

Feedback from Engagement Strands on Tiered Reporting

Note that this summary is based on the engagement strands that provided feedback (see also main report section 1)

Tables: Commentary made by the Engagement Strands (or Members) on the suggested Tiers

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| 1. Engagement Strand: Trustees |
| A. Number of Tiers |
| <ul style="list-style-type: none"> No conclusive decision presented see C and D below. |
| B. Thresholds for Tiers |
| <ul style="list-style-type: none"> The engagement strand indicated that threshold should be raised to remove the larger number of small charities from the SORPs full requirements. A figure of £1m may be easier to understand. There may need to be other criteria such as risk and operational complexity to ensure the right level of disclosure. A decision tree or a flow chart can be used. The strand accepts receipts and payments may not be sufficiently robust for some users, but it may be more easily understood and so easier to prepare. It encourages the SORP-making body to investigate the appropriateness of FRS 102A and FRS 105 or a reduced regulatory regime. The SORP should adopt a principles-based framework which is proportionate to the 'size of the sector', the income groups of different charities and the resources and knowledge available to produce the Trustees Annual Report and accounts. |
| C. What should be in a reduced framework/reporting tier? |
| <ul style="list-style-type: none"> The strand recommends a building block approach. Such an approach would mean the smaller charities would be required to make basic disclosures about the financial and non-financial transactions and balances. Further building blocks are required when the charity meets the agreed criteria which takes into account income (over a three-year period), risk exposure and operational complexity. The highest building block should be for 'supersized' charities that could be akin to public interest entities. There may be benefits to recalibrating the disclosures to ensure that the charity demonstrates the public benefit it provides without undue burden. |
| D. Other comments |
| <ul style="list-style-type: none"> The strand recognises that the more options offered may lead to confusion, but a building blocks approach and decision tree can be used. The strand reiterated its comments on the SORP being written with the lay trustee in mind. Whether a further tier to cover very small charitable companies is required and whether the tiers should be better aligned with Companies Act thresholds requires further consideration. |

- The SORP indicates that charities can apply Section 1A of FRS 102, which has extensive disclosure exemptions for companies qualifying as 'small' under company law through limiting the notes a company must prepare and offering a concession from preparing a statement of cash flows. But in practice other provisions of the SORP, and the requirement to produce 'true and fair' accounts, mean that Section 1A is not effective to charities.
- Charities cannot apply FRS 105 which can be applied to small companies meeting certain size criteria. Despite their much-reduced disclosure and fixed accounting policies, micro-entity accounts are deemed to give a 'true and fair' view and offer wider concessions than Section 1A of FRS 102, but this framework is not generally considered suitable for charities due to the status of charities and their accountability to the public.
- There is no receipts and payments option for charitable companies.
- Retaining a single SORP is seen as important in applying consistent standards in a proportionate way. Extending concessions for smaller charities within a single SORP may therefore be a preferred option, although FRS102 may limit the scope for this.
- A 3-tier approach recognises that the ROI threshold for receipts and payments accounts, should one be introduced, is expected to be a gross income of €250,000 or less.
- To help those under £/€1m it might mean fewer disclosure requirements, more templates, or examples and less "choice" i.e., make compliance mandatory and simple – it could be argued that too much choice makes it more complicated. The option of giving charities 'choices' within the SORP has not demonstrably improved charity reports and accounts (as detailed in CC research) and the choices available have given rise to more confusion by trustees unfamiliar with annual report and accounts production.
- Maintain existing concessions only – some simplification may arise for all charities (including smaller charities) from revisions to the SORP arising from this process.

2. Engagement Strand: **Smaller Charities and Independent Examiners**

A. Number of Tiers

- There is no unanimity amongst the Smaller Charities and Independent Examiners engagement strand members.
- A majority of members would support a combination of raising the threshold for the definition of smaller charities to £1m (a modified two tiers approach), improved signposting of concessions and a greater use of examples.
- There remains support in the strand for an option which introduces concessions for smaller charities below £250k and between £250k and £1m.

B. Thresholds for Tiers

- See above – This option would increase the number of charities being able to take advantage of the current concessions. But this would need to be supported by other changes eg references were made to there being no indication that the audit threshold in Northern Ireland and Scotland would increase.

C. What should be in a reduced framework/reporting tier?

- The Smaller Charities and Independent Examiners engagement strand indicated that the £1m threshold would take advantage of the existing tier structure in the SORP and raising

the threshold for this would have the advantage of making it easier to draft the SORP in a way in which the existing concessions would be clearly signposted. However, suggestions were made for a shorter list of notes.

