Analysis of responses to SORP consultation questions PAPER 2.1

Overview of the responses to the consultation

The responses to the consultation took two forms, firstly the feedback from interactive workshops, seminars and similar events organised by OSCR and the SORP making body's partner umbrella and professional bodies. Secondly 179 written responses were received to the consultation. The profile of the written responses is given in the table below.

Respondent category	**Number**
Auditors & audit firms	31
Professional bodies	5
Sector umbrella bodies	16
Charity finance directors	34
Charity finance staff	35
Trustees	15
Honorary treasurers	17
Other preparer/ practitioner	1
Academic	2
Funder and funding body	8
Members of the public	2
General user of accounts	3
Independent examiners	10
Total	**179**

This analysis considers the written responses in a number of broad categories. The notes and feedback from the consultation events are also given to provide another perspective. The consultation events varied in format and consequently not every question was debated. Similarly respondents were not required to answer all questions and many chose to answer only one. This means that the number of responses to any given question do not match to the grand total of submissions received.

The broad categories used in the following analysis are:

- Overall total responses
- Audit firms, auditors and professional bodies
- Sector umbrella bodies
- Individual charity finance directors, staff, trustees and honorary treasurers
- Funders, users of accounts and academics
- Independent examiners

The detailed analysis that follows considers the total of responses received for each question and the percentage in agreement with the proposition made. In addition illustrative comments are included. Quotations from confidential responses are not used as these will be unavailable for public view.

Interpreting responses to questions

Most respondents answered yes or no and then elaborated with an explanation in support of their view. Where an unequivocal statement is not made then the response is interpreted based on any comments made and if in doubt the answer is taken to be contrary to the proposition made. In a small number of instances the respondent in answering a question said they had no view in which case their answer was not counted but any comment was noted.

In the tables that follow the total number who answered each question is given, followed by the percentage of that number who agreed with the proposition. For example 109 people responded to question 1 of whom 92%, ie 100 people, agreed with the proposition made in the question 1 that the modular approach taken improves accessibility and better meets the needs of preparers of accounts.

Q1. Do you agree that the modular format adopted in the Exposure Draft improves accessibility to issues and therefore better meets the needs of the preparers of charity accounts? If not, what alternative format should be adopted and why?

The overwhelming response across all categories was positive with few dissenters. This was also the experience at the consultation events where the modular approach was well received.

Typical comments from respondents were:
“The modular format adopted by the Exposure Draft offers easy navigation to those preparing charity accounts allowing specific aspects of the SORP to be accessed directly...” (Stewardship, resp. 143)

“I do agree that the change to a modular format would assist some charities that are less complicated and probably smaller in them being able to more quickly identify what requirements of the new SORP apply. This is a welcome improvement”. (Royal College of Pathologists, resp.005)

Respondent	Total responses	Percentage agreement
Total responses	109	92%
Audit firms, auditors and professional bodies	33	100%
Sector umbrella bodies	16	88%
Charity finance directors, staff, trustees and honorary treasurers	44	86%
Funders, users of accounts and academics	9	100%
Independent examiners	7	86%

Q2. Do you agree that the Exposure Draft better meets the needs of smaller charities compared to the current SORP, if not, what are your suggestions for further improvement that will better help smaller charities?

The majority responses across all categories were positive. This was also the experience at the consultation events where the ‘think first’ emphasis was welcomed. However, issues highlighted were: how best to treat the FRSSE and the complexity of a single text dealing with two different standards, and the need for greater clarity for smaller charities about what they must do.

Typical comments from respondents were:
“Yes, but the use of larger/smaller in relation to size of charities does not provide sufficient clarity”. (Michael Brougham, Association of Charity Independent Examiners, resp.099)

“For the most part the answer is most definitely but with the caveat that smaller charities need more assistance with examples (see Q25). (See also the issue of FRSSE). (Chantrey Vellacott DFK, resp.177)

Respondent	**Total responses**	**Percentage agreement**
Total responses	89	69%
Audit firms, auditors and professional bodies	33	72%
Sector umbrella bodies	14	64%
Charity finance directors, staff, trustees and honorary treasurers	31	61%
Funders, users of accounts and academics	5	100%
Independent examiners	6	67%

Q3. Does the use of the terms ‘must’, ‘should’ and ‘may’ when making a recommendation or explaining requirements clearly distinguish between those requirements that have to be followed to comply with the relevant accounting standard and the SORP from those recommendations which are good practice and those that simply offer advice?

The majority response across all categories was positive. This was also the experience at the consultation events where distinguishing between what had to be done to comply with best practice and recommendations that were discretionary was welcomed. Some respondents argued that ‘should’ was unhelpful and a simpler 2 category approach would work even better.

Typical comments were:
“The terminology used in the Exposure Draft to distinguish between what is mandatory, what is good practice and what is advice works well and should become very familiar over time”. (Irish Charities Tax Research Ltd, resp.072)

“We believe that these terms do help clarify requirements (must), good practice recommendations (should) and optional (may). Preparers and users of the accounts will be familiar with this terminology since it is used in other guidance by the Commission and OSCR.

However, there is some concern that should, because it is best practice, is really a must, and this may result in different interpretations between charities and their advisors as to what is actually required. One suggestion is to bold the must items to emphasise a requirement rather than good practice. This approach is adopted by other regulators, such as the Audit and Assurance Councils’ Ethical Standards”. (International Federation of Accountants, resp.112)

Respondent	**Total responses**	**Percentage agreement**
Total responses	103	73%
Audit firms, auditors and professional bodies	32	72%
Sector umbrella bodies	14	79%
Charity finance directors, staff, trustees and honorary treasurers	42	72%
Funders, users of accounts and academics	8	88%
Independent examiners	7	72%

Q4. Do you have any suggestions as to how we can improve the SORP micro-site and web navigation of the Exposure Draft?

