

# Invitation to comment on Exposure Draft Charities Statement of Recommended Practice (SORP)

Public consultation issued by the Charities SORP-making body

Comments from ACCA to the Charities SORP-making body

20 June 2025

REF: TECH-CDR-2251

## About ACCA:

We are ACCA (the Association of Chartered Certified Accountants), a globally recognised professional accountancy body providing qualifications and advancing standards in accountancy worldwide.

Founded in 1904 to widen access to the accountancy profession, we've long championed inclusion and today proudly support a diverse community of over 252,500 members and 526,000 future members in 180 countries.

Our forward-looking qualifications, continuous learning and insights are respected and valued by employers in every sector. They equip individuals with the business and finance expertise and ethical judgment to create, protect, and report the sustainable value delivered by organisations and economies.

Guided by our purpose and values, our vision is to develop the accountancy profession the world needs. Partnering with policymakers, standard setters, the donor community, educators and other accountancy bodies, we're strengthening and building a profession that drives a sustainable future for all.

Our members serve in the charity sector as trustees, act as auditors, as independent examiners and professional advisers on accounting and charity governance related matters. Our response is framed with the contribution of our members and the importance of the charity sector to civic society in mind.

Find out more at: [www.accaglobal.com](http://www.accaglobal.com)

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## GENERAL COMMENTS

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ACCA welcomes the opportunity to respond to Exposure Draft of the new Charities SORP. The SORP has an essential role to provide charity sector specific guidance in applying the updated Financial Reporting Standard FRS102 applicable in the UK and the Republic of Ireland issued in September 2024.

Our response focusses on those key aspects where either the SORP process has significant latitude to set the requirements: tiered reporting (section 1) and the trustees' annual report (section 2) or the implications for smaller charities (sections 9 and 10) are so significant that this merits particular focus. In this regard ACCA believes there is a need for further dialogue in respect of lease accounting (section 5) for public benefit entities.

ACCA makes following over-arching observations:

- ACCA agrees with the approach, as noted in the Invitation to Comment, to 'think small first' since smaller charities (Tier 1) comprise the vast majority of charities in UK and Ireland but ACCA would question whether that the philosophy has carried through fully into both the narrative and accounting aspects of the SORP. Evidence provided to the Charities SORP- Committee (2009) clearly shows that charities with income below £500,000 (tier 1 in the Exposure Draft) are in the main wholly reliant on volunteers and this has not been fully recognised<sup>1</sup> (Charities SORP Committee December 2009 paper 3). In part this situation is due to changes required by FRS102 particularly in respect of lessee accounting (see our response to section 5). These concerns inform our response to sections 1 and 5.
- ACCA would support the SORP-making body should it decide to approach the FRC to discuss allowing more time to identify the most appropriate technical solution for non-exchange compliments of leases (see also our answer to question 29) given that the proposal of the SORP-making body was not accepted and the solution in the Exposure Draft is potentially misrepresenting as to the level of income upon initial recognition.
- ACCA recognises the important role of the SORP in maintaining public trust and confidence in charity financial reporting and the contribution the SORP-making body makes in developing educational materials to assist the charity sector implement the SORP. ACCA recommends the SORP-making body has a dialogue with the sector about the full range of supportive materials such as helpsheets or information sheets needed to make a success of the next SORP (see our response to section 10).

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<sup>1</sup> <https://www.charitysorp.org/web/guest/sorp-committee-meetings-archive>

- As stated in our response to the DCMS consultation on financial thresholds in charity law<sup>2</sup>; although the intention is to be: ‘...proportionate and reduce unnecessary administrative burdens on charities where possible, particularly for small organisations’ this needs to be balanced with the importance and benefits that having thresholds brings to encouraging and underpinning good charity governance of the money entrusted to the sector.

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<sup>2</sup><https://www.accaglobal.com/gb/en/technical-activities/technical-resources-search/2025/June/acca-response-financial-thresholds-charity-law.html>

## **SPECIFIC COMMENTS**

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### **Section 1 Tiered reporting**

#### **1 Do you support the move to three tiers?**

##### **Yes**

Company reporting in the UK and Ireland has long had several tiers with five tiers: micro, small, medium, large and listed. ACCA is therefore supportive of moving from two tiers- all and larger- under the current SORP to the three tiers as proposed. Given that for tier 1 most charities rely wholly on volunteers (see our overarching comments) this affords an opportunity to tailor financial reporting to the scale and complexity of tier 1 charities and the available skills of a volunteer trustee body.

We do see challenges with tiering for smaller enterprises and accordingly in regard to charities moving up from tier 1 to tiers 2, we would ask the SORP-making body to consider allowing a degree of latitude, as the company reporting framework already does in respect of small companies. In some cases, charities that might temporarily move from tier 1 to tier 2 might retain reporting at tier 1 level. This could be done by defining eligibility to report under tier 1 as having been eligible in at least two of the past three reporting periods including the period being reported.