D. Other comments on thresholds/tiers:

- **Raising the threshold definition of smaller charities to £1m** – this option would increase the number of charities able to take advantage of the current concessions. There would be no benefit to charities under £500k.
- **Introduce additional concessions for smaller charities ie £1m to £250k and below £250k**- Introducing a further tier would add more complexity to the SORP. With this added complexity independent examiners might potentially adopt the higher of the two tiers for templates/software reducing the take up of concessions
- **Introducing a new SORP for small charities** – while maintaining a single SORP is preferable it may be useful. If Section 1A of FRS 102 is not modified, this may limit the scope for change and this option may be considered at a future stage.
- **Encourage small charitable companies to covert to Charitable Incorporated Organisation status.** This will take small companies out of the remit of SORP and the tiered approach in FRS 102 if they are eligible for receipts and payments accounting.
- **Recommendation to improve signposting of concessions available, greater use of natural classification and shorter notes and default for smaller charities.** This would be supported by 'smaller charities first' as the default for the accounts of charities with an income under £1m with no complex transactions. This also might be supplemented by a model set of accounts. Simplification of a Trustees' Annual Report could also be achieved without a loss of transparency.

3. Engagement Strand: **Larger Charities**

A. Number of Tiers:

- The majority of engagement strand members favoured a three-tiered approach within a single revised SORP.

B. Thresholds for Tiers:

- There were differing views about the setting of thresholds. The feeling was that an approach of under £250k, between £250k and £1m and over £1m 'seemed to make sense'. But thresholds are not the only metric.
- An approach might be used which uses revenue, assets and number of employees [rather than just an income threshold].

C. What should be in a reduced framework/reporting tier?

- No specific comments appear to be made.

D. Other comments on thresholds/tiers:

Options considered were:

- **Maintain existing concessions only** – some simplification may arise for all charities. However, this does not meet the overall aim for simplifying the accounts for smaller charities and would not be consistent with the observations of the SORP Committee.
- Set aside existing constraints imposed by accounting standards and **introduce a 2-tiered approach with significant concessions for charities with a gross income of £1m or less**. This would include the concessions available for charities below £500k.
- Set aside existing constraints imposed by accounting standards and **introduce a 3-tiered approach with significant concessions for charities with a gross income of £1m or less and further concessions for charities with gross income of £250k or less**. This approach also recognises that the ROI threshold for receipts and payments accounts, should one be introduced, is expected to be gross income of €250,000 or less.

E. Other comments:

- The Larger Charities engagement strand again asked the fundamental question ‘what are we trying to achieve with the SORP?’
- There is a need to recognise that different tiers already fall outside the SORP, for example, receipts and payments ‘accounts’.
- There are jurisdiction differences with regard to audit and preparation.
- Discussions were around how many charities fell within each threshold.
- Simplified guides for smaller charities on what would be needed and when might be useful and encourage better use of the SORP.
- Accruals accounts would remove variations seen in receipts and payments accounts.
- A ‘super-sized’ tier was seen to be overcomplicated.
- There is a potential for a tier to be included where charities meet the definition of public interest entities but see also the BEIS consultation [Restoring trust in audit and corporate governance: proposals on reforms](#).
- Should tiering be based on different types of income eg cash donations?

4. Engagement Strand: **Professional and Technical Engagement Strand (A)**

A. Number of Tiers:

- No unanimous preferred solution
- Out of the 6 members who expressed a preference:
 - 3 supported option 3 – 4 or 5 tiers
 - 2 supported option 2 – 3 tiers
 - 1 supported option 1 – modified 2 tiers.
- Options considered by the strand are outlined in Appendix 1.

B. Thresholds for Tiers:

- There was no consensus on the level of income at which the tiers should be set.
- Tiering should be based on income
 - this is the most pragmatic option

- possibly be an override where the charity has complex transactions, governance, or operational issues.

C. What should be in a reduced framework/reporting tier?

- Gradual increase in detail as progression is made through the tiers.
- A 'Jigsaw' approach was referred to - starting with basic requirements for the smallest categories.

D. Other comments on thresholds/tiers:

Options considered were:

- 1. Keep 2 tiers but increase the threshold for 'large' charities** – change the threshold for larger charities from £500,000(UK) or €500,000 (ROI), for example, to £1,000,000 (UK) or €1,000,000 (ROI)
 - it would be sensible to align this with the audit threshold (applicable to England and Wales) of £1m rather than the original £500k – this may need to be subject to consultation.
 - Pros - least complicated and the easiest to follow, given currently there are two tiers in place. A possibility of reduced professional costs for 'smaller' charities.
 - Cons - step change in reporting requirements for charities just under the threshold to those just over could be significant if there were only 2-tiers. May not capture 'super-size' charities. If significantly less disclosure was required of 'smaller' charities, the accounts and TAR may not be fit for purposes in term of the users' needs.
- 2. Add one extra tier for 'medium' sized charities** - 3 tiers: 'small', 'medium' and 'large'.
 - Pros - simplification for the smallest of charities, for example, those with income below £250k. The very largest charities (linked to Companies Act 2006 thresholds) could provide greater transparency and reporting. Using the Companies Act 2006 threshold for the largest charities would ensure the reporting is not burdensome for the smaller charities.
 - Cons - the difficulty in deciding on the level of income for each tier.
- 3. Increase number of tiers to 4 or 5** - It was recognised that charities have an obligation to report transparently on the use of public funds and that there should be more disclosure than in the micro-company regime. (A number of options for thresholds were suggested),
 - Pros** - Using the Companies Act 2006 requirements would bring the sector in line with a regime that is more commonly understood. The level of reporting for the very largest charities would be comparable in the sector. Another advantage was to ensure the SORP reporting requirements remain fit for purpose.
 - Cons** - Too many thresholds could cause confusion for charities. The Companies Act thresholds may be too high to be helpful to the charity sector. This engagement strand questioned whether a SORP for FRS 105 and FRS 101 needed to be resurrected/ written?

E. Other comments:

- As there are no exemptions for charities under section 1A of FRS 102. Charity accounts can be over-complicated and unhelpful.
- More information should be sought about the characteristics of charities that fall into the tiers ie when do the charities 'tip into having paid staff preparing the annual report and accounts'.
- Taking smaller charities outside the scope of the accounts. This could be achieved by charity jurisdictions having a power for mandating a receipts and payments accounts for all charities with an income less than £250k.

5. Engagement Strand: **Professional and Technical Engagement Strand (B)**

A. Number of Tiers:

Overall view of the strand:

- Three
- Other strong views were expressed
- Appendix 2 demonstrates example.

Other views:

- Splitting larger tier as this would allow concessions for the 'smaller' large tier.
- SORP disclosure requirements should be proportionate.
- A counter argument would be that a split at this level might lead to additional complexity.
- 1 engagement strand member suggested a 2-tier approach due to the potential to add complexity.
- 2 engagement strand members favoured a 2-tier approach – to some extent this is supported by views that the smallest charities should be a receipts and payments accounts (including charitable companies). The strand noted that this would require a change in company law.
- 1 strand member supported the move to the purely Companies Act thresholds (which would require a change in the law) ie:
 - Small charity = charity below the micro entity threshold – receipts and payments accounts to be permitted.
 - Medium charity = charity below the small company threshold.
 - Large charity = charity above the small company threshold - requirements for the TAR and accounts to be similar to 'larger' charities now but to include additional Companies Act requirements for all charities classified as large, not just charitable companies,

B. Thresholds for Tiers:

- There were differing views on the setting of thresholds.
- Some basic size criteria.
- References to the need to understand the outcomes of the anticipated question asked of FRS 102 on this issue.
- Future proofing thresholds is necessary.
- Will be complex because of the existing thresholds in charity and company law.
- Decision tree suggested by one strand member.

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| C. What should be in a reduced framework/reporting tier? |
| <ul style="list-style-type: none"> • There were differing views on what the requirements of each tier should be. • Under each tier there should be a requirement for the charity to present a 'true and fair' view on the financial statements. |
| D. Other comments on thresholds/tiers: |
| <p>Options considered were:</p> <ul style="list-style-type: none"> • Maintain existing concessions only – some simplification may arise for all charities. However, this does not meet the overall aim for simplifying the accounts for smaller charities and would not be consistent with the observations of the SORP Committee. • Set aside existing constraints imposed by accounting standards and introduce a 2-tiered approach with significant concessions for charities with a gross income of £1m or less. This would include the concessions available for charities below £500k. • Set aside existing constraints imposed by accounting standards and introduce a 3-tiered approach with significant concessions for charities with a gross income of £1million or less and further concessions for charities with gross oncome of £250k or less. This approach also recognises that the ROI threshold for receipts and payments accounts, should one be introduced, is expected to be gross income of €250,000 or less. |
| E. Other comments: |
| <ul style="list-style-type: none"> • The current requirements are disproportionately burdensome for some charities. • Reducing the thresholds to three per the example included at Appendix 2 may also reduce costs. • The strand indicated if there were no changes to company law to permit charitable companies to produce accounts on a receipts and payments basis this may be burdensome. Note that this strand does not have an agreed position on charitable companies preparing a receipts and payments set of accounts. • The strand supports a 'building blocks' approach with a 'putative' second tier based on Section 1 A of FRS 102. This approach would mean that the charity would be aware of the applicable requirements and avoid application of the more onerous requirements by default. • The proposal is set out based on gross income (in part a proxy for complexity) but also envisages additional criteria like gross assets and employees being added. • A mechanism for stability may need to be included to avoid some charities moving frequently between tiers. • Cross border charities will be affected by complexity. • Recommend that discussions take place with policy makers. • Narrative reporting needs to provide a summary of the financial performance and position of charities. |