In total 85 responded to this question. Many took the opportunity to commend the initiative of the micro-site and its ease of navigation. The detailed suggestions will be progressed separately by the SORP making body as it takes forward its plans for the publication of the final SORP or SORPs and the development of the micro-site.

Typical comments were:
"However, although the SORP purports to meet the needs of both charities applying FRS 102 and charities applying the FRSSE, the design of the modules does not enable charities to obtain a fully bespoke SORP as each of the modules is designed to cover both FRS 102 and FRSSE requirements. We believe that the SORP would be much more user-friendly if FRS 102 and FRSSE only modules were prepared. By combining the FRS 102 and FRSSE material together, consistency of practice is given greater weight than minimising regulatory burdens. One consequence of this is that conflicts have been created between the FRSSE and FRS 102. We explore these throughout our response". (Institute of Chartered Accountants Scotland, resp.019)

"The SORP micro-site is potentially a very exciting innovation which we hope will support navigation and understanding of the SORP. We are keen that the features enabling the selection of modules and customisation of the SORP remain. However, there are improvements which could be made that would enhance the benefits of this resource". (Charity Finance Group, resp.151)

Respondent	**Made suggestions**
Total responses	50
Audit firms, auditors and professional bodies	21
Sector umbrella bodies	7
Charity finance directors, staff, trustees and honorary treasurers	17
Funders, users of accounts and academics	2
Independent examiners	3

Q5. Do you agree with the proposed structure and content of the trustees' annual report? If not, what changes do you recommend and why?

In commenting on the trustees' annual report (TAR), a number of respondents made detailed recommendations both to question 5 and to other questions. At the consultation events there was broad support for the format of the TAR and in particular the new reserves disclosure but some expressed misgivings over the change to the risk disclosure, and also asked for guidance as to how the TAR fits with the UK Companies Act strategic report and terminology. These concerns found an echo in the written submissions and are explored separately in Paper 2.2.The new going concern statement met with mixed views.

Typical comments were:
"The structure and content of the trustees' annual report appears to give the public very clear information on a charity's financial situation, its governance, activities, outcomes, impact, public benefit etc…" (Directory of Social Change, resp. 152)

"We agree with the proposed structure and content of the report. However, the SORP makes no mention of how the trustees' annual report will interact with the new strategic report that will be required for large and medium-sized charitable companies for periods ending on or after 30 September 2013. In particular, the requirements for the trustees' annual report will overlap with many of the requirements of the strategic report and directors' report. We recommend that specific thought be given to aligning with the contents and headings of the strategic report where possible". (Deloitte, resp. 108)

Respondent	**Total responses**	**Percentage agreement**
Total responses	100	83%
Audit firms, auditors and professional bodies	33	88%
Sector umbrella bodies	13	92%
Charity finance directors, staff, trustees and honorary treasurers	37	78%
Funders, users of accounts and academics	10	80%
Independent examiners	7	72%

Q6. Do you agree with the requirements and recommendations set out in the Exposure Draft for reporting a charity's achievements and performance. If not, what changes do you recommend and why?

Discussion of this question was not extensive at the consultation events. Where it was discussed, the clutter of terms used was criticised with a desire for a proportionate approach to be emphasised in the text. Overall the requirements on larger charities were broadly supported. Some suggestions about how to further clarify the text were received.

Typical responses were:
"Yes, we broadly agree with the requirements and recommendations for reporting a charity's achievements and performance. We believe that charities should make better use of the trustees' annual report to "tell their story", communicating to all interested readers (including the regulators) precisely what has been done in furtherance of the charity's aims and objectives, how that work has been carried out, and how that work has produced public benefit". (Turcan Connell, resp.075)

"There needs to be a retreat 'back to basics' in order that measuring and reporting on impact can become common practice. Impact measurement does not have to be complicated; it needs to be proportionate and realistic for each individual charity. The first and vital step towards it becoming common practice is for the SORP to lead the way by defining the meaning of impact and setting clear requirements for charities on impact reporting". (Coalition for Efficiency, resp.030)

Respondent	Total responses	Percentage agreement
Total responses	93	84%
Audit firms, auditors and professional bodies	31	90%
Sector umbrella bodies	12	83%
Charity finance directors, staff, trustees and honorary treasurers	35	77%
Funders, users of accounts and academics	8	88%
Independent examiners	7	86%

Q7. Do you think there is any additional information which should always be included in a trustees' annual report that is not required in the Exposure Draft? Alternatively, is there any information currently required by the Exposure Draft that you think is unnecessary?

There was little appetite to add or remove reporting requirements at the consultation events and this followed through into the written responses. On balance only a minority (47%) who answered this question suggested further changes.

Of those favouring further change, the extension of performance reporting to smaller charities was mooted:
"I think that all charities need to be able to explain the link between their charitable objective and their achievements and performance. That link is essential to understanding exactly what a charity is set up to do, how it does about its work and why. I am not sure that the ED really explains this well for all charities". (Margaret Birse, independent examiner, resp. 031)

The more explicit linking of the TAR to the accounts was also a theme:
"We recommend, however, that additional emphasis be placed on linking non-financial and financial information through the Trustees annual report. It is our view that by connecting and integrating non-financial and financial information in the report it becomes far more useful to readers including decision makers and those engaged in developing the strategy of the organisation as well as those reviewing its progress". (CIPFA, resp.116)

Of those looking to reduce requirements:
"The Trustees Report now has so many requirements I believe that the overall message gets lost and one cannot see the wood for the trees. The review of reserves and governance is too onerous and adds little in my view. Less is definitely more in this case". (Ian Smith, Bradford Grammar School, resp.162)

Respondent	Total responses	Percentage agreement
Total responses	86	47%
Audit firms, auditors and professional bodies	33	51%
Sector umbrella bodies	12	50%
Charity finance directors, staff, trustees and honorary treasurers	28	43%
Funders, users of accounts and academics	6	50%
Independent examiners	7	43%

Q8. The format and headings of the SoFA have been simplified. Do you agree that these changes will assist preparers whilst still providing users of the accounts with relevant information about the income and activities of a charity? If not, please explain how the SoFA could better present information about a charity's income and activities.