#### **2 Do you consider that the proposed thresholds have been set an appropriate monetary level in order to support a proportionate approach to reporting?**

##### **No**

ACCA notes the rationale for setting the three tiers is advised in Basis of Conclusions (appendix 4 paragraph B19) to be thresholds already extant in the current SORP or UK-Ireland company reporting. ACCA notes that the charity audit threshold is under review in two UK charity law jurisdictions and so can understand why the SORP-making body might not wish to use an audit related threshold and thereby pre-empt what decisions are made. We are of the opinion that multiple thresholds cause concern for many smaller charitable organisations and would seek alignment of reporting and audit thresholds. Currently proposed in Scotland at £1m with England and Wales are already at £1m. Please see our response to Scottish

Governments review of Charity Regulation in Scotland<sup>3</sup> and our response to the DCMS Consultation on financial thresholds in charity law<sup>4</sup>.

Aligning tier 2 with small company reporting thresholds does not recognise the public interest aspect of charities reporting on funds held on trust. Larger charities are likely to have inhouse expertise to manage various reporting challenges. We feel that a further analysis is required taking into account that small companies amount to be about 95% of all registered companies and so whilst it may be expedient to use this threshold, the small company threshold was not set with the reporting needs of users or the nature of the charity sector in mind. Instead, ACCA suggests aligning the tier 2 threshold with the top 5% of charities by income. Taking the charity sector data published on 16 June by the Charity Commission for England and Wales analysed by income for 170,840 registered charities the level might better be set at around £3m (or €3m) were it to reflect the top 5% of charities by income.

**3 Do you agree that the exposure draft SORP clearly sets out the proposed reporting requirements for each tier?**

**Yes**

ACCA recommends labelling tier 1 as 'tier 1- applicable to all charities' since the approach to writing the SORP is that the tiers build one upon another. ACCA notes that in those modules where the requirements apply to all tiers a similar approach to labelling has already been adopted, for example module 5.

This approach also demonstrates that since charities prepare a complete set of financial statements there is currently very limited scope under FRS102 to offer many simplifications for smaller charities.

**4 Do you agree that within the largest income threshold should be referred to as tier 3 charities or should they be referred to as tier 1 charities?**

**Yes**

Insofar as the Exposure Draft has described the tiers already any change now might lead to confusion going forward and so retain tier 3 as the largest charities. Having descriptions that are different to that of company reporting is appropriate since the thresholds are likely to be different.

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<sup>3</sup><https://www.accaglobal.com/gb/en/technical-activities/technical-resources-search/2024/July/review-of-charity-regulation-in-scotland.html>

<sup>4</sup><https://www.accaglobal.com/gb/en/technical-activities/technical-resources-search/2025/June/acca-response-financial-thresholds-charity-law.html>

**5 Do you have any additional comments in relation to the proposed tiered reporting structure in the exposure draft SORP**

**Yes**

ACCA supports the innovation of three tiers and the potential flexibility it affords in tailoring reporting requirements by size of charity.

## **Section 2 Trustees' Annual Report**

### **6 Do you agree that including prompt questions will help trustees to develop their trustees' annual report?**

#### **Yes**

As already noted, most charities in tier 1 are wholly volunteer run and for all tiers in the main the trustee bodies comprise volunteers albeit many may have a finance or accounting background. Since trustees are responsible for the charity fulfilling its purposes and as the Exposure Draft notes for preparing the trustees' annual report (Exposure Draft module 1 paragraph 1.4), it is important that trustees understand and can progress reporting against the elements of the trustees' annual report. Ideally therefore module 1 should be written so that a non-finance professional person can follow its guidance. Consequently, ACCA supports having prompt questions as an aid to understanding what is required.

The drafting of module 1 is appropriately different in its approach to the other modules. The role of the SORP is to provide application guidance to charities following FRS102 and it is reasonable to anticipate that the preparers of financial statements are individuals with an accounting background and a level of understanding can therefore be assumed of technical accounting terms and concepts in presenting these other modules.

### **7 Do you consider the requirements for impact reporting for each tier to be proportionate?**

#### **No**

Evidence provided to the SORP Committee did clearly demonstrate that impact reporting or performance reporting is important to stakeholders<sup>5</sup> (13 November 2020 meeting- paper 1). The public do want to know what a difference a charity is making, however this reporting has been encouraged on a voluntary basis since 2005 and the available evidence (2020) is that only a small minority of charities currently provide it<sup>6</sup>

By requiring it immediately of all tiers this is arguably not thinking small charity first since few charities in general are doing it and there is therefore an absence of a body of sector practice to assist the adoption of impact reporting. ACCA agrees that it is right to make it mandatory since a voluntary approach has demonstrably not been successful as this is supported by the

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<sup>5</sup> <https://www.charitysorp.org/web/guest/current-sorp-committee-meetings-and-papers>

<sup>6</sup> <https://charitycommission.blog.gov.uk/2020/11/10/why-should-trustees-explain-the-difference-that-their-charity-makes/>

evidence of stakeholder interest but a more proportionate approach would be to retain it as a voluntary best practice for tier 1 charities and make it mandatory for tiers 2 and 3 only.

