

Responses to SORP Consultation September 2015

From: Liz Hazell [mailto:Liz.Hazell@saffery.com]

Sent: 18 September 2015 15:58

To: Charities SORP

Cc: Sally Appleton

Subject: Response from Saffery Champness on the Invitation to comment on Draft Update Bulletin 1

Please find our response to the consultation as follows:

We are submitting this response on behalf of Saffery Champness, Chartered Accountants. As part of the consultation process we have spoken to a number of clients informally so as to represent some of their views in this response. We are auditors to a large number of charities most of which are typically smaller or medium sized, as well as some with income up to £25m.

Question 1 Do you agree with the proposed amendments in draft Update Bulletin 1? If not, why not?

We agree with the proposed amendments in draft Update Bulletin 1.

We also support the inclusion of merger accounting for charitable companies in order to give a true and fair view.

Question 2 Do you agree with the proposal to amend the definition of larger charities so that it is no longer linked to the statutory audit threshold for accounts prepared under the Charities SORP (FRSSE) or Charities SORP (FRS 102) for reporting periods ending on or after 31 March 2015? If not, why not?

We agree with the aim to preserve consistency and comparability across the jurisdictions however there are different thresholds for the audit of charities within the constituent parts of the UK. The different definitions of 'large' for statutory audit exemption in charity law and in the SORP (for the purposes of accounting and disclosure) appear to provide conflicting requirements. This may result in confusion for charitable entities and the users of their accounts. We are comfortable with the suggestion of de-linking the definition of large charities in order to ensure that the SORP is to some extent 'future proof'. However we suggest that large charities are also defined as having income in excess of £1m in the 2015 SORP. This would provide consistency at least in the short term in some jurisdictions.

Kind regards

Liz

Liz Hazell

Partner

Saffery Champness

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Allen, Matthew

From: Liz Hazell <Liz.Hazell@saffery.com>
Sent: 18 September 2015 15:58
To: Charities SORP
Cc: Sally Appleton
Subject: Response from Saffery Champness on the Invitation to comment on Withdrawal of the Charities SORP (FRSSE) and Proposals to widen the scope of Charities SORP (FRS102)

Please find our response to the consultation as follows:

We are submitting this response on behalf of Saffery Champness, Chartered Accountants. As part of the consultation process we have spoken to a number of clients informally so as to represent some of their views in this response. We are auditors to a large number of charities most of which are typically smaller or medium sized, as well as some with income up to £25m.

Question 1 Given the underlying requirement for the accounts to give a true and fair view and the requirements of FRS 102 that result in all charities applying the same underlying recognition and measurement policies, do you agree with the SORP-making body disapplying the small entities regime proposed in FRED 59? This would have the result that all charities will have to apply the Charities SORP (FRS 102) for reporting periods beginning on or after 1 January 2016. Please give reasons for your response. If your answer is no, what alternate approach would you recommend and why?

We support the principle of simplification in the requirement for all charities preparing accruals accounts to apply one Charity SORP (FRS102) using the same measurement and recognition principles regardless of size. However there are a number of smaller charities who believe that a reduced disclosure framework is entirely appropriate to the size and scale of their organisation and activities, particularly where the financial reporting is undertaken by volunteers who are limited in experience and resource. There is some concern amongst our client base that there will be an increased burden placed on such entities and the navigation through the increased financial reporting requirements will have a financial implication for the sector which is undesirable.

For many charities, there is a concern over a change to SORP (FRSSE) and then a further change to SORP (FRS102) and therefore their primary concern is a request for clarity such that only one significant change to new GAAP is required. In the majority of cases we, as a firm, are advising clients not to adopt the SORP (FRSSE) for one year only.

Question 2 Do you agree with the proposal to amend the Charities SORP (FRS 102) so that it requires only larger charities to prepare a Statement of Cash Flows? This would mean that all charities with a gross income exceeding £500,000 (€500,000 in the Republic of Ireland) would have to prepare a Statement of Cash Flows. Please give reasons for your response.

We agree with the proposal that only larger charities are required to produce a Statement of Cash Flows. However, given that the current requirement to produce a cash flow statement is linked to the small company limits, there is a concern that under the new SORP, a substantial number of charities would now fall in to the requirement to include a cash flow statement by virtue of their turnover being in excess of £500,000. Whilst we approve in principle of transparency, for many charitable entities this would be a new level of complexity in financial reporting and would not be considered to provide particular benefit for this size of organisation. If however a large charity was defined as having income in excess of say £1m, the requirement to produce a cash flow statement would seem more commensurate with this level of income.

Consideration could alternatively be given to aligning the threshold to that used to define small companies under the Companies Act.

Question 3 If your answer to question 2 was no, what alternative threshold would you propose for the preparation of a Statement of Cash Flows? Please state what threshold you would propose and give reasons for your response.

See above.

Kind regards

Liz

Liz Hazell
Partner

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From: Acat Treasurer [mailto:treasurer@acat.uk.com]

Sent: 18 September 2015 16:34

To: Charities SORP

Subject: Charity Commission/OSCR public consultation on proposed SORP2015 amendments

Dear Sirs –

On behalf of the Chairman of ACAT, a charity representing some 12,000 treasurers of church-based charities, this is our response to the Consultation Invitation of 18 June from the Charity Commission and OSCR to comment on their proposals in three separate documents (i) to amend the definition of a “larger” charity in both of the 2015 versions of the Charities SORP with effect for financial years ending after 30 March 2015, (ii) with effect for financial years from 1 January 2016 to amend SORP(FRS102) to reflect the changes to be made to that Standard by the FRC upon its withdrawal of the FRSSE (we have no comment to make about these, as they are all unobjectionable) and (iii) to disapply FRS102’s proposed new Section 1A (Small Entities) so that charities above £500k gross income will have to comply fully with FRS102.

We note that (i) is consequential to S.I.2015/321&322 respectively increasing the income thresholds for audit and for group-accounting under the Charities Act 2011 from £500k to £1m for financial years ending after 30 March 2015 and that this is valid only for charities in England & Wales. We think the proposal to amend the definition of larger charities in the SORP glossary so that it does not refer to the statutory audit threshold is quite understandable but that the wording as drafted will unfortunately result in a disproportionate regulatory burden that will thus be imposed by the SORP on the numerous charities in England & Wales within the size-band of £500k to £1m gross income now that they are no longer required by law to prepare group accounts. We do not agree that because “there are no current plans to change the audit threshold for Scottish and NI” the SORP can justify denying to charities in England & Wales within this size-band the financial reporting reliefs that it will continue to offer to those below the £500k threshold. The UK government’s commitment to deregulation and to proportionate regulation would in effect be contradicted in England & Wales by the proposed freezing at £500k across all jurisdictions (or 500k euros in Eire) of the SORP’s gross income threshold for “larger” charities that are required to comply with the SORP’s standard format for the SoFA and to make additional “public interest” disclosures in the accounts notes and the trustees’ annual report.

The case for doubling the £500k income threshold for the more stringent regulatory regime for charities in England & Wales was well argued in the Hodgson Report, as was the case for retaining an asset threshold, based on considerable research in the charity sector. It should not be regarded as applicable only to the audit requirements of the Charities Act 2011. It is different for Scotland and N.I., whose charity sectors are far smaller in financial terms. For this reason we think a more proportionate threshold for defining a “larger” charity in England & Wales would be £1m gross income in line with the group-accounting threshold (which should be kept under review for updating the SORP as the sector continues to grow), or - for charities with more than £3.26m carrying value of gross assets – £250k gross income to ensure that low-income charities above that income level (the cash-accounting limit for non-

company charities) and having substantial invested endowment capital must account no less comprehensively under the Charities SORP in view of the greater public interest in asset-rich charities even at relatively low activity-levels (or perhaps especially in such cases, unless the extent of their wealth remains unascertainable for lack of any kind of asset-valuation disclosure-requirement under the currently unregulated statutory receipts and payments accounting option).

For (iii) above, we have much the same concerns about the disproportionate regulatory burden that will be imposed on charities in England & Wales within the size-band of £500k to £1m gross income, now that (in line with the Hodgson Report recommendation) they are no longer required by law to prepare group accounts, by the proposal to amend SORP(FRS102) for financial years starting from 1 January 2016 in order to disapply FRS102's "Section 1A: Small Entities" (meaning those not exceeding in two consecutive years two or more of the Companies Act 2006's revised size-limits: (a) Turnover £10.2 million; (b) Balance sheet total £5.1 million; (c) Average number of employees 50) and therewith to make FRS102's Cashflow Statement optional only for "small" charities/groups up to £500k gross income:

Unless the proposed changes to FRS102 in this respect have been modified in the light of responses to FRED59, we also think the SORP should clarify the proposed text to be inserted in Module 17 (Charity Mergers) by identifying the criterion under company law and FRS102 for a "group restructuring" (ie, the two charitable companies must have identical company memberships) that will enable the their subsequent merger to qualify for merger-accounting under the new rules. The proposed new paragraph 27.4A as now worded is unhelpful to the many thousands of existing charitable companies by merely declaring a prohibition on merger-accounting for "charitable companies entering into a business combination with a third party" once the FRC's proposed changes in UK company law come into effect, and by merely adding that "unincorporated charities, charitable incorporated organisations and non-UK registered companies will continue to be able to apply merger accounting if they meet the criteria set out in FRS 102 and this SORP and merger accounting is not prohibited by other relevant legislation."

With kind regards,

Greyham Dawes

for the Association of Church Accountants & Treasurers (ACAT)
Charity No.1072733

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The Scottish Charity Finance Group response to the proposals in SORP 2016

Question 1

Given the underlying requirement for the accounts to give a true and fair view and the requirements of FRS 102 that result in all charities applying the same underlying recognition and measurement policies, do you agree with the SORP-making body dis-applying the small entities regime proposed in FRED 59? This would have the result that all charities will have to apply the Charities SORP (FRS 102) for reporting periods beginning on or after 1 January 2016. Please give reasons for your response. If your answer is no, what alternate approach would you recommend and why?

Response 1

While we have some concerns about the impact of dis-applying the small entities regime, for example, the financial instruments disclosure requirements are likely to be onerous for some charities; we favour an accounting framework for true and fair accounts which is clear and consistent across all forms of charity. Therefore, on balance we are minded to support the application of the Charities SORP (FRS 102) by all charities preparing true and fair accounts.

However, we are concerned that the SORP-making body may not have the authority to dis-apply the small entities regime for charitable companies.

FRED 59 indicates that the small entities regime is available to charities and we understand that, in the case of non-company charities, the SORP-making body can dis-apply the small entities regime, through the status of the Charities SORP under charity law. Not all charitable companies in the UK are required to prepare their accounts under charity law but they must all prepare their accounts under company law. The position under company law is that the Financial Reporting Council (FRC) which sets UK accounting standards cannot require companies eligible to apply the new small entities regime to make disclosures over and above those set out in company law. We would therefore urge the SORP-making body to open discussions with the Department for Business, Innovation and Skills and the FRC as to how the small entities regime can be dis-applied for charitable companies. If this is achievable, it may also be simpler for the FRC to dis-apply the small entities regime for all forms of charity.

The Scottish Charity Finance Group response to the proposals in SORP 2016

Question 2

Do you agree with the proposal to amend the Charities SORP (FRS 102) so that it requires only larger charities to prepare a statement of cash flows? This would mean that all charities with a gross income exceeding £500,000 (€500,000 in the Republic of Ireland) would have to prepare a statement of cash flows. Please give reasons for your response.

Response 2

In theory we support the idea of this concession but we are not sure this is achievable under FRS 102 if the small entities regime is to be dis-applied as intended by the SORP-making body.

Question 3

If your answer to question 2 was 'no', what alternative threshold would you propose for the preparation of a statement of cash flows? Please state what threshold you would propose and give reasons for your response.

Response 3

See our response to question 2.

The Scottish Charity Finance Group response to the proposals in SORP 2016

Draft Update Bulletin 1: Charities SORP (FRS 102) – including revised definition of ‘larger charity’ in the SORPS

Question 1

Do you agree with the proposed amendments in draft Update Bulletin 1? If not, why not?

Answer 1

We have the following comments on the proposed Update Bulletin:

Donated goods and services – proposed changes to paragraph 6.12

The proposed amendments are difficult to understand and do not seem compatible with the changes made to FRS 102. We recommend that the SORP-making body revisits this amendment to ensure that it properly reflects the proposed change to FRS 102

Goodwill and intangible assets – proposed changes to paragraph 10.3

We agree that the proposed changes reflect the proposed amendments to FRS 102 on the life of goodwill and intangible assets.

Impairment of assets – proposed changes to paragraph 12.20

We agree that the proposed changes reflect the changes made to FRS 102 to prohibit the reversal of any impairment losses incurred on goodwill. However, we believe that additional amendments are needed to paragraph 12.20 to reflect the proposed changes to FRS102 on the reversal of impairments of assets other than goodwill.

Goodwill on consolidation – paragraphs 24.32 and 24.39

We agree that the proposed changes reflect the proposed amendments to FRS 102 on the life of acquired goodwill in the accounts of a charitable group.

Charity mergers – paragraphs 27.4 and 27.4A

We note that under the proposed changes charitable companies will still be required to apply merger accounting to group re-constructions and we recommend that this is made clear in the Update Bulletin.

Having said that, we do not believe that it is appropriate to prevent merger accounting being used in circumstances where a charitable company is involved in a true merger but not otherwise.

We would prefer that the proposed amendment to company law on the prohibition of merger accounting was limited to companies which are not charities but if this is not possible our overarching preference is for consistency and therefore we would ask the SORP-making body

The Scottish Charity Finance Group response to the proposals in SORP 2016

to consider prohibiting the use of merger accounting for true mergers regardless of the legal forms of the charities involved.

Related party disclosures

FRS 102 proposes the following amendment which is not covered by draft Update Bulletin 1:

Paragraph 32 (b). An entity is related to a reporting entity if any of the following conditions apply: (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

Paragraph 9.15 of the Charities SORP (FRS 102) includes a cross-reference to the glossary of terms and a full list of persons or entities deemed to be related parties. Therefore, consideration should be given to including this additional item to the list of related parties.

Question 2

Do you agree with the proposal to amend the definition of 'larger' charities so that it is no longer linked to the statutory audit threshold for accounts prepared under the Charities SORP (FRSSE) or Charities SORP (FRS 102) for reporting periods ending on or after 31 March 2015? If not, why not?

Answer 2

We agree that that the definition of larger charities should not be linked to the charity audit threshold and should be consistent for all forms of charity applying the Charities SORP.

Overall:

- SCFG welcomes the opportunity to participate in the consultation process
- The sector looks to the SORP making body to produce standards which will aid comparability between the financial statements of different organisations
- Where there is more choice of options there will be less consistency and make it harder to compare accounts.
- There is confusion /unclear about interaction of SORP with Companies Act as there is a requirement to consult both (for incorporated charities) but only the SORP for non-incorporated entities.
- There was some feeling that it is not clear why the all changes are necessary, this is not explained.
- While this is not affected by the changes in the consultation document some members of the consultation panel felt that in some cases the SORP appears to be out of touch with practicalities and realities facing charities and the opportunity to simplify these had been missed.

For instance members are getting conflicting advice from professional advisors, regarding valuation of stock of donated goods and whether this is required. This can place an enormous burden both financially and in effort for instance to:

- a) shops in the sector
- b) for organisations dealing with the current refugee crisis

The Scottish Charity Finance Group response to the proposals in SORP 2016

- c) Accounting for the notional value of donated goods and services could push some charities over certain thresholds. However there is a case to show the impact that charities are making with such donated goods and services but it might be best not to include them in the SOFA for instance.
- Changes to the Merger v Acquisition accounting requirements would give rise to many anomalies, therefore it was felt that Merger Accounting should always be adopted by this sector for the sake of consistency.
 - The SORP would benefit from simplification and greater clarity. If professional advisors are giving different advice based on their interpretation of SORPs then perhaps this is an indication of a problem.
 - Changes in legislation or the SORP could be ‘trumped’ by the requirement to show a ‘true and fair view’ and one that is understood by the users of accounts in this sector. It is to be hoped that the legislators will talk to funders, a key user of accounts for our sector, to ensure that they understand the implications of any proposed changes.

Comments on the consultation process

- It was felt that details of the consultation were not widely distributed.
- SCFG would welcome the opportunity to comment on ways that they felt that the consultation process might be improved including the scope of the questions asked and the timeframe given.

Chris Smith BSc (Hons) FICE

Independent Examiner, Charity Advisor & Trainer

Response to the Invitation to Comment on the Draft Update Bulletin 1

This response is from Chris Smith, an independent examiner of charity accounts and a full member and trustee of ACIE. I prepare and examine the accounts for around 30 charities a year all of whom have an income below £350,000 year.

I would agree with the proposal to amend the definition of larger charities so that it is no longer linked to the statutory audit threshold for accounts prepared under the Charities SORP (FRSSE) or Charities SORP (FRS 102).

I would further agree that the definition of a larger charity be 'those with a gross income of £500,000 UK or 500,000 Euros (Republic of Ireland) in the reporting period' for the purposes of preparing the Trustees' Annual Report.

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Email: chris@glascairn.org.uk

Response to the Invitation to Comment on the Withdrawal of the Charities SORP (FRSSE) and Proposals to widen the scope of Charities SORP (FRS 102)

This response is from Chris Smith, an independent examiner of charity accounts and a full member and trustee of ACIE. I prepare and examine the accounts for around 30 charities a year all of whom have an income below £350,000 year.

Question 1 regarding the disapplication of the Small Entities Regime

I would disagree with the proposal to disapply the small entities regime proposed in FRED 59.

The vast majority of charities preparing accrued accounts would qualify as a small entity so implementing this proposal would mean that the sector would have a higher reporting burden than currently required. It would also have an impact on the cost to smaller charities to comply. At the same time the more complex reporting requirements may reduce the scope for people other than professional accountants to undertake independent examinations. This would also increase the cost to smaller charities to comply with accounting regulations.

My proposal would be that, as the vast majority of charities preparing accrued accounts would qualify as small entities, the charities SORP is built around the small entities regime. The extra requirements for larger charities (defined as those with an income of at least £500,000) could be added as extra reporting requirements set out in an appendix to the SORP.

My reasons for this proposal are:

- It is not proportionate to require the majority of charities who would qualify as small entities to be forced into a reporting regime designed for much larger entities.

- The regulatory burden would be increased for the majority of charities preparing accrued accounts as those charities that currently can take advantage of the FRSSE regime would now not be able to take advantage of the new small entities regime.
- The more complex reporting regime required by the FRS 102 SORP would lead to a reduction in the number of people, especially people who are not professional accountants in practice, coming forward to act as charity independent examiners.
- The more complex reporting regime required by the FRS 102 SORP combined with a reduction in the number of people willing to act as independent examiners will make it much more difficult for smaller charities (the vast majority of charities) to cost effectively comply with the reporting requirements.

Question 2 Do you agree with the proposal to amend the Charities SORP (FRS 102) so that it requires only larger charities to prepare a Statement of Cash Flows?

I would agree with the proposal to only require larger charities to prepare a Statement of Cash Flows. However, my proposal would be that this is achieved through implementing the proposal that the charities SORP is built around the small entities regime. The requirement for larger charities to produce a Statement of Cash Flows would then be set out, along with the other extra reporting requirements, in an appendix to the SORP.



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Charities SORP
CIPFA
77 Mansell Street
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E1 8AN

Our Ref: Office
Date: 13th July 2015
Please ask for Mark Heaton

Dear Sir

Invitation to comment: Draft Update Bulletin 1

We refer to the above invitation to comment.

KM are a firm of Chartered Accountants with approximately sixty charities for whom assurance engagements are undertaken, including audit and independent examination. We also act for a number of other non profit organisations.

The writer is a trustee of a small number of charities. He is also a former trustee and chair of the Association of Charity Independent Examiners.

Question 1

Yes we agree (subject to the separate issue of Cash Flow Statements). See the comment below.

Question 2

Yes we agree.

Please note however:

The three administrations legislatures should work on having the same thresholds to ensure consistency throughout the UK and the surrounding confusion. If the three are content enough to have a common SORP then the three should be resolving to avoid differentiation on other matters.

Yours faithfully
For KM Chartered Accountants



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Our Ref: Office
Date: 13th July 2015
Please ask for Mark Heaton

Dear Sir

Invitation to comment: Withdrawal of the Charities SORP (FRSSE) and Proposals to widen the scope of Charities SORP (FRS102)

We refer to the above invitation to comment.

KM are a firm of Chartered Accountants with approximately sixty charities for whom assurance engagements are undertaken, including audit and independent examination. We also act for a number of other non profit organisations.

The writer is a trustee of a small number of charities. He is also a former trustee and chair of the Association of Charity Independent Examiners.

Question 1

We agree.

Question 2

No we do not agree.

- (a) Only corporate entities which are not small will have to prepare a cash flow – these are (generally) entities that are 20 times the size of a charity with £500k income.
- (b) There is a cost to preparing a cash flow statement – recently the audit threshold has been increased to £1m in England and Wales which will reduce costs to them that may now, in part be reversed.
- (c) The quality of accounts prepared by charities has for many years been poor – introducing another primary statement will not help and in many cases may well not be prepared if the preparers/examiners etc are not familiar with the formats.
- (d) We note that the alignment to the audit threshold is an issue because of a disparity between the different administrations.