This question was well debated at consultation events and it drew a lot of comment in the written feedback. The retention of the columnar approach was strongly supported. Previously the SORP research noted strong support for the columnar SoFA whilst seeking simplified headings. The new headings were broadly supported but for the use of the word 'earned' and the blending of investment income with other income.

A revised presentation of the SoFA with changes shown in red is given. Further possible changes are discussed in Paper 2.2. There was some concern at the loss of governance costs and the emphasis on fraud disclosure drew much criticism. Also the loss of the SORP 2005 analysis of cost of generating funds was noted with an accompanying desire that this analysis be provided in the notes if not now shown in the SoFA.

Of those happy with the new terminology, the following was typical:
"We agree and support the simplifications to the terminology used in the SOFA. We recommend that all use of the word "resources" be removed and for "net incoming resources" or "net resources expended" to be presented as "net income" or "net expenditure". The terms "gifts" or "voluntary income" more accurately describe "donations" and our opinion is that the term "donations" does not fully represent all possible components of this category of income". (BDO, resp.167)

The columnar format is overwhelmingly supported, a typical response being:
"The role of the SoFA is to provide the reader of the accounts with sufficient information from which to draw meaningful conclusions about the financial activities of the charity. The understanding of restricted and unrestricted funds is an important peculiarity of charity accounts and we feel that should this distinction be lost on the face of the SoFA (even if it could be distinguished within the notes) this would be detrimental to the reader's understanding and may indeed lead to a reduction in confidence in the donor community that may have provided funds for a specific purpose and want to be assured that those funds have been used appropriately". (Stewardship, resp.143)

Whilst the majority of individual charities and independent examiners supported the new SoFA, some were less supportive of the new look SoFA. The reservations expressed included:
"The previous requirement to report governance costs provided a good indication of how much of the charity resources were being used just to keep it in existence. To have governance costs spelled out is a useful indicator for potential donors". (Association for the Protection of Rural Scotland, resp.161)

Respondent	Total responses	Percentage agreement
Total responses	109	76%
Audit firms, auditors and professional bodies	33	94%
Sector umbrella bodies	15	73%
Charity finance directors, staff, trustees and honorary treasurers	44	66%
Funders, users of accounts and academics	9	78%
Independent examiners	8	63%

****If accepted, concomitant changes made to the text of module 4 are:**

- Amend section A4 and paragraph 4.37.
- New section A5 entitled other income
- Amend 4.10 to give the specific example of inserting a sub total for 'net income (expenditure) before investment gains/ (losses)' (National Church Institutions, resp.100).

	Unrestricted funds	Restricted funds	Endowment funds	Total funds	Prior period total funds	Further details
	£	£	£	£	£	
Income and endowments:						
Donations, gifts and legacies						A1
~~Earned~~ Income ~~-~~from charitable activities						A2
~~Earned~~ Income from other activities						A3
Income from investments**						A4
~~Investment and~~ other income**						A5
Total						
Expenditure on:						
~~Cost of~~ Raising funds						B1
~~Expenditure on~~ Charitable activities						B2
Other ~~expenditure~~						B3
Total						
~~Net income incoming resources (resources expended) before investment gains/(losses)~~**						
Net gains/(losses) on investments						B4
Net income (expenditure) ~~ing resources (resources expended~~)						
Transfers between funds						C
Other recognised gains/(losses):						
Gains/(losses) on revaluation of fixed assets						D1
Actuarial gains/(losses) on defined benefit pension schemes						D2
Other gains/(losses)						D3
Net movement in funds						
Reconciliation of funds:						E
Total funds brought forward						
Total funds carried forward						

Q9. The SoFA adopts a columnar approach to presenting restricted income and expenditure from restricted funds. Do you agree that this columnar approach for restricted funds in the SoFA should be retained? If not, please explain why you prefer a single column presentation combining restricted and unrestricted funds?

This question was well debated at consultation events and it drew a lot of comment in the written feedback. The retention of the columnar approach was strongly supported with the widespread rejection of the imposition of a single columnar SoFA format.

Typical of the responses rejecting a single column SoFA was:
"Fund accounting is one of the nuances of charity reporting and is important in the context of charity law which highlights the difference between restricted and unrestricted funds.

Disclosing restricted and unrestricted funds separately on the face of the SoFA supports explanation of the differences between those funds. It also increases the ease with which funds can be identified as those that are free to the trustees to use across a range of activities, and those that are legally required to be used for specific purposes. It is felt that this is very useful when communicating with a range of audiences including trustees, potential funders and donors, and internal staff. It is our view that this enhances a true and fair understanding of the financial position of the organisation". (Charity Finance Group, resp.151)

The reasons advanced by the minority advocating a single column approach fell into two camps, alignment with the other PBE SORPs or to provide greater flexibility:
"We agree that the columnar approach should be retained, however few of our members have "restricted funds". Where restricted funds are few and immaterial or expended within a period of account, it may be acceptable to disclose them by way of note only". (The National Association of Almshouses, resp.017)

Respondent	**Total responses**	**Percentage agreement**
Total responses	103	87%
Audit firms, auditors and professional bodies	33	88%
Sector umbrella bodies	14	79%
Charity finance directors, staff, trustees and honorary treasurers	42	86%
Funders, users of accounts and academics	7	71%
Independent examiners	7	100%

Q10. Do you agree that the Exposure Draft of the SORP addresses those issues which are of particular relevance to charity accounting and reporting? If not, are there specific accounting or financial reporting issues faced by the charity sector or in the sphere of activity that your charity operates in that the SORP should address?