Appendix 1: Options considered by Professional and Technical Strand A

Option 1 Keep 2 tiers but increase the threshold for 'large' charities

| | Income |
|--------------|---------------|
| Small | Up to £1m |
| Large | £1m or more |

Option 2 Add one extra tier for 'medium' sized charities

| | Income |
|---------------|--------------------|
| Small | Up to £250,000 |
| Medium | £250,000 up to £1m |
| Large | £1m or more |

Option 3 Increase number of tiers to 4 or 5

| | Income |
|---------------|--------------------|
| Tier 1 | Up to £250k |
| Tier 2 | £250k up to £1m |
| Tier 3 | £1m up to £5m/£10m |
| Tier 4 | £5m/£10m plus |

| | Income |
|---------------|-----------------|
| Tier 1 | Up to £100k |
| Tier 2 | £100k up to £1m |
| Tier 3 | £1m up to £10m |
| Tier 4 | £10m plus |

| | Income |
|--|---------------|
|--|---------------|

| | |
|---------------|-------------------|
| Micro | Up to £100k |
| Small | £100k up to £250k |
| Medium | £250k up to £1m |
| Large | £1m up to £10m |
| Listed | £10m plus |

Appendix 2: Model for Three Tiers by Professional and Technical Strand B (Abbreviated)

Tier 1 – no concessions

Charities which do not meet the criteria for either tier 2 or tier 3 concessions must comply with all requirements of the Charities SORP and FRS 102 applicable to their circumstances.

Tier 2 - concessions for charities with a gross annual income of £1 million or less

Under a think small first/ building blocks approach, this tier (described here as tier 2) would likely be the core tier for drafting purposes. This would mean that larger (say, tier 1) charities would have to apply full FRS 102 and all the relevant requirements of the Charities SORP (FRS 102) as revised under this process and smaller (tier 3) charities would be afforded additional concessions.

These proposals are based on building on the approach taken by Section 1A of FRS 102 to disclosure, including additional disclosures which charities in this tier would be required to provide.

Our tier 2 illustration involves removing the current £500,000 gross income threshold for certain concessions and making these existing concessions available to all tier 2 charities.

Trustees' Annual Report

Allow the use of concessions currently permitted for charities with a gross income of £500,000 or less by all tier 2 charities. We anticipate that the content of the TAR could be significantly influenced by discussions still to take place and this may include changes to the way existing concessions are drafted.

SoFA presentation

Allow the use by all tier 2 charities of natural classifications/ alternative approaches currently permitted for charities with a gross income of £500,000 or less.

Balance sheet presentation

No concessions anticipated – content will be driven by the recognition and measurement of items accounted for.

Statement of cash flows

Proposal – charities in this tier should be exempt from preparing a Statement of Cash Flows.

Disclosure requirements/ notes to the accounts

This illustrative approach incorporates all the encouraged disclosures under Section 1A and makes these mandatory.

- Accounting policies
- Public benefit entity
- Going concern
- Changes in presentation and accounting policies and corrections of prior period errors
- True and fair override

- *Notes to the SoFA and Balance Sheet*
- *Donated goods and services, and other donated assets* – to be disclosed rather than recognised apart from donated tangible fixed assets (although see below under the heading ‘recognition and measurement’).
- *Information about employee numbers*
- *Senior management remuneration*
- *Related parties*
- *Dividends*
- *‘Free’ reserves* - A new note illustrating how a charity has calculated its ‘free’ reserves is expected to be developed as part of the SORP Development process. Charities in this tier should be required to prepare this note. We are not recommending any concessions for any tiers from the preparation and content of a ‘free’ reserves note.
- *Contingent liabilities and other off balance sheet commitments*
- *First-time adoption*
- *Other* – care will need to be taken to ensure any other disclosures required by law are made.

Recognition and measurement

- *Donated goods and services and tangible fixed assets* – charities in this tier should not need to recognise or measure donated goods and services.
[Other recognition and measurement concessions to be identified]

Tier 3 - concessions for charities with a gross annual income of £250,000 or less

Under option 3, charities with a gross annual income of £250,000 or less would be entitled to all the concessions available under the current SORP and all concessions proposed for charities with a gross annual income of more than £250,000 or less than £1 million. We envisage that:

- An accounting policy choice for the treatment of grants will be available.
- The use of natural classifications/ alternative approaches will be very important to the SoFA presentation.
- The following notes/ disclosures (at least) will be required without concession:
 - Going concern
 - ‘Free’ reserves
 - Senior management remuneration
 - Related parties

Charitable companies of this size have to prepare an income and expenditure account either separately or as part of the SoFA – this will apply regardless of any new concessions.