- (e) Comment 3.09: 'The preparation ... would always be encouraged as good practice regardless of that charity's size' - if the SORP Committee has not asked for Cash Flows for entities below the Small Company threshold in the past then this is an inconsistent statement.
- (f) Trustees will understand normal cash flow spreadsheets linking receipts and payments to bank balances as a matter of course. Many trustees struggle with understanding financial statements in the way they are presented without adding to their length and complexity.

Question 3

We would continue to link the threshold to that of small companies, ie £10.2m. If it is a good enough threshold for business owners then it should be so for charities.

Yours faithfully
For KM Chartered Accountants





Grant Thornton

An instinct for growth™

Charities SORP
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E1 8AN

18 September 2015

Dear Sirs,

Consultation comments on update to the Charities SORP (FRS 102)

Grant Thornton UK LLP (Grant Thornton) welcomes the opportunity to comment on the proposed updates to the Charities SORP (FRS 102) for the following:

- Draft amendments to FRS 102 set out in FRED 59 Draft amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland – Small entities and other minor amendments as issued by the Financial Reporting Council on 19 February 2015 in relation to minor amendments required to comply with changes in company law;
- The Charities Act 2011 (Accounts and Audit) Order 2015 made on 19 February 2015 which increased the charity audit income threshold from £500,000 to £1 million in England and Wales also affecting the definition of 'larger charity' in the Charities SORP (FRS 102) and the Charities SORP (FRSSE).

Our responses to the consultation questions are attached below.

Please accept this letter as our full response.

I would be happy to amplify our thoughts and discuss them with you if that would be helpful.

Yours sincerely

Jake Green
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For Grant Thornton UK LLP

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By email

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Reponses to specific questions

Question 1

Do you agree with the proposed amendments in draft Update Bulletin 1? If not, why not?

Overall, we support most of the proposals as set out in draft Update Bulletin 1. However, we have set out specific recommendations where we believe that the Update Bulletin could be improved or clarified in order to help both the users and preparers of accounts.

Module 6: Donated goods, facilities and services, including volunteers, para 2.4 – We believe this would benefit from further clarification by including examples of circumstances where the value of donated goods may be written down to nil. Example wording could include the following: *'where donated goods that are held for free distribution are damaged or become obsolete then only in those circumstances should the value be written down to nil.'*

Module 10: Balance sheet - We support the amendments in respect of the amortisation period for both goodwill and intangible assets. The five-year limit was one particular area of FRS 102 that was causing much concern and was often being misinterpreted as a default rule, therefore aligning the Charities SORP (FRS 102) with this will provide further clarity and consistency.

Module 27: Charity mergers - Under FRS 102 Public Benefit Entities (PBEs) are only permitted to apply merger accounting if permitted by the statutory framework under which they report. We observe that in cases where a charity is incorporated as a UK registered company, it will no longer be able to apply merger accounting principles.

Conversely, where a charity is established under another statutory framework, merger accounting would still be permitted in line with FRS 102 rules (if the relevant conditions applied).

This could mean that the same type of combination could be accounted for as either a merger or an acquisition just by virtue of the framework in which a charity is incorporated.

Whilst we note that under Charities SORP FRS 102, combinations with nil or nominal consideration would be in substance a gift, and therefore not be applying merger accounting, consideration should be given to circumstances where merger accounting might be applicable. For instance, a prominent example of a merger was of Age Concern England and Help the Aged, which took place in April 2009 and resulted in the creation of Age UK. Age UK (a company limited by guarantee) accounted for the combination of Age Concern England (not a company) and Help the Aged (charitable company) as a merger.

This indicates that merger accounting is a real issue for charitable groups and that not all combinations are in substance gifts. We believe that this could mean that decisions about charity incorporation status are unduly influenced by the ability to merger account even where this is not the most appropriate outcome.

However, the legal appendix and Accounting Council advice within FRED 59 notes that if merger accounting (other than for group reconstructions) is considered necessary in order for the accounts to give a true and fair view, then merger accounting may be applied, together with true and fair override disclosures.

On this basis, we would suggest that the proposed changes within the draft Update Bulletin

take into account the relevant aspects of the legal appendix and Accounting Council advice such that incorporation under the Companies Act is not the sole factor considered when considering the applicability of merger accounting.

Question 2

Do you agree with the proposal to amend the definition of larger charities so that it is no longer linked to the statutory audit threshold for accounts prepared under the Charities SORP (FRSSE) or Charities SORP (FRS 102) for reporting periods ending on or after 31 March 2015? If not, why not?

No.

We do not agree with the view point that the definition of larger charities should be de-linked to the statutory audit thresholds. De-linking the definition of a 'larger charity' from the statutory audit threshold will result in additional disclosure requirements for those charities which do not require a statutory audit, under charity law, in England and Wales.

We believe this proposal would be unnecessarily burdensome for those charities who fall below the threshold for a statutory audit, under charity law, in England and Wales however, have income over £500,000, making them subject to the SORP disclosure requirements in respect of 'larger charities'. This proposal appears to be counter-intuitive in that charities which do not require an audit under charity law would then be subject to the requirements which apply to 'larger charities' under the SORP framework.

Under this new proposal, those charities that have income over £500,000 would be expected, for example, to provide additional disclosure within the Trustees' Annual Report. Such requirements may prove to be highly resource heavy and administratively cumbersome for such charities which may lack both the resources and technical expertise, readily available within much larger charities.

Given that there are different statutory audit thresholds across the UK, we do not believe it is appropriate to have a single UK-wide threshold for the definition of 'larger charities'. As a result of this, we would suggest that the definition of a 'larger charity' should be defined by the jurisdiction(s) of formation, registration or operation and the relevant audit thresholds of that particular jurisdiction. This would ensure that there is consistency between the audit thresholds and the definition of 'larger charities.'



Grant Thornton

An instinct for growth™

Charities SORP
CIPFA
77 Mansell Street
London
E1 8AN

18 September 2015

Dear Sirs,

Withdrawal of the Charities SORP (FRSSE) and Proposals to widen the scope of Charities SORP (FRS 102) consultation comments

Grant Thornton UK LLP (Grant Thornton) welcomes the opportunity to comment on the consultation document "Withdrawal of the Charities SORP (FRSSE) and proposals to widen the scope of Charities SORP (FRS 102)."

Our responses to the consultation questions are attached below.

Please accept this letter as our full response.

I would be happy to amplify our thoughts and discuss them with you if that would be helpful.

Yours sincerely

Jake Green
Director - National Assurance Services
For Grant Thornton UK LLP

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Reponses to specific questions

Question 1

Given the underlying requirement for the accounts to give a true and fair view and the requirements of FRS 102 that result in all charities applying the same underlying recognition and measurement policies, do you agree with the SORP-making body disapplying the small entities regime proposed in FRED 59? This would have the result that all charities will have to apply the Charities SORP (FRS 102) for reporting periods beginning on or after 1 January 2016. Please give reasons for your response. If your answer is no, what alternate approach would you recommend and why?

Yes.

In our view, small charities should be subject to the same recognition and measurement requirements as larger entities reporting under FRS 102. We agree with the proposal to disapply the small entities regime proposed in FRED 59 and instead for all charities to follow the Charities SORP (FRS 102).

A single Charities SORP (FRS 102) which does not apply the small entities regime is suitable for this sector, due to the increased transparency required by charities. We do not believe that Section 1A is applicable to charities as the requirements of the Charities SORP (FRS 102) are more detailed, appropriate and provide for greater disclosure which is beneficial for the users of the accounts. For example, section 1A reduces some related party disclosures, including the need to disclose key management personnel compensation, and also provides an exemption for the parent entity from the requirement to prepare consolidated financial statements. Both these areas demonstrate that Section 1A is not suitable to the charities sector and as a result we agree with the SORP Committee in their proposal to disapply the small entities regime.

Question 2

Do you agree with the proposal to amend the Charities SORP (FRS 102) so that it requires only larger charities to prepare a Statement of Cash Flows? This would mean that all charities with a gross income exceeding £500,000 (€500,000 in the Republic of Ireland) would have to prepare a Statement of Cash Flows. Please give reasons for your response.

No.

In our view, the statement of cash flow is valuable information for the users of the accounts and the sector should be expected to prepare one. The major benefit for charities being that they are able to actively consider their cash position as part of their annual reporting, providing further transparency to their funders and donors.

We would like to note that a number of failings in the sector are due to inadequate cash flow assessment. We believe that the statement of cash flow will aid those charged with governance in carrying out a robust assessment of any significant liquidity or solvency risks in a more disciplined manner.

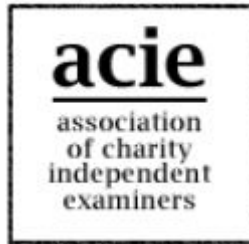
As a result of this, it appears to be more appropriate that those following Charities SORP (FRS 102) should be required to produce a statement of cash flow. We consider that this is an important primary statement which should be required. Whilst we appreciate that this may be burdensome on some of the smaller charities, we suggest that template CC17A is updated to

incorporate a statement of cash flow so that preparers are able to utilise this and have some resources to aid them.

Question 3

If your answer to question 2 was no, what alternative threshold would you propose for the preparation of a Statement of Cash Flows? Please state what threshold you would propose and give reasons for your response.

Please see comments above under Question 2 for further details.



Response to the Invitation to Comment on the Draft Update Bulletin 1

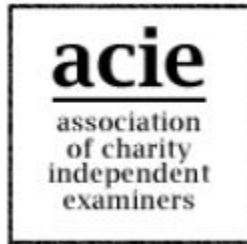
The Association of Charity Independent Examiners (ACIE) is an association of people who carry independent examinations of charity accounts in the UK. ACIE provides training, support and information to its members, charities and other interested parties. Since its launch in 1999 it has also become a national voice influencing policies regarding the legislation and regulation of charity accounts and independent examination.

ACIE would agree with the proposal to amend the definition of larger charities so that it is no longer linked to the statutory audit threshold for accounts prepared under the Charities SORP (FRSSE) or Charities SORP (FRS 102).

We would further agree that the definition of a larger charity be 'those with a gross income of £500,000 UK or 500,000 Euros (Republic of Ireland) in the reporting period' for the purposes of preparing the Trustees' Annual Report.

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ACIE: promoting excellence in charity independent examination since 1999
Registered Charity in England & Wales No 1139609 and Scotland No SCO39066
Company No 07461134 Registered Office: 4-6 Grimshaw Street, Burnley, BB11 2AZ



ACIE Response to the Invitation to Comment on the Withdrawal of the Charities SORP (FRSSE) and Proposals to widen the scope of Charities SORP (FRS 102)

The Association of Charity Independent Examiners (ACIE) is an association of people who carry out independent examinations of charity accounts in the UK. ACIE provides training, support and information to its members, charities and other interested parties. Since its launch in 1999 it has also become a national voice influencing policies regarding the legislation and regulation of charity accounts and independent examination.

Question 1 regarding the disapplication of the Small Entities Regime

ACIE would disagree with the proposal to disapply the small entities regime proposed in FRED 59.

The vast majority of charities preparing accrued accounts would qualify as a small entity so implementing this proposal would mean that the sector would have a higher reporting burden than currently required. It would also have an impact on the cost to smaller charities to comply. At the same time the more complex reporting requirements may reduce the scope for people other than professional accountants to undertake independent examinations. This would also increase the cost to smaller charities to comply with accounting regulations.

Our proposal would be that, as the vast majority of charities preparing accrued accounts would qualify as small entities, the charities SORP is built around the small entities regime. The extra requirements for larger charities (defined as those with an income of at least £500,000) could be added as extra reporting requirements set out in an appendix to the SORP.

Our reasons for this proposal are:

- It is not proportionate to require the majority of charities who would qualify as small entities to be forced into a reporting regime designed for much larger entities.

- The regulatory burden would be increased for the majority of charities preparing accrued accounts as those charities that currently can take advantage of the FRSSE regime would now not be able to take advantage of the new small entities regime.
- The more complex reporting regime required by the FRS 102 SORP would lead to a reduction in the number of people, especially people who are not professional accountants in practice, coming forward to act as charity independent examiners.
- The more complex reporting regime required by the FRS 102 SORP combined with a reduction in the number of people willing to act as independent examiners will make it much more difficult for smaller charities (the vast majority of charities) to cost effectively comply with the reporting requirements.

Question 2 Do you agree with the proposal to amend the Charities SORP (FRS 102) so that it requires only larger charities to prepare a Statement of Cash Flows?

ACIE would agree with the proposal to only require larger charities to prepare a Statement of Cash Flows. However, our proposal would be that this is achieved through implementing our proposal that the charities SORP is built around the small entities regime. The requirement for larger charities to produce a Statement of Cash Flows would then be set out, along with the other extra reporting requirements, in an appendix to the SORP.

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The Charities SORP

Invitation to comment: Draft Update Bulletin 1

Charities SORP
CIPFA
77 Mansell Street
London
E1 8AN

18 September 2015

Dear Sir/Madam

Invitation to comment: Draft Update Bulletin 1

Introduction

1. The Institute of Financial Accountants (IFA) welcomes the opportunity to respond to the **Invitation to comment: Draft Update Bulletin 1 Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102)** issued by the Charity Commission and the Office of the Scottish Charity Regulator on 18 June 2015.

Who we are

2. The IFA is an internationally recognised professional accountancy membership body whose members work for small and medium-sized enterprises (SMEs) or who run or work in small and medium-sized accounting practices (SMPs) that advise SMEs.
3. The IFA is a full member of the International Federation of Accountants (IFAC), the global body for the accountancy profession. As such, the IFA takes its place alongside the UK and Ireland's six chartered accountancy bodies, as well as 135 national and regional accountancy organisations representing 125 countries and jurisdictions.
4. Founded in 1916, the IFA supports over 10,000 members and students in more than 80 countries with a programme of professional qualifications and education. As well as resources, events, training and seminars. IFA members uphold high standards of conduct, confidentiality and ethics and undertake annual continuing professional development (CPD) activities.
5. The IFA has amalgamated with the Institute of Public Accountants (IPA) of Australia, effective 31 December 2014. The combined bodies have over 35000 members globally which thus enables a greater focus on the needs of SMEs/SMPs.
6. The IFA's capacity to regulate its members for the purposes of the Money Laundering Regulations 2007 is recognised by HM Treasury it and is formally recognised also as an awarding organisation by Ofqual, the UK public body responsible for maintaining and monitoring standards for general and vocational qualifications and examinations.

Responses to questions

Question 1 Do you agree with the proposed amendments in draft Update Bulletin 1? If not, why not?

7. Yes, we agree with the proposed amendments in Update Bulletin 1. These draft amendments to the SORP ensure that the SORP remains consistent with the underlying accounting standard on which it is based, namely FRS 102.

Question 2 Do you agree with the proposal to amend the definition of larger charities so that it is no longer linked to the statutory audit threshold for accounts prepared under the Charities SORP (FRSSE) or Charities SORP (FRS 102) for reporting periods ending on or after 31 March 2015? If not, why not?

8. Yes, we agree with the proposal to de-link the definition of larger charities in the SORP to the statutory audit threshold to ensure consistency in reporting requirements in the UK as well as future-proofing the SORP to any future changes in any of the UK jurisdictions to charity audit thresholds.
9. However, we would encourage and strongly support the jurisdictions in the UK to work towards having a common threshold for charity audits to avoid confusion for both preparers and their advisers.

The Charities SORP

Invitation to comment: Withdrawal of the Charities SORP (FRSSE) and Proposals to widen the scope of Charities SORP (FRS 102)

Charities SORP
CIPFA
77 Mansell Street
London
E1 8AN

18 September 2015

Dear Sir/Madam

Invitation to comment: Withdrawal of the Charities SORP (FRSSE) and Proposals to widen the scope of Charities SORP (FRS 102)

Introduction

1. The Institute of Financial Accountants (IFA) welcomes the opportunity to respond to the Invitation to comment: **Withdrawal of the Charities SORP (FRSSE) and Proposals to widen the scope of Charities SORP (FRS 102)** issued by the Charity Commission and the Office of the Scottish Charity Regulator on 18 June 2015.

Who we are

2. The IFA is an internationally recognised professional accountancy membership body whose members work for small and medium-sized enterprises (SMEs) or who run or work in small and medium-sized accounting practices (SMPs) that advise SMEs.
3. The IFA is a full member of the International Federation of Accountants (IFAC), the global body for the accountancy profession. As such, the IFA takes its place alongside the UK and Ireland's six chartered accountancy bodies, as well as 135 national and regional accountancy organisations representing 125 countries and jurisdictions.
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5. The IFA has amalgamated with the Institute of Public Accountants (IPA) of Australia, effective 31 December 2014. The combined bodies have over 35000 members globally which thus enables a greater focus on the needs of SMEs/SMPs.
6. The IFA's capacity to regulate its members for the purposes of the Money Laundering Regulations 2007 is recognised by HM Treasury it and is formally recognised also as an awarding organisation by Ofqual, the UK public body responsible for maintaining and monitoring standards for general and vocational qualifications and examinations.

Responses to questions

Question 1 Given the underlying requirement for the accounts to give a true and fair view and the requirements of FRS 102 that result in all charities applying the same underlying recognition and measurement policies, do you agree with the SORP-making body disapplying the small entities regime proposed in FRED 59? This would have the result that all charities will have to apply the Charities SORP (FRS 102) for reporting periods beginning on or after 1 January 2016. Please give reasons for your response. If your answer is no, what alternate approach would you recommend and why?

7. Yes, we agree with the SORP-making body's proposal to disapply the small entities regime, Section 1 in FRED 59 *Draft amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland – Small entities and other minor amendments as issued by the Financial Reporting Council on 19 February 2015* (now issued as a final document by the FRC in July 2015).
8. We support the principle of common recognition and measurement requirements applicable to both small and large entities.
9. In order to give a true and fair view, all material items would have to be reported in the accounts. FRED 59 encourages small entities to make certain disclosures in order for the accounts to give a true and fair view. It would be difficult for preparers and their advisers to decide which disclosures were needed to give a true and fair view without further guidance on this matter from the FRC.
10. Therefore, there seems to be very little practical advantages of continuing to have two SORPs, one for larger charities and one for smaller charities, since, in order to give a true and fair view, similar disclosures would be required, if an item or transaction due to its materiality had to be reported in the financial statements. Therefore, we support the SORP-making body's view that there are very few practical benefits of continuing with two SORPs in the future.

Question 2 Do you agree with the proposal to amend the Charities SORP (FRS 102) so that it requires only larger charities to prepare a Statement of Cash Flows? This would mean that all charities with a gross income exceeding £500,000 (€500,000 in the Republic of Ireland) would have to prepare a Statement of Cash Flows. Please give reasons for your response.

11. Yes, we agree that larger charities with a gross income exceeding £500,000 (€500,000 in the Republic of Ireland) should be required to prepare a Statement of Cash Flows in the reporting period from 1 January 2016 onwards. This would be consistent with previous requirements of the SORP to require greater transparency in reporting by larger charities.

12. However, we would encourage and strongly support the jurisdictions in the UK to work towards having a common threshold for charity audits to avoid confusion for both preparers and their advisers.

DSC consultation response on proposed
changes to the

Statement of Recommended Practice

Amending Charities SORP (FRS 102) and
Withdrawal of Charities SORP (FRSSE).

September 2015

Denise Lillya
Research Manager

and

Gabriele Zagnojute
Researcher

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DSC's interest in Charities SORP

DSC has a long standing interest in the Statement of Recommended Practice (SORP) and has contributed to numerous past consultations on the issue because of its huge importance to how charities operate. DSC's Chief Executive is a former member of the SORP committee.

The Charities SORP provides a mechanism which enables charities to meet the legal requirement for their accounts, to give a true and fair view, and also provides consistency in the sector's interpretation of accounting standards - detailing recommendations for annual reporting that are relevant to the charity sector and stakeholders' needs. Two particular stakeholders we are concerned about here are small charities and grant-making charities.

Small charities

DSC has a particular interest in charity law and in particular how policy and regulation affects smaller charities. DSC often promotes the interests of small charities in public debate and policy development, because we believe that too often the needs of such organisations are not well considered when policy is made or new regulations are brought in. We recognise and appreciate that the SORP Committee has continued its efforts to bear the needs of small charities in mind when developing the SORP, particularly by making the submission of Statements of Cash Flows.

Grant-making charities

DSC has campaigned for decades for greater transparency from grant-making charities, and publishes a range of directories such as The Guide to Major Trusts and The Directory of Grant making Trusts which detail their activities. Although much progress has been made in recent years, there is still room for improvement in terms of how these charities report their work.

DSC's Principle of Responsible Regulation

DSC believes that voluntary activity should be regulated responsibly. Some regulation is necessary to safeguard and maintain the interests of the general public, charity beneficiaries, and of the organisations and individuals being regulated. However, it should have a demonstrable benefit and should aim to empower and strengthen voluntary activity rather than control it unnecessarily.