Discussion of this question was not really considered at the consultation events. In terms of the written responses, feedback was limited with the majority agreeing that the SORP does address those issues which are of particular relevance to charity accounting and reporting. However a number mentioned the UK retail gift aid scheme needed to be expressly considered.

Of the umbrella bodies that disagreed:
“We would reiterate that guidance should provide useful information on how charities can be as transparent as possible to donors and the public. Clear definitions of terminology will ensure consistency and create a full picture for those viewing the report. Similarly, keeping income and expenditure categories as distinct as possible will maximise accountability and transparency”. (Institute of Fundraising, resp.145)

“For charities with defined benefit pension schemes, the SOFA buries the information within the expenditure headings. It would be helpful for users of the accounts to be able to see the impact separately on the face of the SOFA…” (Free Church of Scotland, resp.123)

“We also note that there is currently no reference to treatment of retail Gift Aid schemes where charities sell goods as an agent on behalf of the individual and the income is then Gift Aided. The SORP should make clear how this income is to be treated, as donated income or as trading income”. (Charity Finance Group, resp.151)

Respondent	**Total responses**	**Percentage agreement**
Total responses	88	67%
Audit firms, auditors and professional bodies	33	70%
Sector umbrella bodies	11	73%
Charity finance directors, staff, trustees and honorary treasurers	33	60%
Funders, users of accounts and academics	5	60%
Independent examiners	6	100%

Q11. The Exposure Draft proposes that grant making charities disclose in the notes to their accounts details of the name of institutions in receipt of material grants and the amount of such grants paid by the charity. Do you agree that this information should be given by way of note rather than in a separate publication that can be obtained from the charity on request as currently allowed by the existing SORP?

Although discussion of this question was limited at the consultation events there was support for retaining the option to report separately. However some were concerned that if provided outside of the accounts it was not subject to review for accuracy by an auditor or examiner. This question attracted significant written feedback with a mixture of views expressed.

A bare majority favoured requiring material grants to be disclosed in the notes to the accounts. The majority of audit firms and umbrella bodies are against this requirement. Of the five professional bodies only CIPFA supports this requirement with ICAS, ICAEW, ACCA and IFA against.

Those against this requirement often cited the problem of clutter and adding lengthy pages of disclosures and the inflexibility of removing the option for a separate publication:
"SORP 2005 allowed a list of grants paid to be provided if requested and did not require a listing to be provided in the accounts. The exposure draft removes this option and will lead to even more detail in the notes which seems to be contrary to the FRC's cutting clutter agenda". (Crowe Clark Whitehill, resp.129)

Users of accounts and funders favour this requirement in part as a consequence of charities withholding this information when it is requested:
"DSC researches the activities of thousands of grant-making trusts and foundations and we fully agree with the proposal in the Exposure Draft. There is no benefit (in fact there can be a cost) to producing a separate publication, and too often this is not publically available or easy to access. It is our experience that too many trusts fail to provide information about material grants made upon request". (Directory of Social Change, resp.152)

Respondent	**Total responses**	**Percentage agreement**
Total responses	90	54%
Audit firms, auditors and professional bodies	33	45%
Sector umbrella bodies	11	45%
Charity finance directors, staff, trustees and honorary treasurers	32	59%
Funders, users of accounts and academics	8	63%
Independent examiners	6	100%

Q12. The SORP requires larger charities to disclose staff salaries paid in bands of £10,000 for employees earning over £60,000. Should larger charities also be required to also disclose the job title and remuneration of their highest paid employee?

This question was well debated at consultation events and it drew a lot of comment in the written feedback. At the consultation events in England little support was found for this proposal with alternatives of quoting the salary range or median salary being suggested if additional disclosure was needed at all. The SORP's definition of key a management personnel also drew criticism. However some wished to see the banding of salaries by all charities. Feedback at Scotland and Northern Ireland events was more mixed with a greater degree of support but still not unanimity in favour of this additional disclosure. This question was not addressed at the Republic of Ireland consultation events.

In terms of the written feedback the majority against the idea were auditors, charities and sector umbrella bodies. Only independent examiners, whose charities would be unaffected, and users and funders were in favour.

Of those in favour:
"Is the remuneration of the highest paid employee not already obvious from current required disclosure? Unless for example the chair is paid, which should be stated separately, would not the highest earner normally be the Chief Executive or equivalent anyway?

It is important for accountability to the public to know what senior staff are paid, but this also needs to be put into context, in particular because of the high level of public interest in this issue at the moment. There should be scope in the accounts to elaborate on this in a narrative format related to the disclosure of salaries.

Charities must be transparent about how charitable funds are being spent for whatever reason, including on paid staff who act for the trustees to achieve the charity's aims and objectives". (Directory of Social Change, resp.152)

Respondent	**Total responses**	**Percentage agreement**
Total responses	101	37%
Audit firms, auditors and professional bodies	32	22%
Sector umbrella bodies	14	21%
Charity finance directors, staff, trustees and honorary treasurers	41	39%
Funders, users of accounts and academics	7	71%
Independent examiners	7	86%

Q13. The Financial Reporting Council seeks a clearer distinction between those disclosures required by accounting standards and those due to charity law and the need for a higher standard of accountability by charities.

