financial liabilities</p> <p>Some charities struggle with the valuation of complex financial instruments, as do some within other sectors. It might be helpful for more guidance on this issue to be made available, for instance by the Charity Commission, but it is not clear that the difficulties are specific to the sector so it will be important that any guidance given on this issue is consistent, whatever sector is involved and the Charity SORP may not be the best place to address this.</p>
15.7	<p>Charities established under company law</p> <p>Please see earlier comments regarding the strategic report.</p>
15.24	<p>The specific treatment of revaluation and fair value reserves required for charitable companies could usefully be highlighted in a separate section of the SORP which highlights the differences between SORP requirements for companies and other forms of charity. We suggest that this section needs review to ensure consistency with FRS 102 and Companies Act requirements.</p>

21.26	<p>Accounting for investments</p> <p>SORP indicates that a loan repayable on demand could be classed as a concessionary loan and can be held at cost. This appears to contradict the definition of a concessionary loan in the Glossary of FRS102 which states that loans cannot be repayable on demand. While there may not typically be a practical distinction, SORP does create some confusion and we suggest that it be updated to reflect the requirements of FRS102 more accurately.</p>
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Additional issues

Charity only SoFA for group accounts in England and Wales

In England and Wales there currently is no requirement for a charity preparing group accounts to include a charity only SoFA whereas in Scotland it is mandatory. This then causes a potential issue for cross border charities. It is also another factor that creates complexity of different treatments. We suggest that the SORP review should include consideration of whether a charity only SORP should be required in England and Wales as it is in Scotland within its scope

Letters of exemption

One of the potential areas of uncertainty with the SORP 2015 is how the requirements of the reduced disclosure framework of FRS102 (1.8 to 1.13) apply to a charity. FRS102 requires that shareholders are contacted about the exemptions that are available with their having the right to object to them if they so require. If 5% or more by value object then the reduced disclosures may not be applied.

As charities very rarely have shareholders then this section cannot be applied as such. However, does it mean that members need to be informed instead? The simplest interpretation would be that as a charity does not have shareholders this requirement cannot apply. But it could be viewed that the members are the equivalent of shareholders for a charity and they should be contacted in a similar fashion. It would be helpful if the Charity SORP could give guidance about this.

SORP example accounts

See comments on SORP 2015 4.2 above. We suggest that more examples could usefully be provided, perhaps more along the lines of the examples given in the context of the 2005 SORP.

Pensions disclosure requirements

The disclosure requirements in notes to the accounts for defined benefit pensions are too detailed and distort the useability of the financial statements. This is one of the areas where review of the charity SORP needs to be co-ordinated with review of FRS by the FRC.

Unusual one-off income (eg single large grant)

One-off unusual payments (eg grants) may push a charity that would otherwise be categorised as small into a higher threshold (eg the audit threshold). We suggest that the review consider restoring the two year rule.

Recent developments in charity law and regulation

The review will need to take into account recent developments in charity law and regulation, in particular regarding fundraising and Charity Commission guidance CC20. Specifically, guidance will be required as to what constitutes a 'fundraising complaint'.

References to 'objects'

SORP 2015 introduced the term 'legal purposes' to replace earlier references to a charity's 'objects', but there are still references to 'objects' in SORP 2015 which might better be replaced by the term 'legal purposes' (see paras 19.13, 24.13, 27.16 and the definition of 'programme related investments' in the glossary).

Subsidiaries

SORP 2015 provides that JV's should be accounted at cost rather than fair value and we suggest it could include guidance on treatment of subsidiaries.