We believe that:

- a) Regulation should be proportionate** – it must strike a balance between perceived risk and intended benefit. It should recognise the diversity of voluntary sector activity and be developed and applied in a proportionate way.
- b) Regulation should be appropriate** – it must be informed by the characteristics, capacity, and needs of the organisations and individuals that are being regulated. Insofar as is possible it should be focused, rather than acting as a blunt instrument that has unintended effects.
- c) Regulation should be enabling** – it should seek to empower rather than control

voluntary activity. The reasons for the regulation and the regulation itself must be properly understood by those institutions which are applying it. It should be accessible and intelligible to those being regulated. It should seek as far as possible to encourage self-regulation rather than focus simply on enforcement.

DSC's response to the consultation questions

Below we respond to the first consultation on amendments to Charities SORP (FRS 102) and then to the second consultation on the withdrawal and replacement of Charities SORP (FRSSE). In both cases we repeat the questions that were posed and give our responses.

DSC welcomes the opportunity to contribute to this consultation process; however, there are a number of issues which should be borne in mind for the future in terms of how the Commission consults the sector. Unfortunately we found the process to be disorganised, inaccessible and convoluted:

- a) **It is difficult to know what we are responding to.** Although two consultation responses are being sought (on amending SOPR [FRS 102] and withdrawing SORP [FRSSE]) the microsite appears to deal with three separate consultations and has four separate consultation documents to consider. These documents seem to relate to both consultations.
- b) **It is difficult to understand what changes are proposed.** The consultation documents were complex and, while we acknowledge that SORP is a complex issue, we feel that more could have been done to better explain what the changes are trying to achieve. This has resulted in our consultation response being somewhat brief.
- c) **It is difficult to know how our views are to be submitted.** Looking at the microsite and consultation documents, contradictory information is provided about how respondents are to submit their views. For example the microsite links to an online form where documents can be uploaded, while the consultation documents direct respondents to email or post their views.

We are concerned that these problems may result in responses which are poorly informed and not as helpful as they could be and, worse, that some stakeholders may have been discouraged from participating.

1) Amendments to Charities SORP (FRS 102)

Question 1

Do you agree with the proposed amendments in draft Update Bulletin 1? If not, why not?

DSC response

We have decided to refrain from commenting further on the amendments, which, although seem to be minor, relate to very specific accountancy practices.

Question 2

Do you agree with the proposal to amend the definition of larger charities so that it is no longer linked to the statutory audit threshold for accounts prepared under the Charities SORP (FRSSE) or Charities SORP (FRS 102) for reporting periods ending on or after 31 March 2015? If not, why not?

DSC response

Yes. De-linking will provide uniformity throughout the different jurisdictions in the UK. We agree with the argument that it will contribute to SORPs being ‘more future proof from any further changes in audit thresholds’.

2) Withdrawal of Charities SORP (FRSSE)

Question 1

Given the underlying requirement for the accounts to give a true and fair view and the requirements of FRS 102 that result in all charities applying the same underlying recognition and measurement policies, do you agree with the SORP-making body dis-applying the small entities regime proposed in FRED 59? This would have the result that all charities will have to apply the Charities SORP (FRS 102) for reporting periods beginning on or after 1 January 2016. Please give reasons for your response. If your answer is no, what alternate approach would you recommend and why?

DSC response:

As we are assured that there would be ‘very few practical differences between the two SORPs other than some minor disclosure requirements’ (apart from the option not to prepare a Statement of Cash Flows), then it would be much simpler for all charities preparing accruals accounts (after 1 January 2016) to apply the provisions of one Statement i.e. the Charities SORP (FRS 102).

Question 2

Do you agree with the proposal to amend the Charities SORP (FRS 102) so that it requires only larger charities to prepare a Statement of Cash Flows? This would mean that all charities with a gross income exceeding £500,000 (€500,000 in the Republic of Ireland) would have to prepare a Statement of Cash Flows. Please give reasons for your response.

DSC response:

Yes. This proposal gives the opportunity for smaller charities to prepare a Statement of Cash Flows should they consider that helpful to themselves or stakeholders, but would make it optional. The SORP-making body and the SORP Committee seem to be of opinion that the preparation of the Statement of Cash Flows is a valuable practice. Perhaps this point should be stressed to encourage charities to choose this option, where it is practicable to do so.

Question 3

If your answer to question 2 was no, what alternative threshold would you propose for the preparation of a Statement of Cash Flows? Please state what threshold you would propose and give reasons for your response.

DSC response:

N/A

About the Directory of Social Change

The Directory of Social Change (DSC) has a vision of an independent voluntary sector at the heart of social change. We believe that the activities of charities and other voluntary organisations are crucial to the health of our society.

Through our publications, courses and conferences, we come in contact with thousands of organisations each year. The majority are small to medium-sized, rely on volunteers and are constantly struggling to maintain and improve the services they provide.

We are not a membership body. Our public commentary and the policy positions we take are based on clear principles, and are informed by the contact we have with these organisations. We also undertake campaigns on issues that affect them or which evolve out of our research.

We view our role as that of a 'concerned citizen', acting as a champion on behalf of the voluntary sector in its widest sense. We ask critical questions, challenge the prevailing view, and try to promote debate on issues we consider to be important. Through our policy work we have devised a number of policy principles upon which we base our actions, judgements and recommendations. One of our policy principles calls for responsible regulation.

Consultation on Charity SORPs from January 2016 –

Response from the Charity Practitioners Forum

Introduction

This response is provided by the Charity Practitioners Forum, a group of accountants and auditors specialising in charities and not-for-profits, following the publication of two invitations to comment:

1. Draft Update Bulletin 1 and,
2. Withdrawal of the Charities SORP (FRSSE) and Proposals to widen the scope of the Charities SORP

Draft Update Bulletin 1

Question 1 Do you agree with the proposed amendments in draft Update Bulletin 1? If not, why not?

We agree with the proposed amendments in draft Update Bulletin 1 except for the following points:

1. *We find the use of the words “business combination” in the 2nd line of the proposed new para. 27.4A (para. 2.12 of the draft Bulletin) confusing. Firstly it is not consistent with the wording “charity combination” in the first line of para. 27.4 of the SORP and secondly we find the term business combination itself confusing. Although the term is defined in FRS 102 as meaning any entity combination there is no such definition in the SORP. Subject to point 2. below, we would therefore recommend either that the wording be changed to “charity combination” (our preferred option) or alternatively that the FRS 102 glossary definition be repeated in the SORP glossary.*
2. *More generally, we understand that there is in fact an exemption for charitable companies from the new prohibition on companies using merger accounting. If this is the case then it is important that section 2.12 of the Draft Update Bulletin be removed or, if that is not possible, amended to ensure that charitable companies continue to be able to apply merger accounting.*

Question 2 Do you agree with the proposal to amend the definition of larger charities so that it is no longer linked to the statutory audit threshold for accounts prepared under the Charities SORP (FRSSE) of Charities SORP (FRS 102) for reporting periods ending on or after 31 March 2105? If not, why not?

No, we do not agree with the proposal to amend the definition of larger charities so that is no longer linked to the statutory audit threshold. We consider that it is confusing to have a multiplicity of thresholds and having just two generally accepted thresholds – the charity audit threshold and the non-small entity threshold under company law – is simple and effective.

Furthermore, we consider that there is a lack of clarity in 4.1 of the Invitation to Comment on Draft Update Bulletin 1 which says that the definition of a larger charity will be effective for accounting periods on or after 31 March 2015 (presumably there is a missing “ending” before “on or after”). Firstly the change only affects SORP 2015 which only applies for accounting periods starting on or after 1 January 2015. Secondly, in the draft Update Bulletin 1 the definition of “larger charities” in para. 2.14 does not include an effective date which suggests that the new definition only applies from 1 January 2016, in accordance with updated SORP para. 18. in para. 2.2 of the Draft Update Bulletin. Indeed the aforementioned para. 18. indicates that all amendments in the draft Update Bulletin are applicable for accounting periods starting on or after 1 January 2016 without exception.

Withdrawal of the Charities SORP (FRSSE) and Proposals to widen scope of Charities SORP

Question 1 Given the underlying requirement for the accounts to give a true and fair view and the requirements of FRS102 that result in all charities applying the same underlying recognition and measurement policies, do you agree with the SORP-making body dis-applying the small entities regime proposed in FRED 59? This would have the result that all charities will have to apply the Charities SORP (FRS102) for reporting periods beginning on or after 1 January 2016.

We do not agree with the SORP-making body disapplying the small entities regime proposed in FRED 59 (and now in effect, following consultation, as Section 1A of FRS 102). One of the pervasive principles of FRS 102 (para. 2.13) is the balance between benefit and cost and we consider that the additional cost for small charities in applying the full rigour of FRS 102 cannot be justified. We understand the need to present a true and fair view but there would be no point in the FRC developing Section 1A if in practice it could never be used because of the true and fair argument. We accept that there will be occasions where following Section 1A might breach the true and fair principle but the Section is heavily signposted with the need to consider the principle and it is up to charities and their auditors or independent examiners to judge if there is a possible breach. We understand the arguments against a separate guide on Section 1A and against a separate SORP for small entities put by the SORP-making body. We are puzzled, however, that the option of one SORP, with exceptions for small charities, was not, apparently, considered, given that this option seems to have worked well for the last 10 years with SORP 2005. We would therefore recommend that the FRS 102 SORP, as amended, should become the new charities SORP but that disclosure exemptions should be included for small charities consistent with Section 1A of FRS 102.

Question 2 Do you agree with the proposal to amend the Charities SORP (FRS102) so that it requires only larger charities to prepare a Statement of Cash Flows? This would mean that all charities with a gross income exceeding £500,000 (€500,000 in the Republic of Ireland) would have to prepare a Statement of Cash Flows.

We do not agree with the proposal to amend the Charities SORP (FRS 102) so that it requires only "larger" charities to prepare a Statement of Cash Flows. We do not believe that the arguments in section 3.8 of the consultation document over-ride the point that there is no reason why relatively small charities should have to prepare Statements of Cash Flows when commercial organisations of the same size do not. We do not believe that solvency is an issue that is more important for charities than for commercial organisations – indeed in many cases charities are more secure financially than commercial organisations of the same size.

Question 3 If your answer to question 2 was no, what alternative threshold would you propose for the preparation of a Statement of Cash Flows? Please state what threshold you would propose and give reasons for your response.

It follows from our previous response that we believe the threshold for charities should be the same as for other entities, i.e. the Statement of Cash Flows requirement should only apply to charities not qualifying as small entities in accordance with the FRS 102 glossary.

Charity Practitioners Forum - www.charitypractitioners.org.uk

September 2015

Consultation on Charity SORPs from January 2016

Introduction

This response is provided by MHA MacIntyre Hudson following the publication of two invitations to comment:

1. Draft Update Bulletin 1 and,
2. Withdrawal of the Charities SORP (FRSSE) and Proposals to widen the scope of the Charities SORP

Invitation to Comment - Draft Update Bulletin 1

Question 1 Do you agree with the proposed amendments in draft Update Bulletin 17? If not, why not?

1. The changes are minor and so it is proposed that the FRS102 SORP is not re-issued but is supplemented by this Update Bulletin. *While it is understood that there is no desire to re-issue the entire FRS102 SORP in print format, it should be possible to provide a complete updated version together with the original plus Update Bulletin as separate electronic documents on the SORP website. **Original proposal not agreed.***
2. Scope and Application Module. Amendment to scope and application to include this change – **agreed.**
3. Module 6. Inventories held for distribution. *This change adds further detail on the valuation methodology, introducing a fair valuation on receipt and a subsequent revaluation of the carrying value to take account of any loss of service potential and replacement cost. This aligns with commercial inventory management and the practice of large aid charities that follow business processes and is conceptually more consistent. **Agreed.***
4. Module 10. Amortisation of Goodwill, useful life is extended to a maximum of ten years (previously five) if in exceptional cases the useful life cannot be estimated reliably. **Agreed.**
5. Module 12. Impairment of assets can be reversed if external conditions or increased use require it, although this is limited to a ceiling of the value originally applied. This applies to all assets except for goodwill. **Agreed.**
6. Module 24. Accounting for Groups and the Preparation of Consolidated Accounts. The same point regarding Goodwill is made as in section 4 above and the guidance on reporting is amended accordingly. **Agreed.**
7. Module 27. Charity Mergers. Company law will no longer permit merger accounting for charities that are companies. However, charities that are non-incorporated or are Charitable Incorporated Organisations can still use merger accounting. *The use of merger accounting rather than acquisition accounting has been a contentious area for some time and it may be seen that this change is caused by a misunderstanding of the distinctive nature of charities. Another view supports the use of acquisition accounting where one charity gifts all net assets to another. However, the criteria for the use of merger accounting as set out in Section 27.4 are already difficult to meet so in practice this is unlikely to be a significant loss. **Agreed.** We understand following the issuance of this consultation that there will be an exemption for charitable companies to retain the use of merger accounting. If that is the case then it is important that section 2.12 of the Draft Update Bulletin be removed or amended to ensure that charitable companies continue to have the option to apply merger accounting.*

Question 2 Do you agree with the proposal to amend the definition of larger charities so that it is no longer linked to the statutory audit threshold for accounts prepared under the Charities SORP (FRSSE) or Charities SORP (FRS 102) for reporting periods ending on or after 31 March 2015? If not, why not?

1. Appendix 1 Glossary of Terms. The SORP differentiates between charities on the basis of size, with larger charities having a higher duty to explain (disclose) than the majority of registered charities. The choice of £500,000 corresponded with the audit threshold at the time of the issuance of the SORP but the audit threshold in England and Wales has subsequently been raised to £1,000,000. The Committee have proposed decoupling the link and retaining the level of £500,000 for the foreseeable future. *This choice will be largely welcomed as it provides more consistency with other UK jurisdictions and reduces the risk of changes to the SORP being prompted by future changes in the audit threshold. Charities with a turnover of between £500,000 and £1,000,000 may well feel that this additional disclosure is onerous but we support the maintained improvement in reporting. **Agreed***

We consider that there is a lack of clarity in 4.1 of the Invitation to Comment on Draft Update Bulletin 1 which says that the definition of a larger charity will be effective for accounting periods [ending] on or after 31 March 2015. Firstly, the change only affects SORP 2015 which only applies for accounting periods starting on or after 1 January 2015. Secondly, in the Draft Update Bulletin 1 the definition of "larger charities" in paragraph 2.14 does not include an effective date. This suggests that the new definition only applies from 1st January 2016, in accordance with the updated SORP paragraph 18 in paragraph 2.2 of the Draft Update Bulletin. On this basis all changes in the bulletin apply from accounting periods starting on or after 1 January 2016.

Overall, we agree the proposed amendments in Update Bulletin 1 with the exception of the initial point regarding publication of the SORP.

**MHA MacIntyre Hudson
September 2015**

Consultation on Charity SORPs from January 2016

Introduction

This response is provided by MHA MacIntyre Hudson following the publication of two invitations to comment:

1. Draft Update Bulletin 1 and,
2. Withdrawal of the Charities SORP (FRSSE) and Proposals to widen the scope of the Charities SORP

Invitation to comment - **Withdrawal of the Charities SORP (FRSSE) and Proposals to widen the scope of the Charities SORP**

Question 1 Given the underlying requirement for the accounts to give a true and fair view and the requirements of FRS102 that result in all charities applying the same underlying recognition and measurement policies, do you agree with the SORP-making body dis-applying the small entities regime proposed in FRED 59? This would have the result that all charities will have to apply the Charities SORP (FRS102) for reporting periods beginning on or after 1 January 2016.

The SORP committee always had a problem with the accounting regime for smaller entities because it predated the IFRS inspired changes captured in FRS102 and the differences were not just a question of exemptions based on size. Things were made more difficult by the clear intention from the FRC that something must be done without any clarity about what would be done and when. The creation of a separate SORP for FRSSE looked like a sensible way of bridging the transition and allowing the main FRS102 SORP to be unaffected by any change in the FRSSE. As it has turned out the FRC has acted relatively quickly to identify what will be done – a new Section 1A small entities will be included in FRS102 – and the timescale applies from 1 January 2016 which is in line with other changes to FRS102 arising from European Directive changes and UK company law. This makes the FRSSE SORP redundant and the SORP committee have therefore proposed its demise.

We understand that having one SORP is preferable and support the simplification proposed. However, we are concerned that there may be specific exemptions that were in the FRSSE SORP that are not present in the FRS102 SORP and would suggest that a review to identify any missing exemptions be carried out.

Question 2 Do you agree with the proposal to amend the Charities SORP (FRS102) so that it requires only larger charities to prepare a Statement of Cash Flows? This would mean that all charities with a gross income exceeding £500,000 (£500,000 in the Republic of Ireland) would have to prepare a Statement of Cash Flows.

The consultation dwells upon the point about the production of cash flow statements, stressing how useful and important they are. In our view historic statements of cash flow are of limited value as part of the financial accounts. Instead the value comes from cash flow forecasting by the charity but these are not part of the published statements and are not likely to be. We understand the pragmatic compromise solution of only charities with a turnover exceeding £500,000 needing to provide a cashflow as it meets the current definition of large and would mean that a third of charities would be required to report in this way. However, given that the threshold for commercial companies has been

*raised to £10.2m we can see no benefit in lowering the threshold for charities and further increasing cost to the sector without any demonstrable benefit. **We do not agree.***

Question 3 If your answer to question 2 was no, what alternative threshold would you propose for the preparation of a Statement of Cash Flows? Please state what threshold you would propose and give reasons for your response.

We would propose that charities have the same threshold as required for companies (£10.2m).

MHA MacIntyre Hudson
September 2015

From: Frank Learner, Principal - Greengage Associates. 01446 700183.

RESPONSE TO SORP CONSULTATION CLOSING 18 SEP 15

I am responding in my capacity as an independent examiner - with clients across the income spectrum (£25k to £500k).

1. SORP FRS102 UPDATE

1. Yes.

2. Yes. Whilst I initially raised an eyebrow at the proposal seeming contrary to the proportionate governance step of raising the audit threshold in England & Wales, I accept the practicality of the reasons given. Also, as an independent examiner, I find that it is usually the charities with lower income that generally look for reporting concessions.

2. FRSSE REPLACEMENT

1. Yes. My response to the 2014 consultation was that there should be a single SORP on grounds of simplicity - with concessions for smaller charities; thus I have no difficulty with the principle. I note with interest the proposal 's statement at para 3.7 that disclosure will now be determined by materiality; I suspect that funder preference will play a significant role in a charity's disclosure decision.

2. Yes - to be consistent with the Update 1 proposal.

Supplementary point. Will charities below the larger charity threshold who have opted for the FRS102 SORP for the year beginning 1 Jan 15 now have the option of no cash flow statement for the year beginning 1 Jan 15? To make this statement mandatory for 2015 and then optional for 2016 seems nugatory.

3. REVISED DEFINITION FOR LARGER CHARITY

Document and questions seem to be identical as for Topic 1.

Frank Learner FCIE DCHA - 17 September 2015

Association of Accounting Technicians response to the Withdrawal of the charities SORP (FRSSE) and proposals to widen the scope of charities SORP (FRS 102) consultation

Association of Accounting Technicians response to the withdrawal of the charities SORP (FRSSE) and proposal to widen the scope of charities SORP (FRS 102) consultation

1. Introduction

- 1.1. The Association of Accounting Technicians (AAT) is pleased to have the opportunity to respond to the consultation paper on the withdrawal of the charities SORP (FRSSE) and proposals to widen the scope of charities SORP (FRS 102), released on 18 June 2015.
- 1.2. AAT is submitting this response on behalf of our membership and from the wider public benefit of achieving sound and effective administration of taxes.
- 1.3. AAT has added comment in order to add value or highlight aspects that need to be considered further.
- 1.4. AAT has focussed on the operational elements of the proposals and has provided opinion on the practicalities in implementing the measures outlined.
- 1.5. Furthermore, the comments reflect the potential impact that the proposed changes would have on SMEs and micro-entities, many of which employ AAT members or would be represented by our operationally skilled members in practice.
- 1.6. AAT has a primary purpose object to advance public education and promote the study of the practice, theory, and techniques of accountancy it therefore endeavours to ensure that any changes in the accountancy framework enhance and do not dilute in any way what it regards are fundamentals of good accounting practice and in the context of charities in particular good stewardship.
- 1.7. AAT also believe in having proportionate accountancy practices in line with best practice when it comes to any changes impacting small charities as they tend to have limited access to financial expertise within trustee bodies.
- 1.8. The accountancy professions response at this time to public criticism of the UK charity sector is critical. The sector is under the spotlight as a result of the recent financial crisis, austerity cuts and the more recent events and highly public criticism and public concern surrounding high profile charities and their trustees.

2. Executive summary

- 2.1. AAT supports the proposal to disapply the small charities regime so that there is one charities SORP once again (3.1, below).
- 2.2. AAT considers that the charity sector would benefit from a concise Reporting Standard that is not subject to change for at least 3 years after its implementation (3.4 below)
- 2.3. However, AAT is not in favour of the proposal that only charities above a certain threshold should prepare cash flow statements (3.5 – 3.10, below).
- 2.4. AAT is of the opinion that cash flow statements are a primary accounting statement and that the charity sector must provide evidence to the public and its other stakeholders that

not only can it manage its cash resources but that charity trustees have a ready measure of their management of those resources for which they are responsible for producing and monitoring.