Which one of the following options do you consider to be the best way of achieving this distinction?

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

This question was little discussed at consultation events. It did attract significant written feedback with overwhelming support for option c. Some respondents advised they were content with 2 options. This comprehensive solution is in keeping with the SORP research which identified a desire for the SORP to be the first place of reference for preparers when compiling their accounts:
“We would like to only have to refer to one document with all key requirements in one place. Searching the document is made easier by using electronic versions (web or pdf)”. (National Trust, resp.103)

A number of respondents cautioned that there needed to be a concomitant clarity of the use of the terms ‘must’, ‘should’ and ‘may’. Some respondents also answered with 2 terms preferred.

“Our preference would be for any requirements of an underlying legal or financial reporting framework be expressed as a “must”, and accounting recommendations which are in addition to requirements of law, regulation or FRS 102 could be identified as a “should” recommendation and any genuine policy choices identified with ‘may’”. (BDO, resp.167)

Option	Total responses
Option a	5
Option b	13
Option c	71
Option d	7
Total answering this question	94

Q14. Do you agree that charities should not be able to adopt the reduced disclosure framework provided by FRS 102? If not, please explain why you think charities should be able to take advantage of this framework?

This question was not addressed in the consultation events. Written feedback was mixed. Of those supporting the proposition not to allow such a simplification the need for the disclosure of trustee remuneration was key together with the need for consistency in reporting by charities. Those favouring the option argued that it should be permitted provided providing trustee remuneration was disclosed and that it was a useful simplification in the context of preparing group accounts. Some respondents noted that the term used in FRS 102 is in fact ‘disclosure exemptions’.

In terms of users and funders, support for disallowing this option (for details of the option refer to FRS 102 paragraphs 1.8 to 1.13), an illustrative comment: “DSC agrees charities should not be able to adopt the reduced disclosure framework for the reasons stated – for example, it removes the requirement for the disclosure of employment benefits of key management and does not lend itself to the higher standard of transparency demanded of charities”. (Directory of Social Change, resp.152)

Typical of responses in favour of charities having the option:
“No. We believe that charities should be allowed to adopt the reduced disclosure framework, subject to there being sufficient disclosure of trustees’ remuneration and related party disclosures”. (ICAEW, resp.067)

Respondent	**Total responses**	**Percentage agreement**
Total responses	82	60%
Audit firms, auditors and professional bodies	32	47%
Sector umbrella bodies	10	70%
Charity finance directors, staff, trustees and honorary treasurers	28	61%
Funders, users of accounts and academics	6	83%
Independent examiners	6	83%

Q15. Do you agree that the next SORP should support both charities that prepare their accounts using FRS 102 and also those that are eligible and choose to use the FRSSE? If not, please explain why?

Although discussion of this question was limited at the consultation events, it attracted significant written feedback. At those consultation events where it was discussed there was a mixture of views but with a majority in favour of the SORP fully supporting the FRSSE. However it was noted that the FRSSE is little used in the Republic of Ireland.

The written feedback drew out comments on how the text differentiated and recognised the different accounting treatments of FRSSE (based on old GAAP) and FRS 102 (new GAAP). Feedback was very mixed indeed on this point with some strongly expressed reservations. This issue also featured in responses to question 16.

In support of the FRSSE option:
"Yes, we agree that the SORP should support charities using either FRSSE or FRS 102". (ICAEW, resp.067)

"We agree that the next SORP should be applicable to both accounting frameworks. However, we believe that separate modules should be prepared to support each framework". (ICAS, resp.019)

"While both sets of accounting standards FRS102 and the FRSSE are available to charities the SORP must support both. We consider that it does achieve this. It should not be the SORP's role to prevent smaller charities using a 'lighter touch' regime they may currently use and which is available to other similar sized entities.

However we note that the differences between the two regimes are not very substantial (excluding perhaps the issues of consolidation and cash flow statements). The existence of the two regimes does however add significant complexity and length to the SORP". (ACCA, resp.071)

Respondent	**Total responses**	**Percentage agreement**
Total responses	95	88%
Audit firms, auditors and professional bodies	33	88%
Sector umbrella bodies	11	100%
Charity finance directors, staff, trustees and honorary treasurers	36	86%
Funders, users of accounts and academics	7	86%
Independent examiners	8	88%

Q16. Do you agree that the Exposure Draft successfully supports the use of the FRSSE and FRS 102, and if not what changes would you suggest and why?

Although discussion of this question was limited at the consultation events, it attracted significant written feedback. There was a significant divergence of views over the extent to which the Exposure Draft (ED) successfully supported the FRSSE. Although the majority were in agreement with the ED, there was extensive criticism that the ED favoured FRS 102 over FRSSE treatments. Many respondents also offered alternative suggestions as to how best the FRSSE might be accommodated.