3. AAT response to the consultation paper on the withdrawal of the charities SORP (FRSSE) and proposals to widen the scope of charities SORP (FRS 102)

Question 1. Given the underlying requirement for the accounts to give a true and fair view and the requirements of FRS 102 that result in all charities applying the same underlying recognition and measurement policies, do you agree with the SORP-making body disapplying the small entities regime proposed in FRED 59? This would have the result that all charities will have to apply the Charities SORP (FRS 102) for reporting periods beginning on or after 1 January 2016. Please give reasons for your response. If your answer is no what alternate approach would you recommend and why?

- 3.1. AAT supports this proposal and welcomes the opportunity to return to one Charities SORP (FRS 102) and acknowledges that the Charities SORP making body had a tough decision to make given that the direction of travel for small companies was not fixed at the time FRS 102 came out.
- 3.2. Having two Charities SORPs is, and if allowed to continue would continue to be, confusing for users and is of no real benefit.
- 3.3. AAT noted that late in the process of applying FRS 102 to charities it was also decided to opt for two SORPs, only for one of them to be possibly withdrawn.
- 3.4. AAT is of the emerging view that the time-starved charity sector finance professionals need a Financial Reporting Standard that is fit for purpose i.e. a concise Standard that is not subject to change for at least 3 years (say).

Question 2. Do you agree with the proposal to amend the Charities SORP (FRS 102) so that it requires only larger charities to prepare a Statement of Cash Flows? This would mean that charities with a gross income exceeding £500,000 (EURO500,000 in the Republic of Ireland) would have to prepare a Statement of Cash Flows. Please give reasons for your response

- 3.5. AAT does not believe that only large charities should prepare a Statement of Cash Flows (SCF). It believes all charities should produce an SCF as part of their annual reporting requirements under the SORP.
- 3.6. AAT considers that the measurement, reporting, and monitoring of cash is critical to the wellbeing of all charities, that their trustees should have an understanding of where their cash resources are derived, how they are applied and most importantly if sufficient cash is being generated to sustain the activities the trustees are intending to undertake to meet the charity's objects within at least the going concern time horizon. SCFs are a vital part of such a process.
- 3.7. The production of cash flow forecasts is also connected to the year-end presentation of an SCF and AAT also believes that a mandatory requirement under the Charities SORP (FRS 102) to produce an SCF would encourage trustees to adopt the practice of producing regular cash flow forecasts to better monitor and manage the sustainable development of their charity and would help them in discharging a critical aspect of a charity trustee's stewardship role.

Question 3. If the answer to question 2 was no, what alternative threshold would you propose for the presentation of a Statement of Cash Flows? Please state what threshold you would propose and give reasons for your response

- 3.8. Indeed charities with gross income of up to £500,000 per annum have the option of not applying the SORP in the presentation of their financial statements but can present a receipts and payments account instead (with details of assets and liabilities) as a simplified alternative.
- 3.9. Out of recognition of our comments made in 3.8 (above) AAT considers all charities not producing receipts and payments accounts should produce an SCF without regard to a threshold.
- 3.10. The monitoring and management of cash by charity trustees is a critical aspect of the stewardship of charities that trustees must undertake in their role. This is particularly the case for smaller charities as by definition they will have limited resources and so all resources are precious and need to be managed effectively.

4. Conclusion

- 4.1. AAT supports the alignment of charity accounting with the framework for accounting under FRS 102 and believe that having one Charities SORP (FRS 102) will aid users to apply best accounting practice consistently and proportionately (3.1, above).
- 4.2. AAT believes that the measurement, management, and monitoring of cash by charity trustees especially for small charities is critical to the sustainable development of those entities and that the production of the SCF greatly assists trustees to meet their stewardship obligations (3.6, above).
- 4.3. AAT also believes that making this mandatory will influence behaviours and the way in which cash flow management and cash flow forecasting is developed and adopted as the norm by the whole charity sector which will be to its benefit in the long run.
- 4.4. AAT has also considered the emerging public debate around the stewardship of charities in the UK and believe that making accounting for charities simpler and proportionate by having to apply one SORP and by adopting mandatory SCF production then this will be an appropriate response by the profession at this time to such concern (3.1 - 3.4, above).

5. About AAT

- 5.1. AAT is a professional accountancy body with over 49,300 full and fellow members and 76,400¹ student and affiliate members worldwide. Of the full and fellow members, there are over 4,100 Members in Practice who provide accountancy and taxation services to individuals, not-for-profit organisations and the full range of business types.
- 5.2. AAT is a registered charity whose objectives are to advance public education and promote the study of the practice, theory and techniques of accountancy and the prevention of crime and promotion of the sound administration of the law.

¹ Figures correct as at 30 June 2015

6. Further information

If you have any questions or would like to discuss any of the points in more detail then please contact AAT at:

email: consultation@aat.org.uk and aat@palmerco.co.uk

telephone: 020 7397 3088

Aleem Islan
Association of Accounting Technicians
140 Aldersgate Street
London
EC1A 4HY

Response to invitation to comment on changes to the Charities SORP (FRS 102) and the replacement for the Charities SORP (FRSSE)

Amendments to Charities SORP (FRS 102), including revised definition of 'larger charity' in the SORPs

Question 1 Do you agree with the proposed amendments in draft Update Bulletin 1? If not, why not?

Response:

We would agree with the proposed amendments in draft Update Bulletin 1, although we would consider that consistency between corporate and non-corporate charities would be preferable with regard to the proposals on the application of merger accounting.

Question 2 Do you agree with the proposal to amend the definition of larger charities so that it is no longer linked to the statutory audit threshold for accounts prepared under the Charities SORP (FRSSE) or Charities SORP (FRS 102) for reporting periods ending on or after 31 March 2015? If not, why not?

Response:

We would agree with the proposal to amend the definition of "larger" charities in order to delink it from audit requirements. As the SORP making body notes, this is particularly important in order to ensure that variances in disclosure do not arise between charities of the same size in different parts of the United Kingdom and that sector wide financial reporting remains comparable and consistent.

Response to invitation to comment on changes to the Charities SORP (FRS 102) and the replacement for the Charities SORP (FRSSE)

Withdrawal of the Charities SORP (FRSSE)

Question 1 Given the underlying requirement for the accounts to give a true and fair view and the requirements of FRS 102 that result in all charities applying the same underlying recognition and measurement policies, do you agree with the SORP-making body disapplying the small entities regime proposed in FRED 59? This would have the result that all charities will have to apply the Charities SORP (FRS 102) for reporting periods beginning on or after 1 January 2016. Please give reasons for your response. If your answer is no, what alternate approach would you recommend and why?

Response:

We do agree with the proposal to disapply the small entities regime on the basis that in practice the differences between a Charities SORP (FRS102) revised to reflect the reduced disclosure requirements and the full Charities SORP (FRS102) would be minimal in light of the more extensive disclosure required for charity accounting in general. It is, however, unfortunate that a practical way cannot be found to apply a simplified accounting regime to smaller charities preparing accruals accounts that does not require the full recognition and measurement criteria of FRS102 to be applied. Smaller charities have limited resources, and often, also have less experienced users of their statutory accounts. More complex recognition and measurement criteria might be regarded as disproportionate and burdensome in these cases.

Question 2 Do you agree with the proposal to amend the Charities SORP (FRS 102) so that it requires only larger charities to prepare a Statement of Cash Flows? This would mean that all charities with a gross income exceeding £500,000 (€500,000 in the Republic of Ireland) would have to prepare a Statement of Cash Flows. Please give reasons for your response.

Response:

While we agree in principle with reducing disclosure requirements for charities that would previously have been able to use the Charities SORP (FRSSE), we do not agree with the proposal to amend the Charities SORP (FRS102) to require all "larger" charities to prepare a Statement of Cash Flows as it will significantly increase the number of charities being required to prepare such a Statement. In our view, this will create a significant additional statutory accounting burden on charities that may not be viewed as adding value to their financial statements. We would consider that for many charities the costs could outweigh the benefits. Please refer to our response to question 3.

Response to invitation to comment on changes to the Charities SORP (FRS 102) and the replacement for the Charities SORP (FRSSE)

Withdrawal of the Charities SORP (FRSSE) (*continued*)

Question 3 If your answer to question 2 was no, what alternative threshold would you propose for the preparation of a Statement of Cash Flows? Please state what threshold you would propose and give reasons for your response.

Response:

Under the previous accounting regime only charities that exceeded the small company threshold were required to prepare the equivalent of a Statement of Cash Flows, and under the proposed FRS102 small entity reduced disclosure requirements for non-charities, only entities exceeding the soon to increase small company thresholds will be required to prepare a Statement of Cash Flows. In light of the above, while we agree that it is a welcome relaxation of the Charities SORP (FRS102) to exempt smaller charities from this requirement, we consider that the threshold should be considerably higher than £500,000. In order to align the accounting burden on smaller charities more appropriately, we would suggest that a threshold of 50% of the soon to increase small company limits would be more reasonable. The suggested threshold would therefore be a gross income of £5.1m

The following Charities SORP Consultation submission has been received

Title: Mr

Forename: Raymond

Surname: Harris

Job Title: Volunteering Accounting Support

Organisation: Education for the Children Foundation

Email: ray.j.harris@btinternet.com

Phone: 01159332640

Upload Document: [Upload Document]

Draft Bulletin 1:

Withdrawal of the FRSSE:

Comments: Do not agree with audit threshold. Audits cost money (£2,000) and time for charity staff. Larger donors will use their Due Diligence methods to ensure their donations are used appropriately. The de-linking proposal will lead to confusion between statutory requirements and SORP.

From: noreply@cipfa.org [mailto:noreply@cipfa.org]

Sent: 16 September 2015 12:52

To: Charities SORP; ray.j.harris@btinternet.com

Subject: Charities SORP Consultation submission

The following Charities SORP Consultation submission has been received

Title: Mr

Forename: Raymond

Surname: Harris

Job Title: Volunteering on Accounts

Organisation: Education for the Children Foundation

Email: ray.j.harris@btinternet.com

Phone: 01159332640

Upload Document: [Upload Document]

Draft Bulletin 1:

Withdrawal of the FRSSE:

Comments: Donated services and facilities. The current method of estimating these and including them as income and expense overstates income, this is misleading as it is not cash/tangible. It can also cause income to go over an audit threshold. Mandatory inclusion in the Trustees report would seem more appropriate. No argument with the proposals for goods.

Kind Regards,

CIPFA Charities SORP



Response to SORP consultation

1. Charities SORP (FRS102)

Consultation question

Question 1

Do you agree with the proposed amendments in draft Update Bulletin 1?

RSNO response: Yes

2. Replacement for Charities SORP (FRSSE)

Consultation questions

Question 1

Given the underlying requirement for the accounts to give a true and fair view and the requirements of FRS 102 that result in all charities applying the same underlying recognition and measurement policies, do you agree with the SORP-making body disapplying the small entities regime proposed in FRED 59? This would have the result that all charities will have to apply the Charities SORP (FRS 102) for reporting periods beginning on or after 1 January 2016. Please give reasons for your response. If your answer is no, what alternate approach would you recommend and why?

RSNO response: Yes

Question 2

Do you agree with the proposal to amend the Charities SORP (FRS 102) so that it requires only larger charities to prepare a Statement of Cash Flows? This would mean that all charities with a gross income exceeding £500,000 (€500,000 in the Republic of Ireland) would have to prepare a Statement of Cash Flows. Please give reasons for your response.

RSNO response: Yes

3. Revised definition of 'larger charity' in the SORPs

Consultation question

Question 1

Do you agree with the proposal to amend the definition of larger charities so that it is no longer linked to the statutory audit threshold for accounts prepared under the Charities SORP (FRSSE) or Charities SORP (FRS 102) for reporting periods ending on or after 31 March 2015? If not, why not?

RSNO response: Yes



Providing Leadership and Support
within the Irish Charity Sector

ICTR Submission in response to

a) the proposed amendments to the Charity SORP (FRS102) as set out in Update Bulletin 1

b) Withdrawal of the Charities SORP (FRSSE) and Proposals to widen the scope of Charities SORP (FRS 102)

ICTR

Is an umbrella body of Charities in the Republic of Ireland committed to creating the conditions for a vibrant, independent charity sector that inspires public confidence. ICTR has worked closely with both the Dept. Justice policy unit and the Charities Regulatory Authority in supporting the development of the Charities Act 2009 and its subsequent implementation since October 2014. In this context it should be noted that the Charity SORP is voluntary rather than mandatory in the Republic of Ireland though it is expected that it will become mandatory in due course.

Submitted by: Sheila Nordon, Executive Director

Date: 15th September 2015

Email: Sheila.nordon@ictr.ie

a) the proposed amendments to the Charity SORP (FRS102) as set out in Update Bulletin 1

Question 1 Do you agree with the proposed amendments in draft Update Bulletin 1? If not, why not?

ICTR is in full agreement with the proposed minor amendments to FRS102 in line with changes to company law.

Question 2 Do you agree with the proposal to amend the definition of larger charities so that it is no longer linked to the statutory audit threshold for accounts prepared under the Charities SORP (FRSSE) or Charities SORP (FRS 102) for reporting periods ending on or after 31 March 2015? If not, why not?

ICTR is in full agreement with the proposal to de-link the definition of larger charities as per the SORP from the statutory audit threshold for accounts prepared under the Charities SORP (FRSSE) or Charities SORP (FRS102) for reporting periods ending on or after 31st March 2015. The existing

threshold of €500,000 used in the definition of larger charity is more appropriate in the Republic of Ireland given the profile of the charity sector here. We also welcome the fact that the definition will apply consistently across each of the jurisdictions on these islands.

b) Withdrawal of the Charities SORP (FRSSE) and Proposals to widen the scope of Charities SORP (FRS 102)

Question 1 Given the underlying requirement for the accounts to give a true and fair view and the requirements of FRS 102 that result in all charities applying the same underlying recognition and measurement policies, do you agree with the SORP-making body disapplying the small entities regime proposed in FRED 59? This would have the result that all charities will have to apply the Charities SORP (FRS 102) for reporting periods beginning on or after 1 January 2016. Please give reasons for your response. If your answer is no, what alternate approach would you recommend and why?

ICTR is in favour of disapplying the small entities regime proposed in FRED 59 so that all charities will have to apply the Charities SORP (FRS102) for reporting periods beginning on or after 1st January 2016. The FRSSE has not been in use in the Republic of Ireland due to differences in company law, therefore it makes more sense that all charities regardless of size are required to apply the Charities SORP (FRS102) with the only difference being the requirement for a cashflow statement from larger charities. Charities structured as companies limited by guarantee in Ireland have been considered “public companies” and could not avail of audit exemptions or limited disclosures, therefore had to prepare a cashflow statement in their accounts. The new Companies Act 2014 has made changes in this regard but it is likely that charities will continue to include a cashflow statement in their accounts even if it is optional depending on their size. ICTR would certainly encourage this.

Question 2 Do you agree with the proposal to amend the Charities SORP (FRS 102) so that it requires only larger charities to prepare a Statement of Cash Flows? This would mean that all charities with a gross income exceeding £500,000 (€500,000 in the Republic of Ireland) would have to prepare a Statement of Cash Flows. Please give reasons for your response.

ICTR agrees that it is reasonable to require larger charities to prepare a Statement of Cashflows with it being optional for those charities below the gross income threshold of €500,000. However, we would encourage all charities to prepare a Statement of Cashflows on the basis that it is a valuable financial statement in its own right and as the SORP Committee states, it ensures that the charity actively considers its cash position as part of its annual reporting cycle which is good practice.

Question 3 If your answer to question 2 was no, what alternative threshold would you propose for the preparation of a Statement of Cash Flows? Please state what threshold you would propose and give reasons for your response.

Not applicable.

Charities SORP consultations on Charities SORP (FRS 102) amendments and replacement for Charities SORP (FRSSE)

Consultation response

16 September 2015

CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. Our 14,000 members work throughout the public services, in national audit agencies, accountancy firms, public service organisations, charities and social enterprises and other bodies where public money needs to be effectively and efficiently managed.

As the world's only professional accountancy body to specialise in public services and public benefit organisations, CIPFA's portfolio of qualifications are the foundation for a career in public finance. They include the benchmark professional qualification for accountants working in public benefit organisations as well as a postgraduate diploma for people already working in leadership positions. They are taught by our in-house CIPFA Education and Training Centre as well as other places of learning around the world.

We also champion high performance in public services, translating our experience and insight into clear advice and practical services. They include information and guidance, courses and conferences, property and asset management solutions, consultancy and interim people for a range of public sector clients.

Globally, CIPFA shows the way in public finance by standing up for sound public financial management and good governance. We work with donors, partner governments, accountancy bodies and the public service providers around the world to advance public finance and support better public services.

For more information on this response contact John Maddocks, Technical Manager
john.maddocks@cipfa.org

General Comment

CIPFA welcomes the opportunity to respond to the Charities SORP making body consultations on changes to Charities SORP (FRS 102) and replacement of the Charities SORP (FRSSE). The consultations were circulated to members of CIPFA's Charities and Social Enterprises Panel and this response is informed by their comments and discussions.

We support the proposed changes included in both consultation documents, and set out our comments to the consultation questions below.

Responses to questions

Consultation on amendments to Charities SORP (FRS 102)

Question 1

Do you agree with the proposed amendments in draft Update Bulletin 1? If not, why not?

Yes.

As stated in the consultation document, amendments are required to comply with changes in company legislation, and are generally of an uncontentious nature.

Question 2

Do you agree with the proposal to amend the definition of larger charities so that it is no longer linked to the statutory audit threshold for accounts prepared under the Charities SORP (FRSSE) or Charities SORP (FRS 102) for reporting periods ending on or after 31 March 2015? If not, why not?

Yes.

Given the increase in audit threshold, it makes sense to de-couple the thresholds.

The increase in audit threshold is helpful for the many smaller charities and assists in keeping bureaucracy and costs in check. However, continuing to align the threshold for classification as larger charities could lead to a number of medium sized charities reporting less information, particularly in relation to cash flow, than had previously been the case. As all charities are encouraged to report on all aspects, this is still enabled without undue prescription for the many very small charities.

De-coupling allows the benefit of more informative reporting by medium sized charities, while assisting in the reduction of unnecessary bureaucracy and cost on the smallest charities.

Consultation on replacement for the Charities SORP (FRSSE)

Question 1

Given the underlying requirement for the accounts to give a true and fair view and the requirements of FRS 102 that result in all charities applying the same underlying recognition and measurement policies, do you agree with the SORP-making body disapplying the small entities regime proposed in FRED 59? This

would have the result that all charities will have to apply the Charities SORP (FRS 102) for reporting periods beginning on or after 1 January 2016. Please give reasons for your response. If your answer is no, what alternate approach would you recommend and why?

Yes.

A move to just the one Charities SORP, with exceptions explained as appropriate, is arguably easier to understand and deal with, particularly for smaller charities that often lack good access to professional advice and knowledge. It is easier for the charity to go directly to one comprehensive SORP, rather than first having to decide on which of two is the right one. This could also potentially reduce innocent errors.

With the exemption from the Statement of Cash Flows, the comprehensive regime should not be more onerous for smaller charities.

Question 2

Do you agree with the proposal to amend the Charities SORP (FRS 102) so that it requires only larger charities to prepare a Statement of Cash Flows? This would mean that all charities with a gross income exceeding £500,000 (€500,000 in the Republic of Ireland) would have to prepare a Statement of Cash Flows. Please give reasons for your response.

Yes.

It is important for charity trustees to understand cash flow, for the reasons set out in the consultation paper. It is possible that this information would also be beneficial for trustees in smaller charities, a number of whom may have had limited understanding of accounting and the flow of cash in and out of the charity. However, on balance, it is probably better to continue with the small charities exemption regarding the requirement to provide a Statement of Cash Flows up to the threshold, while encouraging its use.

This approach does not unduly burden those smaller charities with more limited accounting resources. Indeed, the move to a single SORP with a standard approach to drawing up a Statement of Cash Flows may help in promoting interest in the statement including the associated benefits to smaller charities of providing this information.

Question 3

If your answer to question 2 was no, what alternative threshold would you propose for the preparation of a Statement of Cash Flows? Please state what threshold you would propose and give reasons for your response.

Question 3 is not applicable

14 September 2015

Charity SORP

CIPFA
77 Mansell Street
London
E1 8AN

Dear Sirs

Draft Update Bulletin 1 and Withdrawal of the Charities SORP (FRSSE) and Proposals to widen the scope of Charities SORP (FRS 102)

Kingston Smith are a mid-tier firm of accountants and auditors with a strong specialism in providing expert advice to not-for-profit organisations. Our collaborative approach to gaining an understanding of our clients, their needs and their aspirations has helped us to maintain our position as one of the leading advisers to the UK charities sector. We are pleased to respond to the Charities SORP Consultations and include our responses below.

Bulletin 1

Question 1 Do you agree with the proposed amendments in draft Update Bulletin 1? If not, why not?

Yes, we agree.

Question 2 Do you agree with the proposal to amend the definition of larger charities so that it is no longer linked to the statutory audit threshold for accounts prepared under the Charities SORP (FRSSE) or Charities SORP (FRS 102) for reporting periods ending on or after 31 March 2015? If not, why not?

We disagree with the proposal. We feel that it is more appropriate for charities which are required by law to have an additional degree of scrutiny to be required to make the additional disclosures.

Withdrawal of the FRSSE SORP

Question 1 Given the underlying requirement for the accounts to give a true and fair view and the requirements of FRS 102 that result in all charities applying the same underlying recognition and measurement policies, do you agree with the SORP-making body disapplying the small entities regime proposed in FRED 59? This would have the result that all charities will have to apply the Charities SORP (FRS 102) for reporting periods beginning on or after 1 January 2016. Please give reasons for your response. If your answer is no, what alternate approach would you recommend and why?

We agree with this approach. The new Small Companies reporting regime, with limited notes and limited explicit disclosure requirements would, in our opinion, be inappropriate for charities. The Invitation to Comment suggests that charities complying with the small entity regime would not prepare financial statements that give a true and fair view. We are not sure we agree fully with that sentiment as section A of FRS 102 does state that additional disclosures should be provided where

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Moira Hindson Esther Carder John Staniforth Heather Powell Silvia Vitello Mike Hayes Marc Fecher Sandra De Lord Tim Stovold Mark Twum-Arnpoko Daniel Martine Matthew Meadows James Cross Darren Jordan
Thomas Moore Paul Spindler Lynne Rowland Tessa Park Ian Graham Anjali Kothari Jon Dawson Steven Rushmer Thomas Aslin Peter Smithson Becky Shields Mark Fielden Karen Wardell Yvette Jacobs

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they are critical in providing a true and fair view. Indeed we believe that the vast majority of companies in the UK will be preparing financial statements in accordance with this regime. These companies are under an obligation to produce financial statements that offer a true and fair view.

Notwithstanding the fact that use of the small entity regime will be widespread, the real reason we feel that it should not be used by charities is that charities, as 'public benefit entities' should offer far more transparency into their financial activities than commercial entities of a similar size. Any framework built around the mandatory disclosures would not offer this transparency even if it did offer a true and fair view of results and financial position.

Question 2 Do you agree with the proposal to amend the Charities SORP (FRS 102) so that it requires only larger charities to prepare a Statement of Cash Flows? This would mean that all charities with a gross income exceeding £500,000 (€500,000 in the Republic of Ireland) would have to prepare a Statement of Cash Flows. Please give reasons for your response.

This was a contentious issue and has been subject to much internal debate between our NFP experts. However, on balance, we do not agree with this proposal. Currently only charities that fail to meet the Companies Act definition of small are required to prepare a cash flow statement.

In our experience with those charities that will soon be classed as small companies (i.e. those with income less than £10.2m), none produce a cash flow statement for internal reporting purposes and many require our assistance in preparing the statement for their annual financial statements.

It is also extremely rare that a charity has chosen to prepare a cash flow statement when not required to do so. Furthermore on no occasion has a stakeholder requested that a charity client prepare a cash flow statement.

Charity financial statements include a SoFA rather than a profit and loss account which shows a reconciliation between opening and closing funds. There is also thorough disclosure of fund balances which show the amount of cash available. We believe there is sufficient disclosure within the financial statements of the funds of a charity for a cash flow statement to be of limited incremental benefit to the users of the accounts and certainly not outweighing the time costs in preparing such a statement.

Question 3 If your answer to question 2 was no, what alternative threshold would you propose for the preparation of a Statement of Cash Flows? Please state what threshold you would propose and give reasons for your response.

We feel that keeping the threshold in line with that of a small company, i.e. income of £10.2 million would be appropriate. Our reasons for this answer are outlined above.

If you have any questions on the contents of this letter, then please contact Nick Brooks.

Yours faithfully,



Kingston Smith LLP

INVITATION TO COMMENT

Draft Update Bulletin 1

Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102)

Question 1 Do you agree with the proposed amendments in draft Update Bulletin 1? If not, why not?

Agreed, the amendments set out in the exposure draft are a necessary consequence of changes to FRS 102 and are not controversial.

Question 2 Do you agree with the proposal to amend the definition of larger charities so that it is no longer linked to the statutory audit threshold for accounts prepared under the Charities SORP (FRSSE) or Charities SORP (FRS 102) for reporting periods ending on or after 31 March 2015? If not, why not?

The Exposure Draft, Paragraph 2.2, states that the proposed amendments are applicable for the accounts of relevant charities for reporting periods beginning on or after 1 January 2016. It would be confusing for minor amendments to apply prospectively whilst the change to the definition of a large charity to apply retrospectively. Applying a retrospective threshold would also mean that accounts for the same accounting period signed at different dates would be subject to a different definition of a large charity and charities would be required to prepare a cash flow statement based on the date of the approval of accounts rather than the reporting period.

Apart from the issue explained above, the proposal offers a reasonable and proportionate approach to the definition of a larger charity.

Ray Jones BSc., F.C.A., DChA.

INVITATION TO COMMENT

Withdrawal of the Charities SORP (FRSSE) and Proposals to widen the scope of Charities SORP (FRS 102)

Question 1 Given the underlying requirement for the accounts to give a true and fair view and the requirements of FRS 102 that result in all charities applying the same underlying recognition and measurement policies, do you agree with the SORP-making body disapplying the small entities regime proposed in FRED 59? This would have the result that all charities will have to apply the Charities SORP (FRS 102) for reporting periods beginning on or after 1 January 2016. Please give reasons for your response. If your answer is no, what alternate approach would you recommend and why?

Whilst this proposal runs contrary to the 'think small first' principle, the framework provided by section 1A of FRS 102 does not, on its own, provide a satisfactory framework for charity reporting. Also, the inherent ambiguity in section 1A as to when additional disclosures are required creates significant uncertainty for preparers of charity accounts. However, the level of detailed and the sometimes excessive disclosures sought by FRS 102 creates an onerous regime for very small charities and one that is not always helpful to users of the accounts of very small charities.

Ideally, there would be a separate SORP for those charities below the new large charity threshold. A small entity SORP could omit or significantly reduce the detail of certain FRS 102 SORP modules, for example, the statement of cash flows, and consolidation modules which are not required by small charities. Where section 1A of FRS 102 requires a disclosure, this disclosure could be used where it provides a simpler and shorter disclosure than the FRS 102 requirements. Finally, as the additional disclosures of FRS 102 are not mandatory, it would be possible to edit down some of the more detailed requirements to make the disclosure more proportionate to the size of charity. For example, pension disclosures and the detailed disclosures relating to heritage assets could be shortened without affecting 'true and fair'. In effect, the SORP would set a base line for the minimum disclosures expected of a charity where an event or transaction was not addressed by the new section 1A to FRS 102.

This approach might sound controversial but it is consistent with the approach whereby the disclosures required by both the law and standards are variables in part determined by the size of an entity and the audience for its accounts. Clearly, such an approach would require considerable judgement but it is an option worth pursuing if time allowed and would be achievable with the support of the SORP Committee and FRC.

It is recognised that such a project would require significant resources and the time-scale for such a project would probably be in excess of a year. If resources and time prevents this option being pursued then the proposal put forward in the consultation is the next best option.

INVITATION TO COMMENT

Withdrawal of the Charities SORP (FRSSE)

and Proposals to widen the scope of Charities SORP (FRS 102)

Question 2 Do you agree with the proposal to amend the Charities SORP (FRS 102) so that it requires only larger charities to prepare a Statement of Cash Flows? This would mean that all charities with a gross income exceeding £500,000 (€500,000 in the Republic of Ireland) would have to prepare a Statement of Cash Flows. Please give reasons for your response.

Although a case can be made for the threshold to be set at £1 million, this would have a number of undesirable consequences. Firstly, it would inappropriately extend the option to prepare a SoFA on a 'natural' classification basis (FRS 102 SORP, para.4.23). Secondly, it would inappropriately extend the current exemption from providing certain details of staff costs (FRS 102 SORP, para. 9.26). Thirdly, it would create an unfortunate inconsistency with the threshold to prepare consolidated accounts set by charity law in England and Wales and Scotland (FRS 102 SORP, Appendix 3, A.11 and A.12).

To avoid these undesirable consequences, it would be appropriate to set the threshold at £500,000 as suggested by the consultation.

Ray Jones BSc., F.C.A., DChA.

From: jaholden@virginmedia.com [mailto:jaholden@virginmedia.com]

Sent: 05 September 2015 12:08

To: Charities SORP

Subject: Response to Invitation to Comment on withdrawal of FRSSE and widening of FRS102

Dear Sirs,

I am responding on behalf of St Peter's Aid for the Needy, registered charity no. 1040252, to your invitation to comment on the withdrawal of the charities SORP FRSSE and proposals to widen the scope of charities SORP FRS102.

We are a locally-based trust with income and expenditure less than £100,000, whose main (and virtually only) activity is the disbursement to individuals and other charitable organizations of funds donated by the parishioners of a particular parish church. Our financial year-end is 31 December, and for years up to 31 December 2014 we have chosen to adopt an accruals basis of reporting, under SORP 2005.

Question 1. Our response is yes. A single SORP is easier to follow.

Question 2. Our response again is yes. By the nature of our activities, our SoFA is very close to being on a cash basis, and we do not believe that a separate cash flow statement would add any useful information. The threshold of £500,000 for larger charities is well above our expected income ceiling in the foreseeable future, so that its adoption in place of the small entities regime is quite satisfactory.

Since we have never adopted the FRSSE, we would much prefer to adopt FRS 102 amended as here proposed for the financial year starting 1 January 2015, rather than adopt FRSSE for one year only. We hope that this will be made possible.

Yours faithfully,
Jonathan Holden (Treasurer)

Sent from Windows Mail

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A CONSULTATION ON THE CHARITIES SORP

CONSULTATION RESPONSE by TURCAN CONNELL'S CHARITIES LEGAL TEAM

We are pleased to present our Charities Legal Team's response to the joint SORP-making body's consultation on its proposed amendments to the charities SORP.

1. Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102)

Question 1 Do you agree with the proposed amendments in draft Update Bulletin 1? If not, why not?

Yes, we agree with the proposed amendments in draft Update Bulletin 1 as they are necessary to ensure that the accounting standards are consistent.

Question 2 Do you agree with the proposal to amend the definition of larger charities so that it is no longer linked to the statutory audit threshold for accounts prepared under the Charities SORP (FRSSE) or Charities SORP (FRS 102) for reporting periods ending on or after 31 March 2015? If not, why not?

Yes, we agree with the proposal to amend the definition of larger charities so that it is no longer linked to the statutory audit threshold. As noted, de-linking the definition from the statutory audit threshold ensures that consistency and current practice is preserved, particularly given the differing thresholds in Scotland and Northern Ireland. The definition will not require to be changed if the audit thresholds changes in the future.

2. Withdrawal of the Charities SORP (FRSSE) and Proposals to widen the scope of Charities SORP (FRS 102)

Question 1 Given the underlying requirement for the accounts to give a true and fair view and the requirements of FRS 102 that result in all charities applying the same underlying recognition and measurement policies, do you agree with the SORP-making body disapplying the small entities regime proposed in FRED 59? This

would have the result that all charities will have to apply the Charities SORP (FRS 102) for reporting periods beginning on or after 1 January 2016. Please give reasons for your response. If your answer is no, what alternate approach would you recommend and why?

Yes, we agree that that small entities regime proposed in FRED 59 should be disapplied, and that all charities should apply the Charities SORP (FRS 102). We agree that a common, consistent approach should be adopted and this can be achieved by having a single SORP; a separate regime for small entities is unnecessary in the circumstances. A consistent approach is of benefit to Trustees as well as donors and members of public as they will become familiar with the presentation of financial information and this will lead to greater transparency.

Question 2 Do you agree with the proposal to amend the Charities SORP (FRS 102) so that it requires only larger charities to prepare a Statement of Cash Flows? This would mean that all charities with a gross income exceeding £500,000 (€500,000 in the Republic of Ireland) would have to prepare a Statement of Cash Flows. Please give reasons for your response.

Yes, we agree with the proposal to amend the Charities SORP (FRS 102) so that only larger charities (under the new definition) are required to prepare a Statement of Cash Flow and charities that do not come under the definition can elect to prepare one or not. On reviewing the options presented in the consultation paper, we agree with the Charities SORP Committee's reasoning for rejecting the first three options, mainly because they were impractical or unjustified, and agree that the fourth option, only requiring larger charities to prepare a Statement of Cash Flow, is the most practical.

Question 3 If your answer to question 2 was no, what alternative threshold would you propose for the preparation of a Statement of Cash Flows? Please state what threshold you would propose and give reasons for your response.

Not applicable.

We will be pleased to expand on any comments made in this response. Please contact the Charities Legal Team on 0131 228 8111 or at charities@turcanconnell.com.

Turcan Connell
9th September 2015

From: noreply@cipfa.org [mailto:noreply@cipfa.org]

Sent: 31 August 2015 09:25

To: Charities SORP; nhughes@bishopfleming.co.uk

Subject: Charities SORP Consultation submission

The following Charities SORP Consultation submission has been received

Title: Mrs

Forename: Natercia

Surname: Hughes

Job Title: Manager

Organisation: Bishop Fleming Accountants

Email: nhughes@bishopfleming.co.uk

Phone: 01872275651

Upload Document: [Upload Document]

Draft Bulletin 1:

Withdrawal of the FRSSE:

Comments: Per the SORP, definition of larger charities: "Larger charities is a term used in the SORP to identify those charities subject to audit under charity law in their jurisdiction(s).....

In those jurisdictions where there is no charity law audit requirement... larger charities is construed as applying to those charities with a gross income exceeding £500,000 (UK) or 500,000 euros (Republic of Ireland) in the reporting period." So, if the audit threshold for charities is going up to £1m - why not use this?

Kind Regards,

CIPFA Charities SORP



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Charities SORP
CIPFA
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03 September 2015

charities.sorp@cipfa.org

Dear Sir or Madam

**Charity Commission/OSCR Invitation to Comment – Draft Update Bulletin 1
Accounting and Reporting by Charities: Statement of Recommended Practice
applicable to charities preparing their accounts in accordance with the Financial
Reporting Standard applicable in the UK and Republic of Ireland (FRS 102)**

We welcome the opportunity to comment on the Charity Commission/OSCR's Draft Update Bulletin 1.

We agree with the proposed changes to the SORP with the exception of the amendment proposed to Module 27: Charity mergers. Our view is that comment may need to be included in this section on the possibility of a true and fair override where an incorporated charity has undergone a merger which is not a group reconstruction.

Our responses to the specific questions included in the consultation are set out in Appendix 1.

If you would like to discuss any aspect of this response further please do not hesitate to contact Nick Sladden, Head of Charities on 020 3201 8000.

Yours faithfully

Baker Tilly UK Audit LLP



Appendix 1

Question 1

Do you agree with the proposed amendments in draft Update Bulletin 1? If not, why not?

In our opinion as few changes as possible should be made to FRS 102 (and consequently the SORP) outside the FRC's stated three year review programme in order to provide a stable financial reporting platform. However, we recognise some amendments are necessary to address any conflicts with Company law and on that basis we agree with the proposed amendments set out under the following headings:

- *Accounting and Reporting by Charities: The Statement of Recommended Practice (SORP) - Scope and Application module*
- *Donated goods, facilities and services, including volunteers*
- *Balance Sheet (useful economic life of intangible assets)*
- *Impairment of assets*
- *Accounting for Groups and the Preparation of Consolidated Accounts*

We note that the proposed amendment included in Draft Update Bulletin 1 in relation to merger accounting is in line with Company law. However, we are concerned that, currently, unincorporated charities will continue to be able to apply merger accounting (in line with the Charities (Accounts and Reports) Regulations 2008 – 'Regulations'), whilst incorporated charities will not be permitted to do so except where a group reconstruction has occurred. As a result there will be a lack of comparability between unincorporated and incorporated charities under the current Regulations. We urge the Charity Commission/OSCR to consider highlighting the possibility of a true and fair override in this area in accordance with the Companies Act 2006 (Section 396(5)). This recommendation is made subject to any changes that may be made to Charity Law when the Regulations are updated.

Question 2

Do you agree with the proposal to amend the definition of larger charities so that it is no longer linked to the statutory audit threshold for accounts prepared under the Charities SORP (FRSSE) or Charities SORP (FRS 102) for reporting periods ending on or after 31 March 2015? If not, why not?

We disagree with the proposal to amend the definition of larger charities so that it is no longer linked to the statutory audit threshold for accounts prepared under the Charities SORP (FRSSE) or Charities SORP (FRS 102) for reporting periods ending on or after 31 March 2015. We consider the existing audit thresholds, including the £1m income threshold for audit which came into force for accounting periods ending on or after 31 March 2015, to also represent an appropriate level at which charities could be considered to be larger. In addition, our preference is to minimise the number of thresholds of which charities need to be aware to avoid an unnecessary administrative burden falling on the sector particularly as it is heavily reliant on volunteers.



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03 September 2015

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Dear Sir or Madam

Charity Commission/OSCR Invitation to Comment – Withdrawal of the Charities SORP (FRSSE) and Proposals to widen the scope of the Charities SORP (FRS 102)

We welcome the opportunity to respond to the Charity Commission/OSCR's Invitation to Comment – Withdrawal of the Charities SORP (FRSSE) and Proposals to widen the scope of the Charities SORP (FRS 102).

We agree with the SORP-making body dis-applying the small entities regime proposed in FRED 59 so that charities' financial statements give a true and fair view.

Our responses to the specific questions included in the consultation are set out in Appendix 1.

If you would like to discuss any aspect of this response further please do not hesitate to contact Nick Sladden, Head of Charities on 020 3201 8000.

Yours faithfully


Baker Tilly UK Audit LLP

Our ref SMR/AFE

18 September 2015

Charities SORP
CIPFA
77 Mansell Street
London
E1 8AN

Dear Sirs

SORP: Accounting and Reporting by Charities Draft Update Bulletin 1

Kreston Reeves LLP appreciates the opportunity to respond to the Invitation to Comment issued jointly by the Charity Commission and the Office of the Scottish Charity Regulator in June 2015 on Draft Update Bulletin 1.

Kreston Reeves LLP is a firm of Chartered Accountants that is amongst the top 30 largest firms in the United Kingdom. Based in London and the South East, we have a wide range of clients but predominantly we operate in the SME market providing audit and other accountancy services. At the present time we act on behalf of approximately 350 charities and other not-for-profit organisations. We are a member firm of Kreston International, a global network of independent accounting firms.

Our detailed responses to the questions raised in the Invitation to Comment are contained in Appendix I.

Key points

- We are broadly in support of the proposals, but are of the opinion that the definition of a larger charity is based upon gross income of £1million rather than £500,000 as set out in the proposals.

If you have any questions on the contents of this letter, then please contact Susan Robinson at the address shown.

Yours faithfully



Appendix I

SORP: Accounting and Reporting by Charities Draft Update Bulletin 1

Responses to specific questions

Question 1

Do you agree with the proposed amendments in draft Update Bulletin 1? If not, why not?

Yes, we agree with the proposed amendments with the exception of the definition of "larger charities" (please see our response to question 2 below).

Question 2

Do you agree with the proposal to amend the definition of larger charities so that it is no longer linked to the statutory audit threshold for accounts prepared under the Charities SORP (FRSSE) or Charities SORP (FRS102) for reporting periods ending on or after 31 March 2015? If not, why not?

The reporting and assurance framework is a complex one, with a variety of thresholds that affect the basis of accounting required and the level of independent examination required. It is further complicated by the differing legal frameworks in existence in the United Kingdom.

Although we agree with the proposal to amend the definition of larger charities included within the SORP so that it is not linked to the statutory audit threshold, enabling a common accounting framework across the United Kingdom. We do not however agree that the definition should instead be based upon a gross income level of £500,000 (or €500,000). To do so would add to the already complex framework for the majority of charities in the UK, namely those in England and Wales. Instead we would propose that the definition of a larger charity is based upon gross income of £1million, equivalent to the audit threshold in England and Wales. This would help to minimise the complexity in reporting for as many charities as possible.

Further we would propose that representations are made to legislative bodies in Scotland and Northern Ireland to amend audit exemption for charities so that it is aligned with the law in England and Wales and thus that there is a common framework across the entire United Kingdom.



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Our ref SMR/AFE

18 September 2015

Charities SORP
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Dear Sirs

Withdrawal of the Charities SORP (FRSSE) and Proposals to widen the scope of Charities SORP (FRS102)

Kreston Reeves LLP appreciates the opportunity to respond to the Invitation to Comment issued jointly by the Charity Commission and the Office of the Scottish Charity Regulator in June 2015 on the withdrawal of the Charities SORP (FRSSE) and proposals to widen the scope of Charities SORP (FRS102)

Kreston Reeves LLP is a firm of Chartered Accountants that is amongst the top 30 largest firms in the United Kingdom. Based in London and the South East, we have a wide range of clients but predominantly we operate in the SME market providing audit and other accountancy services. At the present time we act on behalf of approximately 350 charities and other not-for-profit organisations. We are a member firm of Kreston International, a global network of independent accounting firms.

We support the proposals set out in the Invitation to Comment. Our detailed responses to the questions raised are contained in Appendix I.

If you have any questions on the contents of this letter, then please contact Susan Robinson at the address shown.