Respondent	Total responses	Percentage agreement
Total responses	86	76%
Audit firms, auditors and professional bodies	33	72%
Sector umbrella bodies	11	73%
Charity finance directors, staff, trustees and honorary treasurers	29	79%
Funders, users of accounts and academics	7	86%
Independent examiners	6	50%

Comments levied in criticism of the ED included:
“The draft SORP is biased in favour of FRS 102 rather than FRSSE. Specifically paragraph 3.22 requires charities to follow FRS 102 and the SORP where it is adopting new accounting policies. It is not appropriate to mix the two accounting frameworks”. (Scott-Moncrieff, resp.051)

“The draft SORP is very much driven by FRS 102 and there are instances where the SORP appears to ignore the FRSSE, making an objective assessment of the benefits of the FRSSE relative to FRS 102 difficult to make. We believe that a comprehensive re-write of the draft SORP is unavoidable. As part of this process, in order to assess the benefits of applying the FRSSE from 1 January 2015, producing separate FRSSE-based modules would be desirable. Given the timescales involved, it may be difficult to withdraw the FRSSE for use by charities as early as 1 January 2015 regardless of the outcome of the exercise”. (ICAS, resp.019)

“It does pretty well in a difficult situation – but if the choice is to remain a “SORP for FRSSE users” is needed without the FRS102 extras”. (Kubernesis Partnership LLP, resp.165)

In terms of treating the FRSSE in the text, the alternatives were dropping the FRSSE altogether, preparing a separate FRSSE SORP, preparing separate FRSSE modules or permitting filtering in the web version of the SORP for FRSSE only requirements.

Option for handling the FRSSE	**Professional/ umbrella body**	**Total responses**
Single SORP solution (assumed where no alternative suggested)	CIPFA, Assoc' Church Accountants & Treasurers, National Assoc' of Almshouses, Assoc' of NHS Charities, Health Fin' Management Assoc', Stewardship, ICTR, DSC	53
Two SORPs	ICAEW, SCFG, Free Church Scotland	12
Separate modules within SORP and/ or filtering on the web	ICAS, IFA, National Church Institutions, British Universities' Finance Group	14
Drop the FRSSE option altogether now or in due course	ACCA, ACF	7
Total answering this question		86

Q17. Do you agree that investments held both to produce an investment return and also for the contribution the funding makes to a charity's purposes (mixed motive investments) should be classed as a component of financial investments and separately disclosed on the balance sheet or in the notes to the accounts when material? If not, what alternate approach to classification do you recommend and why?

Although discussion of this question was limited at the consultation events, the separate class of 'mixed motive investments' was criticised as introducing complexity and subjectivity into charity accounting.

The question attracted significant written feedback and those against the proposed treatment as a component of financial investments argued that a preponderance test should apply that would enable them to be either a component of programme related investments or of financial investments. Some respondents also argued the definitions should follow Charity Commission guidance; this implies that this class of investment might be jurisdiction specific in its application.

Except for auditors and professional bodies, where a bare majority backed the proposition, the proposed treatment as a separate component of financial investments was widely supported.

Typical comments of those in support of the proposition:
"We agree that they should be split. Investments held to produce both an investment return and for the contribution the funding makes to a charity's purposes (mixed motive investments) should be classed as a component of financial investments and separately disclosed on the balance sheet or the notes to the accounts, when material". (Association of Charitable Foundation, resp.175)

"We are content with the proposed treatment. If one figure is shown on the balance sheet, an analysis between investments held to produce an investment return and mixed motive investments should be provided in the notes". (National Church Institutions, resp.100)

Representing a contrary view:
"The Wellcome Trust takes the view that this is too inflexible. Our view is that the charity should at inception determine the predominant motive for any social investment (including any "mixed-motive" investment), between financial investment and programme-related investment, and treat the transaction accordingly throughout its life. The proposed treatment would risk that transactions that were predominantly to further the charity's objectives (which we think is likely to be the case in many mixed-motive investments, given that they will require the specific charity skill-set to assess them) were misclassified as financial investments". (Wellcome Trust, resp.063)

Respondent	Total responses	Percentage agreement
Total responses	77	70%
Audit firms, auditors and professional bodies	31	55%
Sector umbrella bodies	9	78%
Charity finance directors, staff, trustees and honorary treasurers	27	81%
Funders, users of accounts and academics	6	83%
Independent examiners	4	75%

Question 18 followed on from question 17 in anticipating that the treatment of impairment follows that of the asset.

Q18. Do you agree that an impairment loss arising on a mixed motive investment should be analysed as an investment loss in a charity's SoFA? If not, how else might the loss be analysed in a charity's SoFA and why?

Most respondents agreed that the treatment for impairment follows that of the asset and their responses reflected this: "CFG has not identified a suitable alternative to recognising an impairment loss on an MMI as an investment loss on the SoFA. The lack of a suitable alternative has informed our answer to the above question, where we have stated that the accounting treatment for MMI is the same as for investments. Therefore we recommend for the most part in the SORP, these investments are required to be treated this way with only a small reference to MMI and CC14". (Charity Finance Group, resp.151)

A minority felt that an impairment loss could be treated differently from the classification of mixed motive investments as a component of financial investments:
"In our experience, charities with what will be classified as mixed motive investments make their investment primarily to advance the charitable purpose, with the income generated as a secondary factor. Therefore our view is that losses would be more appropriately shown as charitable expenditure rather than investment losses". (Scott-Moncrieff, resp.051)

Respondent	Total responses	Percentage agreement
Total responses	68	62%
Audit firms, auditors and professional bodies	30	47%
Sector umbrella bodies	7	71%
Charity finance directors, staff, trustees and honorary treasurers	22	77%
Funders, users of accounts and academics	6	83%
Independent examiners	3	33%

Q19. Are there any circumstances in which a separate corporate body can be regarded as a branch and included in a charity's own individual entity accounts? If so, how would you distinguish a separate corporate body that is branch from one which is a subsidiary and included in a parent charity's group accounts?

Although discussion of this question was limited at the consultation events, the main concern expressed in a few cases from auditors and charities was that their existing custom and practice had been to treat some corporate bodies as branches. In terms of written responses the majority considered that there were no cases in which a separate corporate body could be treated as a branch with only 38% (24 responses) agreeing that a separate corporate body can be treated as a branch.