Yours faithfully

A handwritten signature in black ink that reads 'Kreston Reeves LLP'.

Appendix I

Withdrawal of the Charities SORP (FRSSE) and Proposals to widen the scope of Charities SORP (FRS102)

Responses to specific questions

Question 1

Given the underlying requirement for the accounts to give a true and fair view and the requirements of FRS102 that result in all charities applying the same underlying recognition and measurement policies, do you agree with the SORP-making body disapplying the small entities regime proposed in FRED59? This would have the result that all charities will have to apply the Charities SORP (FRS102) for reporting periods beginning on or after 1 January 2016. Please give reasons for your response. If your answer is no, what alternate approach would you recommend and why?

We agree with the proposal to disapply the small entities regime.

We would support any proposal to simplify the often complex area of charity reporting, and having a single framework for all charities that are required to produce accounts that show a true and fair view helps to achieve this goal.

Question 2

Do you agree with the proposal to amend the Charities SORP (FRS102) so that it requires only larger charities to prepare a Statement of Cash Flows? This would mean that all charities with a gross income exceeding £500,000 (€500,000 in the Republic of Ireland) would have to prepare a Statement of Cash Flows. Please give reasons for your response.

We are of the opinion that the Statement of Cash Flows is a vital component of the financial statements, providing the user with added transparency over the source and application of the charity's funds.

Thus although we support the proposal that only larger charities are required to prepare a Statement of Cash Flows we are of the opinion that the SORP should make it clear that it is considered best practice for all charities whose accounts are required to show a true and fair view to include a Statement of Cash Flows as part of their accounts.*

** Please note that in our response to your Invitation to Comment on Draft Update Bulletin 1 we were of the opinion that the definition of a larger charity should be based upon gross income of £1million rather than £500,000.*

Question 3

If your answer to question 2 was no, what alternative threshold would you propose for the preparation of a Statement of Cash Flows? Please state what threshold you would propose and give reasons for your response.

Not applicable

Withdrawal of the FRSSE and Draft Update Bulletin 1

Exposure draft of amendments to the Charities' SORP issued by the Charity Commission and OSCR in June 2015

Comments from ACCA

16 September 2015

ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants. We aim to offer business-relevant, first-choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management.

We support our 178,000 members and 455,000 students in 181 countries, helping them to develop successful careers in accounting and business, with the skills needed by employers. We work through a network of 92 offices and centres and more than 7,110 Approved Employers worldwide, who provide high standards of employee learning and development. Through our public interest remit, we promote appropriate regulation of accounting, and conduct relevant research to ensure that accountancy continues to grow in reputation and influence.

www.accaglobal.com

Further information about ACCA' s comments on the matters discussed here may be obtained from the following:

Richard Martin

Head of Corporate Reporting, ACCA

Email: richard.martin@accaglobal.com

ACCA welcomes the opportunity to provide comments on the amendments to the SORP. This has been done with the assistance of the Charity Technical Advisory Group composed of members who work for or with charities.

GENERAL COMMENTS

We support the withdrawal of the Charities SORP based on Financial Reporting Standard for Smaller Entities (FRSSE) and its replacement for small charities by that based on FRS102.

We consider, however, that the other proposals in relation to cash flow statements and the definition of large charities will create confusion with more thresholds meaning different requirements for trustees and others to comply with. We would prefer a more straightforward approach.

SPECIFIC COMMENTS ON QUESTIONS RAISED

Withdrawal of the FRSSE

Question 1

We agree with the proposal to disapply the small company regime in FRS102.

The consultation would have been better to have set out in detail the small company regime that it proposes will not be allowed for small charities. There are some significant differences beyond the number of note disclosures required. For example FRS102 only requires from small companies disclosure of related party transactions that were not on concluded under normal market conditions, whereas medium or large must show all such transactions irrespective of the terms.

The reason given in 3.2 and 3.3 is the true and fair view requirement. This is missing the point, because all small companies have that obligation. Charities should be required to meet the 'full' disclosure

requirements in our view because of the greater need for public transparency to donors, beneficiaries and others.

Questions 2 and 3

We do not agree with the proposal to require a cash flow statement for charities with income exceeding £500,000. We are not convinced of the usefulness and relevance of cash flow statements to charities. Cash flow statements are particularly helpful in a context where the prediction of future cash flows from a business can be compared to the extent to which operating profits have been realised in terms of cash. This is not generally the case with charities. The cash flow statement should therefore follow FRS102 (and existing requirements) in this regard and not be required of small entities (now those with income in excess of £10.2 million). We certainly see no justification for extending its application in the charity sector as the proposal would do.

Draft Update Bulletin 1

Question 1

We agree with the proposed amendments.

Question 2

We agree with the decoupling of the reporting requirements for larger charities from the statutory requirement for an audit.

The raising of the audit requirement was an unwelcome development both in terms of the reduced scrutiny of many charity accounts, but also because of the creation of yet another threshold of requirements for charities to observe. We would prefer that the threshold for the reporting by a larger charity be reduced down to the level of £250,000. All charities over that limit would have to prepare full Trustees' Report and a consolidation for example. This would also mean that for charities not incorporated under the Companies Act this would also be aligned with the requirement for accruals accounts.

We do not see that this would represent a significant burden in terms of preparation. The additional items in the Trustees' report would give an improvement in the reporting by these charities. Few charities below the current £500,000 level have subsidiaries that would then mean consolidated accounts and so in practice represents little change from where we are now.

The cash flow statement requirement at £10.2 million of income would be a threshold applied by only relatively few larger charities and so could be disregarded by most charities and would not represent a source of confusion in the same way as the other thresholds.



Draft Update Bulletin 1 Amendments to FRS 102

ICAEW welcomes the opportunity to comment on the *Draft Update Bulletin 1 Amendments to FRS 102* published by Charities SORP on 18 September 2015, a copy of which is available from this [link](#).

This ICAEW response of 18 September 2015 reflects consultation with the Charity Technical Sub-Committee of the ICAEW Business Law Committee.

The Sub-Committee includes representatives from public practice and the charity sector and the Business Law Committee is responsible for ICAEW policy on business law issues and related submissions to legislators, regulators and other external bodies.

ICAEW is a world-leading professional accountancy body. We operate under a Royal Charter, working in the public interest. ICAEW's regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the UK Financial Reporting Council. We provide leadership and practical support to over 144,000 member chartered accountants in more than 160 countries, working with governments, regulators and industry in order to ensure that the highest standards are maintained.

ICAEW members operate across a wide range of areas in business, practice and the public sector. They provide financial expertise and guidance based on the highest professional, technical and ethical standards. They are trained to provide clarity and apply rigour, and so help create long-term sustainable economic value.

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RESPONSES TO SPECIFIC QUESTIONS

Q1: Do you agree with the proposed amendments in draft Update Bulletin 1? If not, why not?

Yes, if the changes proposed by the withdrawal of the FRSSE SORP go ahead unchanged, we agree the draft Update Bulletin 1 is reasonably clear.

We also note that the amended version of FRS102 clarifies that a public benefit entity may apply merger accounting and we welcome this as a change we had called for in the FRED59 consultation. We assume the Update Bulletin will be amended to reflect this clarification. However, as noted in our response to the consultation on the FRSSE SORP, we believe the Statement of Cash Flows should only be required for charities that are medium or large within the company law thresholds and, if this is agreed, the Update Bulletin will need amendment to reflect this.

Q2: Do you agree with the proposal to amend the definition of larger charities so that it is no longer linked to the statutory audit threshold for accounts prepared under the Charities SORP (FRSSE) or Charities SORP (FRS 102) for reporting periods ending on or after 31 March 2015? If not, why not?

No. As there are different thresholds for audit of charities within the constituent parts of the UK, it is difficult to see that there is a compelling reason to have a single UK-wide threshold for the definition of larger charities.

If a threshold of £500,000 is adopted, it would result in consistency between the audit threshold and larger charity definition in parts of the UK, but not in England and Wales. This would require charities in England and Wales who are under the audit threshold to comply with the SORP requirements of larger charities.

Conversely, if a threshold of, say, £1,000,000 were to be adopted, it would be consistent with the audit threshold in England and Wales, but not elsewhere.

We therefore believe that 'larger charity' should, in this context, be defined by reference to its jurisdiction and consistent with the audit threshold in the relevant jurisdiction. The definition of a big charity for the purposes of cash flow statement requirements would be a distinct issue.

If consistency with audit thresholds in this context is not maintained and a single threshold is required, we think that it would be more appropriate for the threshold to match the England and Wales audit threshold of £1million income. This would ensure that the additional SORP requirements of 'large charities' would only be relevant to charities that require an audit, whichever country they are registered in.

We note that the Charity Commission does not intend to change its threshold of £500,000 for a full annual report regardless of the outcome of this consultation, but we do not consider that to be a material issue in this context. We also note that the relevant threshold of the OSCR for Scottish charities is £250,000..



Withdrawal of the Charities SORP (FRSSE)

ICAEW welcomes the opportunity to comment on the *Withdrawal of the Charities SORP (FRSSE)* published by Charities SORP on 18 June 2015, a copy of which is available from this [link](#).

This ICAEW response of 18 September 2015 reflects consultation with the Charity Technical Sub-Committee of the ICAEW Business Law Committee.

The Sub-Committee includes representatives from public practice and the charity sector and the Business Law Committee is responsible for ICAEW policy on business law issues and related submissions to legislators, regulators and other external bodies.

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RESPONSES TO SPECIFIC QUESTIONS

Q1: Question 1 - Given the underlying requirement for the accounts to give a true and fair view and the requirements of FRS 102 that result in all charities applying the same underlying recognition and measurement policies, do you agree with the SORP-making body disapplying the small entities regime proposed in FRED 59? This would have the result that all charities will have to apply the Charities SORP (FRS 102) for reporting periods beginning on or after 1 January 2016. Please give reasons for your response. If your answer is no, what alternate approach would you recommend and why?

We do not agree with some of the arguments given in the consultation document but on balance we agree that the Charities SORP (FRS 102) should apply to all charities. However, some members expressed concern that under the proposals small charities will be unable to take advantage of the simplifications afforded by the new section 1A of FRS102 in the same way as other entities and we would invite SORP-making body to reconsider this, in particular from the perspective of costs versus benefits for charities.

Q2: Do you agree with the proposal to amend the Charities SORP (FRS 102) so that it requires only larger charities to prepare a Statement of Cash Flows? This would mean that all charities with a gross income exceeding £500,000 (€500,000 in the Republic of Ireland) would have to prepare a Statement of Cash Flows. Please give reasons for your response.

The term 'larger charity' is being used in this consultation document with reference to a threshold for preparation of Statement of Cash Flows and in the consultation on Draft Update Bulletin 1 in relation to other matters, but we do not believe that the two thresholds need to be the same (and we refer to 'big' charities here). We agree that only big charities should be required to prepare a Statement of Cash Flows in their annual accounts.

However, we do not believe that the consultation document makes a persuasive case for the threshold being set at £500,000. This would result in charities being subject to a more onerous regime than small non-charitable companies (where a £10.2 million threshold would apply), but it is unclear why cash flow statements should be considered to be more important for charity accounts than for other entities. There may, indeed, be reasons why cash flow statements are less useful for users of charity accounts than in other contexts. In particular, cash flow statements are not required to distinguish between restricted and unrestricted funds, but the distinction between the two is essential to an understanding of the financial position of many charities. We therefore believe that the threshold should be in line with that used to define small entities in company law (£10.2 million). As noted above, we suggest that this threshold could be described by reference 'big' charities to avoid confusion with 'larger' charities used in other contexts.

Q3: If your answer to question 2 was no, what alternative threshold would you propose for the preparation of a Statement of Cash Flows? Please state what threshold you would propose and give reasons for your response.

See answer to Q2 above.

From: carargd@aol.com [mailto:carargd@aol.com]

Sent: 18 September 2015 16:05

To: Charities SORP

Subject: Charity Commission & OSCR consultation on proposed changes to the 2015 versions of the Charities SORP

Dear Sirs -

Charity Administration, Resourcing & Accountability (C.A.R.A) I am writing is a very small charity set up to facilitate the effectiveness and efficiency of other charities and to further charitable purposes of any kind for the public benefit, but which specialises in providing free advice and guidance to the charity sector, through the writer, on topical matters of charity setup, administration, regulatory compliance and public accountability.

We are therefore responding to the regulators' public invitation of 18 June to comment on their proposals for change impacting on charities' financial years ending after 30 March 2015 and also those commencing after 31 December 2015 as contained in three separate documents.

These propose to redefine a "larger" charity in the glossaries to SORP(FRSSE) and SORP(FRS102) as one with more than £500k gross income for the year (500k euros in Eire) for years ending after 30 March 2015, to update SORP(FRS102) for years starting after 31 December 2015 so that the updated SORP will reflect the FRC's proposed changes to FRS102 from 1 January 2016 when the FRSSE is withdrawn and in specifically barring charities that are or would be "small" under company law from using FRS102's new Section 1A that is intended to preserve the deregulatory reliefs currently contained in the FRSSE(2015), instead to allow only charities up to £500k gross income a measure of relief from full compliance with the SORP's accounts format and disclosure requirements.

The trigger for the first change is S.I.2015/321 and S.I.2015/322, which respectively increased from £500k to £1m the income threshold for a Charities Act audit and for group-accounting under the Charities Act and which take effect for financial years ending after 30 March 2015 in England & Wales.

Whilst the proposal to decouple the SORP's definition of a "larger" charity from that statutory audit threshold may look innocuous at first sight, it will have the unintended consequence of disproportionately increasing the burden of regulatory compliance for numerous charities within the size-band of £500k to £1m gross income despite their having been relieved by the Government, after due reflection on the merits of the recommendations contained in the Hodgson Report, from their previous statutory obligation to prepare group accounts. It is irrelevant for the regulation of E&W charities that "there are no current plans" to change the audit threshold for Scottish and NI charities. However, it is very relevant for E&W charities between £500k and £1m gross income that just when they are given statutory relief from group-accounting they are simultaneously denied the benefit of the SORP's reliefs for smaller charities - thus contradicting the deregulatory policy behind the doubling of the group-accounting threshold.

The case for this deregulatory policy was well argued in the Hodgson Report, as was the case for retaining an asset threshold, based on considerable research in the charity sector. It should not be regarded as applicable only to the audit requirements of the Charities Act 2011. It is different for Scotland and N.I., whose charity sectors are far smaller than ours in financial terms as well as in numbers. For this reason, a more proportionate threshold for defining a “larger” charity in England & Wales would be £1m gross income, in line with the group-accounting threshold (which should be kept under review for updating the SORP as the sector continues to grow), or - for charities with more than £3.26m carrying value of gross assets – £250k gross income to ensure that low-income charities above that income level (the cash-accounting limit for non-company charities) and having substantial invested endowment capital must account no less comprehensively under the Charities SORP in view of the greater public interest in asset-rich charities even at relatively low activity-levels (or perhaps especially in such cases) - except where the extent of their wealth remains unknown to the public for lack of any kind of asset-valuation disclosure-requirement under the currently unregulated statutory receipts and payments accounting option).

We have much the same concerns about the disproportionate regulatory burden that barring them from FRS102's Section 1A will impose on the many tens of thousands of charities between £500k and £10.2m gross income (if also exceeding one or other of the size-limits for the "small companies regime" under company law) that will thus be denied the option to omit the largely useless format of Cashflow Statement that charities above that size-band must prepare and publish within their accounts but which is not covered by their audit report. This is despite their no longer being required by law to prepare group accounts.

We also think the SORP should clarify the proposed text to be inserted in Module 17 (Charity Mergers) by explaining in plain English the criterion under company law and FRS102 for a “group restructuring” (ie, the two charitable companies must have identical company memberships) that will enable the their subsequent merger to qualify for merger-accounting under the new rules. The proposed new paragraph 27.4A as drafted is opaque and unhelpful for thousands of existing charitable companies in merely declaring a prohibition on merger-accounting for “charitable companies entering into a business combination with a third party” once the FRC’s proposed changes in UK company law come into effect, and in merely adding that “unincorporated charities, charitable incorporated organisations and non-UK registered companies will continue to be able to apply merger accounting if they meet the criteria set out in FRS 102 and this SORP and merger accounting is not prohibited by other relevant legislation.”

We hope you will find these observations helpful in the finalising of the proposed changes to SORP2015

Yours faithfully.

Greyham Dawes

for C.A.R.A (Registered Charity No.1117929)



CFG Consultation

Response:

Withdrawal of the FRSSE & Draft Update Bulletin 1

Charities SORP Committee
September 2015

About Charity Finance Group

Founded in 1987, Charity Finance Group is the charity that works to improve the financial leadership of charities, promote best practice, inspire change and help organisations to make the most out of their money so that they can deliver the biggest possible impact for beneficiaries. CFG has over 1250 members and they manage over £21 billion in charitable income.

Many of our members are responsible for reporting and accounting for their organisations and we regularly consult on the future of reporting for charities. Our Chief Executive, Caron Bradshaw, is a member of the Charities SORP Committee.

- 1.1** We endorse the principle of promoting a common approach to financial reporting in all charities adopting an accruals approach to financial reporting that the Charities SORP making body and Charities SORP Committee has adopted in line with FRED 59.
- 1.2** We agree with the view taken by the Charities SORP making body and Charities SORP Committee that given the requirement in FRS 102 for accounts to give a 'true and fair view', then the size of the entity does not matter, given that any item must be reported on the basis of materiality.
- 1.3** Given this, we agree with the consultation that there is no need to create a dedicated Charities SORP FRS 102 (Small Entities) as there would not be a significant difference between the main Charities SORP (FRS 102). We also agree that a guide in the form of an update bulletin for 'small entities' for a preparer would not have been an effective solution. This approach would have required knowledge of FRS 102 and new section 1A included in FRED 59, which would have undermined the reason for introduction the bulletin as a time-saving alternative.

For more information on this response contact: policy@cfg.org.uk or Andrew O'Brien, Head of Policy and Public Affairs on 020 7871 5477.

- 1.4** We agree, therefore, with the consultation's recommendation that all charities should be required to follow the existing Charities SORP (FRS 102) but with the option to omit the Statement of Cash Flows for some charities. We agree that this be conducive to simplification and would be easy to communicate with charities.
- 1.5** Charities should also be made aware that they still retain the discretion to prepare a Statement of Cash Flows if they fall below the proposed definition of larger charities and that there are a number of positive benefits in preparing a Statement of Cash Flows in ensuring good financial planning and management.
- 1.6** We agree with the SORP making body and Charities' SORP Committee that the definition of larger charities should no longer linked to the statutory audit threshold. We believe that this is in the interests of accountability of charities and consistency of reporting across different jurisdictions.
- 1.7** We agree that the proposal to make providing a Statement of Cash Flows mandatory for those charities that the SORP classifies as larger charities (those with gross income exceeding £500,000 UK) or 500,000 euros (Republic of Ireland). We support the SORP making body and Charities SORP Committee's view that this level is proportionate given the size and scale of the organisation and the need for accountability. A Statement of Cash Flows is useful in ensuring that trustees, funders and the public can make judgements on the financial performance of charities alongside promoting good financial management.



Proposed withdrawal of the Charities SORP (FRSSE) and other matters impacting on charity accounts

RESPONSE FROM ICAS TO THE CHARITIES SORP-MAKING BODY

17 September 2015

CA House 21 Haymarket Yards Edinburgh EH12 5BH
enquiries@icas.com +44 (0)131 347 0100 icas.com

Direct: +44 (0)131 347 0238 Email: cscott@icas.com

Introduction

The ICAS Charities Committee welcomes the opportunity to comment on:

- The withdrawal of the Charities SORP (FRSSE) and proposals to widen the scope of the Charities SORP (FRS 102); and
- Draft Update Bulletin 1: Charities SORP (FRS 102)

Our CA qualification is internationally recognised and respected. We are a professional body for over 20,000 members who work in the UK and in more than 100 countries around the world. Our members represent different sizes of accountancy practice, financial services, industry, the investment community and the public and charity sectors.

Our Charter requires ICAS committees to act primarily in the public interest and our responses to consultations are therefore intended to place the public interest first. Our Charter also requires us to represent our members' views and to protect their interests, but in the rare cases where these are at odds with the public interest, it is the public interest which must be paramount.

Key points

We support the two main proposals set out in the consultation papers. First, we believe it is appropriate to require all charities to apply the Charities SORP (FRS 102), following the withdrawal of the Financial Reporting Standard from Smaller Entities (FRSSE): we believe this is necessary for charity accounts to give a 'true and fair view'. Second, we support the introduction of a definition for 'larger' charities, within the Charities SORP, which applies to all forms of charity for periods ending on or after 31 March 2015. However, we are not clear on what authority the Charities SORP-making body is relying on to prohibit charitable companies from applying the new small entities regime set out in Section 1A of FRS 102.

The Financial Reporting Council's (FRC's) consultation on the implementation of the small entities regime makes it clear that the new regime is available to charities and we understand that, in the case of non-company charities, the SORP-making body can dis-apply the small entities regime, through the status of the Charities SORP as mandatory under charity law. However, not all charitable companies in the UK are required to prepare their accounts under charity law but they must all prepare their accounts under company law. The position under company law is that the Financial Reporting Council (FRC) which sets UK accounting standards cannot require companies eligible to apply the new small entities regime to make disclosures over and above those set out in company law. We would therefore urge the SORP-making body to open discussions with the Department for Business, Innovation and Skills (BIS) and the FRC as to how the small entities regime can be dis-applied for charitable companies. Also, to ensure that the financial reporting regime for charities is absolutely clear and consistent across all forms of charity, it may also be appropriate to request that the FRC does not permit non-company charities to apply the small entities regime.

We refer to the status of the Charities SORP under charity law above. However, this has been undermined by the failure of the Cabinet Office to update the Charities (Accounts and Reports) Regulations 2008 to refer to the two new versions of the Charities SORP which will be in place for periods commencing on or after 1 January 2015 but before 1 January 2016. By weakening the status of the Charities SORPs under English charity law, complexity is added to the accounting framework for charities which apply the 2008 Regulations and their auditors and independent examiners.

In order to achieve a clear and consistent accounting framework for charities it may be necessary to forgo the idea of introducing a statement of cash flows exemption for charities defined as 'larger' by the Charities SORP. We support the proposal to establish a fixed threshold of gross income exceeding £500,000 to apply to charities defined as 'larger' and we support making the existing concessions within the Charities SORP available to charities smaller than this in relation to the preparation of the trustees' annual report and the Statement of Financial Activities.

The proposed definition for a 'larger' charity is being driven by the recent increase in the audit threshold under English charity law to gross income of £1,000,000. We believe that this is too high given the level of public accountability which should be offered by charities to their stakeholders. Fixing the definition of 'larger' at £500,000 will go some way to mitigating our concerns by ensuring that charities above this level do not receive the concessions we refer to above.

We also comment on the content of proposed Update Bulletin 1 which is being issued to deal with amendments to the Charities SORP (FRS 102), as a consequence of proposed 'minor' amendments to company law. We believe that some of the proposals do not quite capture the amendments accurately and we set out alternative amendments with supporting commentary in our response to the consultation question on these matters. Our main concern about the proposed amendments is the prohibition on the use of merger accounting for true mergers involving charitable companies. While we understand that it is company law which is driving this, we do not believe the prohibition is appropriate in this instance.

Our responses to the consultation questions are included in the Appendix.

Any enquiries should be addressed to Christine Scott, Assistant Director, Charities and Pensions, at cscott@icas.com

Responses to consultation questions

The withdrawal of the Charities SORP (FRSSE) and proposals to widen the scope of the Charities SORP (FRS 102)

Question 1

Given the underlying requirement for the accounts to give a true and fair view and the requirements of FRS 102 that result in all charities applying the same underlying recognition and measurement policies, do you agree with the SORP-making body dis-applying the small entities regime proposed in FRED 59? This would have the result that all charities will have to apply the Charities SORP (FRS 102) for reporting periods beginning on or after 1 January 2016. Please give reasons for your response. If your answer is no, what alternate approach would you recommend and why?

Response

We support the option favoured by the Charities SORP-making body which is to require all charities to apply the Charities SORP (FRS 102) in order for their accounts to give a true and fair view. We do not believe the more limited disclosure requirements set out in the small entities regime are suitable for charities, especially in view of the increase in the size threshold for 'small' under this regime. For example:

- Charities are currently required to make detailed disclosures about their reserves by the Charities SORP which are specific to the sector and align with the presentation of the main statements; these could be lost through the application of the small entities regime.
- Disclosures on a number of issues are only encouraged and we are particularly concerned that the disclosure of material uncertainties relating to going concern fall into this category. In theory, the overarching requirement contained in the small entities regime for the accounts to give a 'true and fair view' should mean that going concern issues are always reported in the accounts. This is not guaranteed and is one area among others which could lead to disagreements between charities and their auditor or independent examiner on what constitutes a 'true and fair' view.

The increase in the size threshold for 'small' through the raising of the turnover criteria to £10.2 million and the raising of the gross assets criteria to £5.2 million would capture all but a few UK charities, including those which will, by then, have implemented FRS 102 for their 2015 accounts. Public trust in charities is essential to the sustainability of the sector and we believe that trust would be better maintained through the application of full FRS 102 rather than through the new small entities regime.

However, it's not clear what mechanisms are available to dis-apply the small entities regime:

- to charitable companies; or
- to charities not classified as 'larger' charities by the Charities SORP which wish to take advantage of the proposed exemption from preparing a statement of cash flows.

The FRC specifies in its 'Consultation Overview: FREDs 58, 59 and 60 - Implementation of the EU Accounting Directive' those entities which are entitled to use the small entities regime, subject to size criteria. This paper specifically refers to companies and charities falling within the new small entities regime.

From a company perspective, the small entities regime has statutory backing via amendments to company law. In bringing the requirements of the EU Accounting Directive into UK company law, member states are obliged to limit the disclosures small entities are mandated to provide. This limitation now flows through company law to the small entities regime set out in the new Section 1A to FRS 102.

While the Directive itself scopes out charitable companies, it has been implemented in the UK in a way which seems to include charitable companies. It therefore appears that company law now prohibits the FRC, as the UK accounting standards setter, from mandating charitable companies from making additional disclosures. Therefore, we would support an approach by the Charities SORP-making body to BIS and the FRC to request that charitable companies are not permitted to apply the small entities regime set out in Section 1A of FRS 102.

In respect of England and Wales, the accounts requirements for the individual accounts of charitable companies are contained solely within company law and compliance with the Charities SORP is adopted on the basis that this is necessary for the accounts to give a 'true and fair' view. While we recognise that this practice could go some way to easing the transition from the FRSSE to full FRS 102, the availability of the small entities regime to charitable companies undermines this position and there is no obvious mechanism for the Charities SORP-making body to dis-apply it.

In England and Wales, group accounts must be prepared in accordance with both charity and company law and in Scotland charitable companies must prepare their accounts in accordance with both Scottish charity law and company law (including cross-border charities based in England and Wales but registered with OSCR). This means that the charity law regime for the preparation of accounts for such charities is incompatible with the new small entities regime as charity law requires additional disclosures to be made, largely through the Charities SORP, and company law prohibits any additional disclosures from being mandated.

Taking all these issues together, additional clarity is needed to ensure that the accounting framework for charitable companies from 1 January 2016 is understood by the sector.

The position for non-company charities is different as there are no changes to charity law to accommodate the Directive, meaning that the Charities SORP-making body has clear authority to place stricter requirements on non-company charities than those imposed by UK accounting standards. However, it may be worthwhile requesting that the FRC remove non-company charities from the scope of the small entities regime to avoid any doubt as to the expectation that all charities, preparing 'true and fair' accounts comply with the Charities SORP (FRS 102)

We provide further detail on our point about the statement of cash flows exemption in our response to question 2.

Question 2

Do you agree with the proposal to amend the Charities SORP (FRS 102) so that it requires only larger charities to prepare a statement of cash flows? This would mean that all charities with a gross income exceeding £500,000 (€500,000 in the Republic of Ireland) would have to prepare a statement of cash flows. Please give reasons for your response.

Response

It may be necessary to require all charities applying the Charities SORP (FRS 102) to prepare a statement of cash flows, in order to give sufficient weight to the argument that charitable companies should not be permitted to adopt the new small entities regime. Making this exemption available could weaken the argument that charity accounts must comply with the Charities SORP (FRS 102) in order to give a 'true and fair' view.

If the Charities SORP-making body is still minded to offer an exemption to charities with gross income of less than £500,000, we are not aware of an existing mechanism under FRS 102 which would enable the exemption to be given.

FRS 102 requires all entities applying the full version to prepare a statement of cash flows with only the small entities regime in the new Section 1A to FRS 102 making such an exemption available. As things stand the only way to achieve the exemption appears to be as follows:

The Charities SORP (FRS 102) would need to permit charities which it does not classify as 'larger' to adopt the small entities regime but then limit the concessions available under that regime to the cash flow exemption. Such charities in describing their accounting framework would then need to state that they were applying the small entities regime to the extent permitted by the Charities SORP (FRS 102).

Any complications arising from UK company law, as described in our response to question 1, would need to be considered in the design of this exemption.

Question 3

If your answer to question 2 was 'no', what alternative threshold would you propose for the preparation of a statement of cash flows? Please state what threshold you would propose and give reasons for your response.

Response

As stated above, it may not be feasible to offer an exemption from the preparation of a statement of cash flows.

Draft Update Bulletin 1: Charities SORP (FRS 102)

Question 1

Do you agree with the proposed amendments in draft Update Bulletin 1? If not, why not?

Response

We have a number of comments on the proposed amendments to the Charities SORP (FRS 102) set out in the draft Update Bulletin.

Donated goods and services – proposed changes to paragraph 6.12

The proposed amendments are difficult to understand and do not seem compatible with the changes made to FRS 102.

The amendments to FRS 102 are set out in the table below.

Paragraph 13.3 is amended as follows:

Other than the disclosure requirements in paragraph 13.22. This section does not apply to the measurement of inventories measured at fair value less costs to sell through profit or loss at each reporting date. Inventories shall not be measured at fair value less costs to sell unless it is a more relevant measure of the entity's performance because the entity operates in an active market where sale can be achieved at published prices, and inventory is a store of readily realisable value.

Paragraph 13.4A is amended as follows:

Inventories held for distribution at no or nominal consideration shall be measured at the lower of cost adjusted, when applicable, for any loss of service potential, and replacement cost.

The Charities SORP (FRS 102) requires donated goods to be measured at fair value including those to be distributed to beneficiaries for free or for nominal consideration whereas the equivalent requirement in FRS 102 is for such goods to be measured at the lower of cost and replacement cost. If this approach was taken by the Charities SORP (FRS 102), donated goods would be measured at 'nil'.

It may therefore be appropriate to prepare an amendment to the Charities SORP (FRS 102) to require charities to measure donated goods for distribution for free or for nominal consideration at fair value less any loss of service potential.

Goodwill and intangible assets – proposed changes to paragraph 10.3

We agree that the proposed changes reflect the proposed amendments to FRS 102 on the life of goodwill and intangible assets.

Impairment of assets – proposed changes to paragraph 12.20

We agree that the proposed changes reflect the changes made to FRS 102 to prohibit the reversal of any impairment losses incurred on goodwill. However, we believe that additional amendments are needed to paragraph 12.20 to reflect the full extent of the proposed changes to FRS102 on the impairment of assets.

The amendments to FRS 102 on the impairment of assets include the following:

Paragraph 27.29 is amended as follows:

For all assets other than goodwill, if the reasons for the impairment loss have ceased to apply, an impairment loss shall be reversed in a subsequent period. An entity ...

The proposed changes to FRS 102 link the reversal of the impairment loss directly to the circumstances which initially caused the loss. This link prevents accounting for the reversal of impairment losses being confused with unrealised gains on revaluation. The Charities SORP (FRS 102) should be amended accordingly.

Goodwill on consolidation – paragraphs 24.32 and 24.39

We agree that the proposed changes reflect the proposed amendments to FRS 102 on the life of acquired goodwill in the accounts of a charitable group.

Charity mergers – paragraphs 27.4 and 27.4A

We are concerned about the proposed amendments to module 27 of the Charities SORP (FRS 102) on the prohibition of merger accounting by charitable companies for two reasons:

- First, while we understand the amendments are driven by a proposed change in company law, we question whether a prohibition on the use of merger accounting is appropriate. While charities may have strong financial reasons for entering a merger, they are not doing so for commercial gain. Therefore, a charity merger is fundamentally different from a merger between profit-distributing entities meaning that the fair value approach to assets and liabilities required for acquisition accounting is difficult to justify on the basis of the legal form of one of the participants alone.

In the case of charitable companies involved in mergers there could be a strong argument for applying a 'true and fair' override. This could be justified on the basis that merger accounting is still considered appropriate for, and must be applied by, business combinations not involving charitable companies when the criteria are met.

- Second, the way the amendments are drafted may lead charitable companies to believe that this is a change of greater significance than it may actually be. This is on the grounds that company law still permits merger accounting for group reconstructions and the Charities SORP (FRS 102) continues to require it. Module 27 of the Charities SORP (FRS 102) should include amendments which make this clear, in the event that the concerns we set out in our first point above cannot be addressed.

We set out below the categories of business combination likely to be relevant to charities, including commentary on how the proposed company law change would impact on the sector:

- Normal acquisition made on a commercial basis - acquisition accounting applies to the preparation of group accounts and the proposed company law change would have no impact.
- Combination which is in substance a gift - a modified form of acquisition accounting applies to the 'acquiring' entity and the company law change would have no impact.
- True merger – merger accounting would no longer be possible in relation to the preparation of group accounts if a standalone charitable company or parent charitable company is party to a combination entered into with a third party. Otherwise merger accounting must be applied.
- Group reconstruction (including change of legal form) – merger accounting must be applied by entities which are already part of a group and the company law change would have no impact.

The FRC's Financial Reporting Exposure Draft 59 which deals with the 'minor amendments to FRS 102' contains the following comments from the Accounting Council (paragraph 24e, page 47, paragraph 24e), which supports our comments on group reconstructions:

"The new Accounting Directive only permits companies to apply merger accounting for group reconstructions and the Accounting Council advises that this amendment is made to ensure merger accounting is not applied by public benefit entities that are companies where not permitted in law."

The Accounting Council's comments also indicate that a change should be made to FRS 102 which prohibits charitable companies from using merger accounting in instances which would otherwise be a true merger. Should there be no alternative to prohibiting merger accounting for charitable companies in FRS 102 and the Charities SORP (FRS 102), we believe that the proposed amendments to the SORP could be clearer. Rather than adding a criterion to paragraph 27.4 which states that merger accounting must be applied when 'It is permitted by the statutory framework', it may be more helpful to state something along the lines of the following within paragraph 27.4:

“If a standalone charitable company or a parent charitable company enters a business combination with a third party, merger accounting is prohibited for that combination and an acquirer must be identified.”

Paragraph 27.4 could then be further amended as follows:

“Subject to the above....A charity combination must be accounted for as a merger if all of the following criteria apply.”

There would then be no need to add the criterion ‘It is permitted by the statutory framework’.

Paragraph 27.4A may then be helpfully redrafted to explain the position with regard to group reconstructions and any further explanations which the Charities SORP-making body believe are still required.

In paragraph 27.4A, the words ‘be able to apply merger accounting’ should be amended to ‘be required to use merger accounting’, if needs be.

Related party disclosures

FRS 102 proposes the following amendment which is not covered by draft Update Bulletin 1:

Paragraph 32 (b). An entity is related to a reporting entity if any of the following conditions apply:
(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

Paragraph 9.15 of the Charities SORP (FRS 102) includes a cross-reference to the glossary of terms and a full list of persons or entities deemed to be related parties. Therefore, consideration should be given to including this additional item to the list of related parties.

Question 2

Do you agree with the proposal to amend the definition of ‘larger’ charities so that it is no longer linked to the statutory audit threshold for accounts prepared under the Charities SORP (FRSSE) or Charities SORP (FRS 102) for reporting periods ending on or after 31 March 2015? If not, why not?

Response

We support the proposals to amend the definition of ‘larger’ charities under the Charities SORPs from 31 March 2015. This change will make the threshold for the availability of concessions consistent and much clearer.

We agree that it is necessary to introduce the definition for periods commencing on or after 31 March 2015 to mitigate the impact on charity reporting of the increase in the charity law audit threshold for England and Wales, which ICAS strongly opposes. However, charities with 31 March 2015 year-ends will be complying with the Charities SORP (2005) (as amended) in the first instance so the scope of proposed Update Bulletin 1 will need to be extended to implement the change for the intended accounting period. However, we recognise that many charities with 31 March 2015 year-ends will have filed their accounts before the Update Bulletin is issued.

The definition of ‘larger’ in the new SORPs is linked to the charity audit threshold for a charity’s particular form. However, charitable companies, in England and Wales, which exceed the company law audit threshold, are outside the scope of the charity law audit regime. Therefore, the change in the definition of ‘larger’ is a helpful clarification for charitable companies in this position and will ensure their compliance with the more detailed reporting requirements of the new SORPs.

With regard to the Charities SORP (2005) (as amended), Appendix 5 refers to concessions available for charities below the ‘statutory’ audit threshold. Therefore, it is easier to interpret this as being a reference to the company law audit threshold where this is the relevant threshold. We believe this is the case even though Appendix 5 cross-refers to thresholds set out in Appendix 4 which contains charity law audit thresholds only.

18 September 2015

Charities SORP
CIPFA
77 Mansell Street
London
E1 8AN

Our Ref: PF/JC

Dear Sirs

Consultation on Draft Update Bulletin 1 and Withdrawal of the FRSSE SORP

We welcome the opportunity to comment on the Consultation on Draft Update Bulletin 1 and Withdrawal of the FRSSE SORP.

Crowe Clark Whitehill LLP are a leading audit and advisory firm in the Not for Profit Sector.

Please do not hesitate to contact me if I can provide any further information or explanations on the attached response.

Yours sincerely



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Response to Draft Update Bulletin 1

Question 1 - Do you agree with the proposed amendments in draft Update Bulletin 1? If not, why not?

We agree with the changes except for the change to the definition of larger charities. Our response to that question is set out below.

Question 2 - Do you agree with the proposal to amend the definition of larger charities so that it is no longer linked to the statutory audit threshold for accounts prepared under the Charities SORP (FRSSE) or Charities SORP (FRS 102) for reporting periods ending on or after 31 March 2015? If not, why not?

We do not agree with the proposal.

We think the proposal to amend the definition of larger charities in the SORP glossary so that it does not refer to the statutory audit threshold is quite understandable but that the wording as drafted will unfortunately result in a disproportionate regulatory burden that will thus be imposed by the SORP on the numerous charities in England & Wales within the size-band of £500k to £1m gross income now that they are no longer required by law to prepare group accounts. We do not agree that because “there are no current plans to change the audit threshold for Scottish and NI” the SORP can justify denying to charities in England & Wales within this size-band the financial reporting reliefs that it will continue to offer to those below the £500k threshold. The UK government’s commitment to deregulation and to proportionate regulation would in effect be contradicted in England & Wales by the proposed freezing at £500k across all jurisdictions (or 500k euros in Eire) of the SORP’s gross income threshold for “larger” charities that are required to comply with the SORP’s standard format for the SoFA and to make additional “public interest” disclosures in the accounts notes and the trustees’ annual report.

The case for doubling the £500k income threshold for the more stringent regulatory regime for charities in England & Wales was well argued in the Hodgson Report, based on considerable research in the charity sector, and should not be regarded as applicable only to the audit requirements of the Charities Act 2011. It is different for Scotland and N.I., whose charity sectors are far smaller in financial terms. For this reason we think a more proportionate threshold for defining a “larger” charity in England & Wales would be £1m gross income in line with the group-accounting threshold (which should be kept under review for updating the SORP as the sector continues to grow), or - for charities with more than £3.26m gross assets - £250k gross income (the limit for cash-accounting by non-company charities) to ensure that low-income charities with substantial invested endowment capital must account no less comprehensively under the Charities SORP in view of the greater public interest in them..

Response to consultation on withdrawal of the FRSSE SORP

Question 1 - Given the underlying requirement for the accounts to give a true and fair view and the requirements of FRS 102 that result in all charities applying the same underlying recognition and measurement policies, do you agree with the SORP-making body disapplying the small entities regime proposed in FRED 59? This would have the result that all charities will have to apply the Charities SORP (FRS 102) for reporting periods beginning on or after 1 January 2016. Please give reasons for your response. If your answer is no, what alternate approach would you recommend and why?

Yes. Given the changes to the regulatory and financial reporting regime we believe this to be the most appropriate response. The specific needs of charity reporting mean that it would not be appropriate to apply the small entities regime proposed in FRED 59 to UK charities. Maintaining a separate SORP for small entities in the absence of an underlying reporting framework, such as the FRSSE is not in our opinion a feasible option.

Question 2 - Do you agree with the proposal to amend the Charities SORP (FRS 102) so that it requires only larger charities to prepare a Statement of Cash Flows? This would mean that all charities with a gross income exceeding £500,000 (€500,000 in the Republic of Ireland) would have to prepare a Statement of Cash Flows. Please give reasons for your response.

We agree that only 'larger charities' should be required to prepare a Statement of Cash Flows in their annual accounts.

However, we do not agree that 'larger charity' should be defined as a charity with gross income exceeding £500,000. Our further comments on this point are set out above.

Question 3 - If your answer to question 2 was no, what alternative threshold would you propose for the preparation of a Statement of Cash Flows? Please state what threshold you would propose and give reasons for your response.