Respondent	Total responses	Percentage agreement
Total responses	64	38%
Audit firms, auditors and professional bodies	32	44%
Sector umbrella bodies	5	80%
Charity finance directors, staff, trustees and honorary treasurers	19	32%
Funders, users of accounts and academics	4	nil%
Independent examiners	4	nil%

Of those against treating a corporate body as a branch, typical responses were:
"We welcome the distinction drawn by the SORP between subsidiaries and branches. We are not aware of any circumstances in which a separate corporate body would be regarded as a branch rather than a subsidiary as it would generally be autonomous from the main charity and separately accountable if it has its own constitution". (Baker Tilley, resp.131)

"We agree that restricted funds and any other non-corporate entities which are administered by the reporting charity fall within this definition of a branch. As a result, corporate bodies would fall outside the definition of a branch and, when controlled by a charity, would be consolidated.

We believe that it would be rare for a separate corporate body to qualify as a branch of a charity and fall to be included in the charity's individual accounts. Charities overseas may be required to form a locally-registered corporate entity to be permitted to operate in certain countries. The Exposure Draft would require such entities to be accounted for as subsidiaries and, if controlled, included in the parent charity's group accounts. We would expect this to be the correct treatment in nearly all cases." (Mazars, resp.128)

“We would not consider there to be any circumstances where separate corporate bodies could be regarded as branches of a charity”. (Chiene Tait, resp.141)

Of the minority who favour a branch encompassing separate corporate bodies, a typical view was:
“In order to operate within certain jurisdictions it is often essential for charities to set up separate registered entities. It may even be possible that some charities operating a branch structure do not realise that they have separate corporate entities in this sense and may find themselves caught by new provisions to account for them as subsidiaries.

We are concerned that under the proposals in the SORP such entities would be required to be treated as separate subsidiaries which would then be brought in to the consolidated accounts, when they would in fact be included in the main charity accounts under the current rules. This could result in ‘off balance sheet’ funds if such entities, which are set up to carry out charitable activities on behalf of the charity, are not able to be included in the reporting charity accounts. The treatment proposed does not consider the substance of the arrangement and will impede a true and fair view of the accounts”. (Charity Finance Group, resp.151)

Q20. The Exposure Draft requires a charity's share of any surplus or deficit in an associate or jointly controlled entity to be shown as a single line in a parent charity's consolidated SoFA. Do you agree with this accounting treatment? If not, should the charity's share of income and expenditure be shown separately so that the user of the accounts can better understand the scale of the charitable activities carried out by the associate or joint venture?

This question was not addressed in the consultation events. In the written responses, although the majority favour the treatment, many noted that greater detail should be given in the notes.

Typical of responses in favour:
"We agree that the equity accounting treatment is appropriate for the consolidated accounts of an entity that has interests in associates and joint venture.

We consider that there should be disclosure of the gross income and expenditure of significant associates and joint ventures specifically so that the scale of activity undertaken through these vehicles is placed before the users of the charity's accounts". (UHY Hacker Young, resp.178)

The contrary viewpoint:
We recommend an alternative accounting treatment whereby a reporting charity's share of the income, costs and assets / liabilities of any corporate Joint Venture or Associate is accounted for by "proportional consolidation" as in the case of a subsidiary. The justification for this is that charities are prohibited by charity law from distributing any profits by way of private benefit to an investor, so that the commercial argument for "equity-accounting" for such shared-control entities is clearly inapplicable to the charity sector. What matters to the reader of a charity's accounts is to know what resources it controls and how it has used those resources to further its public benefit aims. This is not affected by the sharing of that control. It is a matter of stewardship - accountability – not investor- accountability". (Association of Church Accountants and Treasurers, resp.124)

Respondent	**Total responses**	**Percentage agreement**
Total responses	76	69%
Audit firms, auditors and professional bodies	31	77%
Sector umbrella bodies	10	60%
Charity finance directors, staff, trustees and honorary treasurers	26	63%
Funders, users of accounts and academics	5	60%
Independent examiners	4	75%

Q21. Do you agree that income from government grants should be recognised on the same basis as other grants and donations? If not, why should government grants be recognised on a different basis?

This question was well debated at consultation events and it drew a lot of comment in the written feedback. A number of participants desired the flexibility to recognise income only when the related expenditure was incurred, or over the lifetime of a grant funded capital asset as depreciation was incurred. Whilst this desire for matching of all kinds of grant was the majority view expressed at the time of the SORP research in 2008-09, it did not follow through into the written submissions regarding a separate treatment for government grants.

Typical of those comments in support of treating all grants and donations on the same basis:
"We agree that income from government grants should be recognised on the same basis as other grants and donations". (Crowe Clark Whitehill, resp.129)

Respondent	**Total responses**	**Percentage agreement**
Total responses	92	93%
Audit firms, auditors and professional bodies	33	97%
Sector umbrella bodies	10	100%
Charity finance directors, staff, trustees and honorary treasurers	36	86%
Funders, users of accounts and academics	6	100%
Independent examiners	7	85%

Q22. Do you have any other comments on any other accounting principles or treatment within the Exposure Draft? If making a comment, please state:

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

This question was little debated at consultation events but in connection with module 9, some participants argued that redundancy payments should not be disclosed for payments covered by a confidentiality agreement.

Of the written responses, many responses included detailed and thoughtful comments on one or more modules. The answers to questions on the trustees' annual report and the SoFA also generated additional comments on those modules. Paper 2.2 considers the changes that were common across a number of responses.

The responses considered in Paper 2.2 are categorised into three categories:

- typographical corrections;
- potential technical inconsistencies with accounting standards and clarifications; and
- suggested modifications to the modules or appendices.

Paper 2.2 identifies how these suggestions and responses were treated and the actions taken. The actions noted are one of the following:

-
- accept ; or
- for discussion; or
- declined; or
- held over for review in a future SORP.