See answer to Q2 above

CONSULTATION ON WITHDRAWAL OF THE CHARITIES SORP (FRSSE) AND DRAFT UPDATE BULLETIN NO 1

Charity Commission/OSCR Joint-SORP-Making Body Consultation – June 2015

Submission by Professor Gareth G Morgan

Sheffield Hallam University

September 2015

Submitted to charities.sorp@cipfa.org

1. About myself

- 1.1 I am Professor of Charity Studies and former Leader of the Centre for Voluntary Sector Research at Sheffield Hallam University. I am also course leader for the University's MSc in Charity Resource Management which can enable students to achieve the ICAEW Diploma in Charity Accounting and/or the ACIE Charity Accounting Certificate.
- 1.2 Over the last 20 years I have led a wide range of research – in some cases with colleagues from other universities – on issues of charity regulation and accounting. Much of this has been focussed on small/medium charities – generally those subject to independent examination or at the smaller end of the audit band.
- 1.3 My work has spanned all three UK jurisdictions, and I am also currently involved as a member of the working party advising the Charities Regulation Authority (in Ireland) on the preparation of charity accounting regulations under the (Irish) Charities Act 2009. My research has included a major study for the Charity Commission for England and Wales (CCEW) on public benefit reporting in trustees' annual reports¹ and I have also led research for the CCAB on the possibility of international standards for financial reporting by not-for-profit organisations². I am also the author of a book which is widely used as an introduction to charity accounting by smaller charities.³
- 1.4 Outside the university I also act as professional adviser to a number of charities, primarily on accounting and regulatory issues, through The Kubernesis Partnership LLP and support a number of accountants by providing a forum for discussion of technical issues in charity accounting. I also act as independent examiner – including some charities which have relatively complex accounts whilst falling within the IE band.

¹ Morgan, GG & Fletcher, NJ (2011). *Public Benefit Reporting by Charities: Report of a Study Undertaken by Sheffield Hallam University on behalf of the Charity Commission For England And Wales* (RS25)

www.gov.uk/government/publications/public-benefit-reporting-by-charities-rs25

² Crawford, L; Morgan, GG et al (2014). *International financial reporting for the not-for-profit sector: A study commissioned by CCAB - Final Report* www.ccab.org.uk/documents/IFRNPO-FullReport-Final-07022014.pdf

³ Morgan, GG (2014) *The Charity Treasurer's Handbook* 4th edn (London: Directory of Social Change)

2. Applicability of Response and Terminology

2.1 In this document I am responding to both consultations issued by the joint SORP-making body, i.e.

- Invitation to Comment – Withdrawal of the Charities SORP (FRSSE)
- Invitation to Comment – Draft Update Bulletin 1

2.2 However, in order to comment meaningfully on the impact of these proposals, I feel it is important to consider *four separate bands of charities* in terms of the *current* accounting requirements.

2.3 I will refer to the following bands of charity accounting requirements. For clarity I mention the current thresholds in England/Wales (EW) and in Scotland (SC) – though my comments take on board that the new SORP will also apply in Northern Ireland and the Republic of Ireland once new regulations take effect. (Also, for simplicity I am only mentioning income thresholds though I realise assets and employees are also relevant in some cases.)

- Band 1: Charities eligible to prepare receipts and payments (R&P) accounts (up to £250K income for non-company charities in EW & SC).
- Band 2: Charities required to prepare accruals accounts in accordance with SORP but taking account of the simplifications permitted for charities below the audit threshold (up to £1m EW / £500K SC) – at present eligible to apply the FRSSE SORP
- Band 3: Charities over the audit threshold but still within the “small” definition in company law (up to £6.5m EW/SC⁴) – at present eligible to apply the FRSSE SORP
- Band 4: The largest charities above this level, required to apply the FRS102 SORP.

2.4 The issues raised by the consultation are directly relevant to charities whose accounts fall in Band 2 or Band 3 – what we might call “FRSSE charities”. It will also affect many in Band 1 which have elected to prepare accruals accounts even though they are non-companies with income < £250K.

2.5 *The vast majority of charities are thus affected.* All those whose accounts starting in 2015 will follow the FRSSE SORP are directly affected: this will include the vast majority of those in Bands 2 and 3 plus a good number in Band 1. So this consultation has huge implications. Only the small number of charities in Band 4 and those in Band 1 using R&P are unaffected.

3. Comments on the Consultation Process

3.1 I was disappointed by a number of aspects of the consultation process, which in my view, has made it relatively hard for the medium-sized charities that will be directly affected by these changes – primarily those in Bands 2 and 3 – to understand what is proposed and hence to respond to the consultation.

3.2 Whilst I accept that the SORP Committee had no real choice but to withdraw the FRSSE SORP, the implications of this on medium-sized charities are enormous. It is essential that the change is managed in a way that *does not make matters* worse for these charities.

3.3 For charities in Bands 2 and 3, the changes proposed in this consultation are, in my view, *at least as big as the switch from SORP 2005 to the SORPs 2015*. But I feel the SORP

⁴ Increasing to £10.2m from 1 Jan 2016.

Committee could have done much more to publicise the significance of these issues and encourage engagement with this consultation. I believe there are very few charities in these bands where the staff and trustees, or even their accountants, understand clearly what is proposed.

- 3.4 I also think the consultation documents were extremely confusing. It is difficult for people to get the overall picture. Three separate documents were published, with no simple explanation of the relationship between them. The consultation questions which greatly overlap with each other are split across two documents. It is also very unhelpful that across closely related consultations the questions are not separately numbered – there are two separate Q1s and Q2s. Compared to the consultation in summer 2013 when the new SORP was issued as an exposure draft with a great deal of helpful commentary and publicity, the present consultation is very confusing.
- 3.5 Some of the consultation questions are themselves extremely confusing and seemed designed to make it very hard for respondents to understand the issues and respond clearly. For example, question 1 shown immediately below is 97 words and conflates several issues. This would have been much clearer if broken down into two or three separate questions.
- 3.6 The issue is further compounded by the fact that it is based on the *draft* proposed changes to FRS102 in FRED59, rather than the final changes published by the FRC in July 2015.⁵ This makes it almost impossible for anyone who has not been involved in the FRED59 consultation to respond to this consultation. Given that the FRC published the resultant changes to FRS102 in July 2015, it would have been clearer if the SORP-making body had waited until then to issue this consultation – even if this had meant a slightly tighter timescale in autumn 2015. The consultation documents could then have referred directly to FRS102 as amended. It would also have enabled the Draft Update Bulletin to take account of the FRS102's amended directions on merger accounting.
- 3.7 I also feel that in many respects the stance of the consultation documents is unfortunate. In these documents the SORP-making body appears to be moving away from the approach of “thinking small” and trying to avoid unnecessary financial reporting requirements for small and medium sized charities.

4. Withdrawal of the Charities SORP (FRSSE) – Response to Consultation Questions

Question 1 Given the underlying requirement for the accounts to give a true and fair view and the requirements of FRS 102 that result in all charities applying the same underlying recognition and measurement policies, do you agree with the SORP-making body disapplying the small entities regime proposed in FRED 59? This would have the result that all charities will have to apply the Charities SORP (FRS 102) for reporting periods beginning on or after 1 January 2016. Please give reasons for your response. If your answer is no, what alternate approach would you recommend and why?

- 4.1 No, I do not agree with the proposals in this question.

⁵ Financial Reporting Council (July 2015) *Amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland – Small entities and other minor amendments* – hereafter referred to as *FRS102 2015 Update*.

- 4.2 Of course I accept the premise that charity accounts prepared on an accruals basis must give a true and fair view, but I consider that in proposing a way forward on these lines, the SORP-making body is proposing to subject vast numbers of charities in Bands 2 and 3 into a much more demanding regime of financial reporting than is required by the FRC.
- 4.3 I think it is widely accepted that the Charities SORP should *only add* to the requirements of general purpose financial reporting standards in order to address issues that are manifestly charity-specific. By proposing that charities cannot make use of the simplifications offered by Section 1A of FRS102 which are available to other entities, the SORP Committee is proposing changes from the FRSSE SORP which go much further than needed, and which will result in significant additional burdens for medium sized charities.
- 4.4 Whilst the Section 1A simplifications in FRS102 arise from the EU Company Law Directive (and hence are not mandatory for member states to apply to entities such as charities) the Accounting Council's advice to the FRC was that the simplifications should *not* be restricted solely to companies and hence that "Section 1A should apply to all entities meeting the relevant criteria".⁶
- 4.5 Moreover, the Accounting Council's advice to the FRC is simply that a small entity should be *encouraged* to consider all the disclosures that would be needed in the absence of Section 1A.⁷ This principle should be reflected in the SORP which should simply *encourage* such additional disclosures, but not make them mandatory except in Band 4. There are many instances in the SORP at present where certain reporting practices are encouraged, so I do not consider this approach raises any new problems.
- 4.6 So, for the SORP-making body to prevent charities taking advantage of this is a serious step. It would amount to a major increase in the regulatory burden on charities in Band 2 and Band 3.
- 4.7 Given the Government's desire to reduce regulatory burdens on charities it is difficult to see in England & Wales how the Charity Commission could persuade the Minister for the Cabinet Office to amend the Charities (Accounts and Reports) Regulations 2008 to implement a new Charities SORP which imposed much tougher reporting requirements than previously. Similarly, in Scotland, the removal of the FRSSE SORP option from the Charities Accounts (Scotland) Amendment (No. 2) Regulations 2014 could present similar difficulties unless it was clear that the FRS 102 SORP (as amended) was not substantially more demanding than the previous regime.
- 4.8 So, following the principle of "think small" which has been rightly adopted in the 2015 SORP, I consider that the right way forward would be for each module of the SORP to be structured as follows:
- (a) Essential requirements for all charities – following FRS102 principles but making maximum use of Section 1A (Band 2 – and Band 1 if applying SORP)
 - (b) Additional requirements for auditable charities – but still making maximum use of Section 1A (Band 3)
 - (c) Requirements which apply to the very largest charities where FRS102 must be applied without the Section 1A simplifications (Band 4).

⁶ FRS 102 2015 Update p67, paras 15-16.

⁷ FRS 102 2015 Update p67, paras 18.

The requirements in (b) and (c) could be encouraged as good practice for smaller charities, particularly where additional disclosures could assist in giving a true and fair view, but should not be mandatory.

The current structure of each module of the SORP is well drafted in “starting small” and then adding requirements for larger charities. So I believe that only minor changes will be needed to achieve this three-tier approach.

Question 2 Do you agree with the proposal to amend the Charities SORP (FRS 102) so that it requires only larger charities to prepare a Statement of Cash Flows? This would mean that all charities with a gross income exceeding £500,000 (€500,000 in the Republic of Ireland) would have to prepare a Statement of Cash Flows. Please give reasons for your response.

- 4.9 I do not agree with the proposal to require all charities over £500,000 or €500,000 to prepare a cash flow statement. This threshold is far too low.
- 4.10 Even to impose the requirement on all auditable charities would be excessive. FRS 102 *Section 7 Statement of Cash flows (as amended)*⁸ states “A small entity is not required to comply with this section.” In this context “small” is as defined in company law – it covers all entities in Bands 1, 2, and 3.
- 4.11 The SORP (as amended) should directly reflect the requirements of FRS 102 and *only* require a Statement of Cash Flows for charities in Band 4.
- 4.12 In my experience the circumstances when the cash flow statement is useful in charity accounts are very rare and it should certainly *not* be mandatory except in Band 4. Because the cash flow statement does not distinguish the funds of the charity, and because it only gives a historic perspective, it has little value for users of charity accounts. There may be occasions when charities in Bands 1-3 would find it helpful to include a cash flow statement in their accounts, but it should certainly be optional.

Question 3 If your answer to question 2 was no, what alternative threshold would you propose for the preparation of a Statement of Cash Flows? Please state what threshold you would propose and give reasons for your response.

- 4.13 I would propose that the threshold should be the point at which a charity ceases to be “small” within the thresholds in company law, thus directly reflecting the requirement in FRS 102. In other words, the Statement of Cash Flows should *only* be mandatory for charities in Band 4.

5. Draft Update Bulletin 1 – Response to Consultation Questions

Question 1 Do you agree with the proposed amendments in draft Update Bulletin 1? If not, why not?

- 5.1 Insofar as the proposals in the Draft Update Bulletin directly reflect changes in FRS 102 I have no specific concerns (although the mergers section will need updating further to take account of further changes made by the FRS 102 2015 Update).

⁸ FRS 102 para 7.1B as inserted by FRS 102 2015 Update.

- 5.2 However, in my view much more extensive amendments to the SORP are needed, to allow charities in Bands 1-3 generally to take accounts of the reduced disclosures permitted by Section 1A of FRS 102 and the limited requirements for a Statement of Cash Flows in Section 7 (as amended).
- 5.3 As a concrete example of this point, the requirements for disclosure of fixed assets in module 10 of the FRS 102 SORP would appear to be rather simpler if the charity is allowed to follow the principles in paras 1AC.12 to 1AC.17 of FRS 102 as amended by the 2015 Update.
- 5.4 There may be some exceptions to these simplifications because of charity specific issues. I do not have any concern with requiring charities to produce a SOFA rather than the abridged profit and loss account in para 1AB.3 of FRS 102 as amended. Likewise, para 24 of the FRS 102 SORP *already* makes the point that charities may not opt out of the disclosure of trustee and staff remuneration and related party transactions simply on the grounds that FRS 102 may permit such exemptions. It is entirely reasonable for the SORP to prohibit certain simplifications which FRS 102 would otherwise allow if the use of these simplifications would lead to inadequate disclosure of issues which have a clear charity-specific nature. But *only* where there is a clear justification on those lines should any of the Section 1A simplifications be excluded.
- 5.5 So – the fact that the Draft Update Bulletin does not (as yet) amend the FRS 102 SORP to permit the FRS 102 Section 1A simplifications – means that, in my view, the Update Bulletin needs substantial further content in relation to many modules in order to allow these concessions. See my comments above (paras 4.1 to 4.8).
- 5.6 As noted above, I fully accept that charities in Bands 1-3 will sometimes need to include additional disclosures beyond the Section 1A simplifications in order to give a true and fair view – but the Update Bulletin should simply draw attention to this possibility, rather than seeking to impose additional disclosures on all charities in all cases.
- 5.7 Likewise in relation to the Statement of Cash Flows, the Update Bulletin should amend module 14 of the SORP to make clear that the Statement of Cash Flows is only mandatory for charities in Band 4. See my comments above (paras 4.9 to 4.13).
- 5.8 On that basis it would also be clearer to move module 14 out of the *Core Modules* and into the modules in *Selection 1*.
- 5.9 Even once these issues are addressed, a SORP which is extensively amended on these lines by an Update Bulletin will, in practice, be almost impossible to use. So, notwithstanding the publication of the new 2015 SORPs in summer 2014, the FRS 102 SORP will need to be re-issued with these changes included.

Question 2 Do you agree with the proposal to amend the definition of larger charities so that it is no longer linked to the statutory audit threshold for accounts prepared under the Charities SORP (FRSSE) or Charities SORP (FRS 102) for reporting periods ending on or after 31 March 2015? If not, why not?

- 5.10 No, I do not agree with this proposal – and hence I do not agree with para 2.14 of the Draft Update Bulletin.

- 5.11 The concept of an auditable charity being subject to additional demands, as first used I believe in SORP 2005 (rather than stating particular financial thresholds) was very clear. I personally preferred the term “auditable charity” rather than “larger charity” because the latter term means different things to different people. But given that the 2015 SORPs define a larger charity in terms of the audit requirement (Glossary, page 184) that is clear and I suggest the definition is best left unchanged.
- 5.12 It seems to me very clear and simple that additional reporting demands should take effect at the same threshold as where a charity is required to move from independent examination to audit.
- 5.13 I agree this will lead to different levels of reporting requirements between the different jurisdictions of the UK and Ireland, but that is already the case on other issues and in any case the thresholds would never be precisely aligned between the Republic of Ireland and the UK due to the currency differences. In my view it is much clearer for *preparers and users* of charity accounts if the additional reporting requirements are triggered when a charity exceeds the applicable audit threshold.
- 5.14 Moreover, if the SORP-making body were to move this threshold *down* to £500,000 in England and Wales when it has stood at £1M for the last year, this would amount to a substantial increase in the regulatory burden on charities, which I think the Government would not be able to justify when implementing the SORP in regulations.
- 5.15 Where a charity is registered in more than one jurisdiction then it is perfectly reasonable that the additional reporting requirements are triggered at the lowest audit threshold applicable.
- 5.16 However, as indicated above, the SORP needs a clearer terminology to distinguish the largest charities (Band 4 in my terminology). Terms such as “smaller” and “larger” are not very clear when there are three or more levels. Perhaps those in Band 4 should be described as “very large”?

6. A Clearer, Kinder Way Forward

- 6.1 Given the circumstance in which the SORP Committee finds itself, my preferred way forward would be as indicated in my comments above. I consider this approach would be fully compatible with FRS102 and with the requirement to give a true and fair view.
- 6.2 So this is the message that I would hope the SORP-making body will be able to give to charities, once the proposals are revised taking account of the concerns raised above:
- *We know that you are still in the process of changing over from SORP 2005 to the 2015 SORPs.*
 - *However, we are very sorry to say that the FRSSE SORP will have to be phased out for financial years starting from 1 Jan 2016 onwards because the FRSSE itself is going.*
 - *We appreciate many medium-sized charities will be using the FRSSE and the FRSSE SORP for their accounts this year as in several respects it is simpler than applying FRS102 and the FRS102 SORP.*

- *In future, this means all charities will have to follow the FRS102 SORP – but this is not as hard as you might think, because we have made things easier.*
- *The good news is that FRC has made some significant changes to FRS102 to make things simpler for organisations in the former FRSSE band and the SORP Committee is taking account of these in making updates to the FRS102 SORP.*
- *So the net effect is that whilst you may have to adopt some new measurement rules, in most respects your accounts under the FRS 102 SORP (as revised) will be no more complex than if you had been able to keep to the FRSSE SORP.*

6.3 As a final suggestion, since there will no longer be a FRSSE SORP, please can the term “FRS 102 SORP” be phased out? It is meaningless to non-accountants. It would be much clearer for everyone if the FRS 102 SORP as revised is simply known as *SORP 2016*.

7. Conclusion

I trust these comments are of help.

*Gareth G Morgan
18 September 2015*

Response to Draft Update Bulletin 1

This response to the draft update Bulletin 1 is prepared on behalf of Sayer Vincent LLP by Joanna Pittman FCA DChA, Partner. Sayer Vincent is a firm of accountants and auditors that specialises in charities. We work with over 300 charities each year.

Question 1 - Do you agree with the proposed amendments in draft Update Bulletin 1? If not, why not?

We agree with the proposed amendments in draft Update Bulletin 1 with the exception of the proposals on merger accounting. We consider that merger accounting should be permissible for genuine mergers that involve charitable companies. The legal form of the entity should not drive the accounting treatment.

Question 2 - Do you agree with the proposal to amend the definition of larger charities so that it is no longer linked to the statutory audit threshold for accounts prepared under the Charities SORP (FRSSE) or Charities SORP (FRS 102) for reporting periods ending on or after 31 March 2015? If not, why not?

We agree with the proposal to de-link the definition of larger charities from the audit threshold. We accept there is no real option but to de-link these two, now that there are different audit thresholds in England /Wales and Scotland.

However, we disagree with the proposal to define a large charity by the Scottish audit threshold. This will require charities in England and Wales who are under the audit threshold to comply with the SORP requirements of larger charities.

We would prefer the definition of a larger charity to match the England and Wales audit threshold of £1million income. This would ensure that the additional SORP requirements of “large charities” would only be relevant to charities that require an audit, whichever country they are registered in.

Response to consultation on withdrawal of the FRSSE SORP

This response to the invitation to comment on the proposal to withdraw the FRSSE SORP is prepared on behalf of Sayer Vincent LLP by Joanna Pittman FCA DChA, Partner. Sayer Vincent is a firm of accountants and auditors that specialises in charities. We work with over 300 charities each year, providing audit, independent examination and support with the preparation of the accounts.

Question 1 - Given the underlying requirement for the accounts to give a true and fair view and the requirements of FRS 102 that result in all charities applying the same underlying recognition and measurement policies, do you agree with the SORP-making body disapplying the small entities regime proposed in FRED 59? This would have the result that all charities will have to apply the Charities SORP (FRS 102) for reporting periods beginning on or after 1 January 2016. Please give reasons for your response. If your answer is no, what alternate approach would you recommend and why?

Yes, we support the proposal to require all charities to apply the Charities SORP (FRS102). The FRS102 SORP incorporates a two tier requirement of disclosures for all charities vs larger charities. The discussion point is therefore what constitutes a larger charity under the SORP.

Question 2 - Do you agree with the proposal to amend the Charities SORP (FRS 102) so that it requires only larger charities to prepare a Statement of Cash Flows? This would mean that all charities with a gross income exceeding £500,000 (£500,000 in the Republic of Ireland) would have to prepare a Statement of Cash Flows. Please give reasons for your response.

Yes, we support the proposal that only “larger charities” should be required to prepare a statement of cash flows.

We disagree with the proposed threshold for larger charities being gross income of £500,000. We disagree with the proposal to define a large charity by the Scottish audit threshold. This will require charities in England and Wales who are under the audit threshold to comply with the SORP requirements of larger charities.

Question 3 - If your answer to question 2 was no, what alternative threshold would you propose for the preparation of a Statement of Cash Flows? Please state what threshold you would propose and give reasons for your response.

We would suggest the definition of a larger charity should match the England and Wales audit threshold of £1million gross income. This would ensure that the additional SORP requirements of “large charities”, including the requirement to prepare a statement of cash flows, would only be relevant to charities that require an audit, whichever country they are registered in.