In total 127 respondents made a comment on one or more of the modules and the table that follows notes the number of comments received by module.

Included as one response within the table that follows, in the number commenting on module 10, is that of The National Association of Almshouses together with that of 42 individual almshouse charities. The individual responses from almshouses, with few exceptions, answered only this question and either endorsed the Association's response (resp.017) or quoted directly from it.

Module No.	Module name	No. responses
1	Trustees' annual report	50
2	Fund accounting	15
3	Accounting standards, policies, concepts and principles, including the adjustment of estimates and errors	17
4	Statement of financial activities	66
5	Recognition of income, including legacies, grants and contract income	43
6	Donated goods, facilities and services, including volunteers	19
7	Recognition of expenditure	15
8	Allocating costs by activity in the statement of financial activities	4
9	Disclosure of trustee and staff remuneration, related party and other transactions	27
10*	Balance sheet	16
11	Accounting for financial assets and financial liabilities	8
12	Impairment of assets	2
13	Events after the end of the reporting period	Nil
14	Statement of cash flows	3
15	Charities established under company law	17
16	Presentation and disclosure of grant-making activities	8
17	Retirement and post-employment benefits	10
18	Accounting for heritage assets	11
19	Accounting for funds received as agent	1
20	Total return (investments)	7
21	Accounting for social investments	13
22	Accounting for charities pooling funds for investment	Nil
23	Overview of charity combinations	Nil
24	Accounting for groups and the preparation of consolidated accounts	9
25	Branches, linked or connected charities and joint arrangements	7
26	Charities as subsidiaries	Nil
27	Charity mergers	3
28	Accounting for associates	2
29	Accounting for joint ventures	4

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Q23. Do you agree with the simplifications made to the current SORP's recommendations and if not why do you consider a particular requirement should be retained?

This question was not addressed in the consultation events. Of the written responses, a clear majority supported the simplifications.

However amongst funders and users of accounts the concern expressed by both respondents focussed on ex-gratia payments. One respondent was confidential and the other commented:
"We would comment on the second bullet point proposed in the Exposure Draft as a simplification: *'only requiring the disclosure of ex-gratia payments where regulatory consent for payment is required'.*

We believe this is unclear and are concerned at its proposed removal. The SORP committee needs to further clarify why this has been removed. In line with CC7 it is our understanding that trustees must always seek authority from the Commission before making an ex-gratia payment. If non-authorised payments are permitted we would see no benefit to removing the requirement to disclose these payments in the accounts. These are the very ones likely to go under the radar and therefore this proposal would not seem to aid or improve accountability or transparency. The SORP should make clear that disclosure of all payments made to trustees in particular (*ex-gratia* or otherwise) for whatever reason, is best practice". (Directory of Social Change, resp.151)

Respondent	**Total responses**	**Percentage agreement**
Total responses	85	80%
Audit firms, auditors and professional bodies	32	82%
Sector umbrella bodies	9	88%
Charity finance directors, staff, trustees and honorary treasurers	32	82%
Funders, users of accounts and academics	6	67%
Independent examiners	6	67%

Q24. Do you have any suggestions as to any further simplifications to the Exposure Draft and if so what are they and what do you believe are the benefits of the additional simplifications you propose?

This question was not addressed in the consultation events. In the written responses there were 23 responses suggesting further simplifications. A number referred back to previous answers to do with: separating out or dropping the FRSSE, reviewing the text for unnecessary information, cross referencing to their earlier suggestions for the editing of certain modules, or placing more reliance on cross referencing to the underlying accounting standards.

Specific suggestions made to this question were:

- Drop the statement of cash-flows altogether (Mission Aviation Fellowship, resp.002)
- Dropping the analysis of support cost in favour of a single entry in the SoFA (Royal College of Pathology, resp.007)
- Separate modules only for smaller charities (Margaret Birse, Independent Examiner, resp.031)
- Drop option of alternative SoFA categories for smaller charities (confidential response, resp.132)
- Drop parent entity SoFA and statement of cash-flows where group accounts are prepared (Wellcome Trust, resp.063, Charity Finance Group, resp.151)

Items to retain or add:

- Add disclosure checklist (Scottish Borders Council, resp.012)
- Expand glossary to cover accounting terms (Association of Church Accountants & Treasurers, resp.124)
- Retain disclosure of staff numbers (confidential response, resp.126)

Q25. In responding to the FRC's report 'Cutting Clutter' would you recommend that the SORP-making body:

a) **cease publishing any illustrative examples of trustees' annual reports and accounts; or**
b) **only publish two illustrative examples of trustees' annual reports and accounts, one for a charity adopting the FRSSE and a second for a charity adopting FRS 102; or**
c) **publish a series of examples for different types and sizes of charity?**

This question was not addressed in the consultation events. Although the majority of written responses favoured a range of examples it was noted that:

- The examples should also be tailored for Scotland and the other jurisdictions covered by the SORP.
- If the examples are produced by the SORP-making body's partners the examples should be endorsed by, and sign-posted from, the charity regulator's websites.

Typical of the responses received were:
"We prefer option c. ACF members found the example accounts very useful for the current SORP. The published examples do not have to be part of the SORP but could be part of the Charity Commission's general guidance". (Association of Charitable Foundations, resp.175)

"The charity sector is so diverse, and charity accounting is complex. So a series of examples is positively helpful". (Dr Neil Dickinson, Independent Examiner, resp.025)

A number of respondents opted 'b/c' and so the tally adds to more than 102 responses.

Option	**Total responses**
Option a	7
Option b	16
Option c	82
Total answering this question	102