**8 Do you consider the requirements for sustainability reporting for each tier to be proportionate?**

**Yes**

ACCA has long promoted sustainability reporting and is very supportive of its wider adoption. In support of smaller charities ACCA produced technical guidance to help trustees progress a simplified approach to Environmental, Social and Governance (ESG) reporting which includes aspects of sustainability<sup>7</sup>.

In regard to the governance aspect, it would be helpful if there was an encouragement by trustees to report upon whether they have adopted a governance code. Each UK charity jurisdiction has its own voluntary charity governance code and in the Republic of Ireland the governance code is issued by the Charities Regulator and its uptake is actively monitored<sup>8</sup>.

ACCA supports requiring tier 3 charities to report on ESG matters (Exposure Draft paragraph 1.61) and supports the requirement being broadly drawn since a specific framework or an adaptation of a framework for sustainability reporting for public benefit entities has yet to be developed. ACCA therefore encourages the SORP-making body to work with the sector in coming years to identify and document best practice in such reporting. To this end ACCA has a number of materials that may be of assistance if such work was taken forward<sup>9</sup>.

**9 Do you consider the disclosures for volunteers to be proportionate?**

**Yes**

The requirements of the current SORP in regard to the notes to the financial statements already requires 'an indication other forms of resources from non-exchange transactions from which the charity has benefitted...for example the contribution of unpaid volunteers' (module 6 paragraph 6.31) and so the requirements of paragraph 1.22 build upon a base of existing reporting.

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<sup>7</sup><https://www.accaglobal.com/uk/en/technical-activities/uk-tech/in-practice/2022/october/esg-reporting-smaller-charities.html>

<sup>8</sup><https://www.charitiesregulator.ie/en/information-for-the-public/press-releases-and-public-notice/2018/november/charities-governance-code-launched>

<sup>9</sup><https://www.accaglobal.com/uk/en/professional-insights/global-profession/sustainability-reporting.html>



Currently only larger charities are encouraged to report on the contribution of general volunteers (current SORP paragraph 1.39) which is repeated in the Exposure Draft (paragraph 1.27) as a voluntary disclosure. If, as the SORP-making body asserts in the Basis for Conclusions (appendix 4 paragraph B29) that: ‘...the SORP-making body consider this information to be important in telling the charity’s story’ it seems anomalous for this aspect of reporting to remain voluntary for tiers 2 and 3.

**10 Do you consider the explanation of reserves in the glossary helpful?**

**Yes**

A definition of reserves was given in the glossary to SORP 2005 and so its reintroduction is very helpful. Knowing the level of a charity’s reserves is important both to trustees in managing their charity but also to stakeholders in understanding a charity’s financial resilience (see also our comments to question 14).

**11 Do you consider the disclosures for reserves are proportionate?**

**No**

ACCA fully supports the requirements in regard to reserves but notes the section on reserves now includes reporting relating to going concern which will require additional reporting. As explained below this is a reasonable expectation of tiers 2 and 3 but arguably not for tier 1 charities (Exposure Draft paragraphs 1.42 and 1.43).

ACCA fully agrees that trustees must make a judgment as to whether their charity is a going concern when preparing/ approving the financial statements but contest the SORP-making body’s presumption that providing this explanation is not an added burden. The SORP-making body states that: ‘The SORP-making body is of the view these changes would not increase the reporting burden charities as they already need to produce and consider this information to comply with module 3.’ (Basis of Conclusions appendix 4 paragraph B.35). Although charities that are audited will have a dialogue with the auditor about demonstrating going concern and so reporting on this would not be a burden this is not necessarily true for charities subject to independent examination.

In none of the UK independent examination regimes must the examiner publicly report on going concern in the independent examiner’s report and although a Direction is given in regard to going concern to examiners in England and Wales this is not the case for the other jurisdictions. Consequently, trustees may not be used to articulating a case for going concern and so reporting on it would require additional work by these volunteer trustees.

ACCA also notes that in respect of the timing of designations there has been a relaxation. The current SORP paragraph 2.7 states: 'Trustees may choose during the reporting period to set aside a part of unrestricted funds to be used for a particular future commitment'. In the Exposure Draft paragraph 2.8 this formulation has changed with the reference to 'during the reporting period' dropped. It now reads: 'Trustees may choose to set aside a part of the charity's unrestricted funds to be used for a particular future project or commitment' which would allow designation after the end of the reporting period but before the financial statements have been approved. Since designated funds can be excluded from the declared amount of reserves this freedom grants trustees' considerable flexibility as to the level of reserves they choose to declare.

ACCA recommends that the SORP-making body consider carefully if this was an intended drafting change.

**12 Do you consider the requirement for tier 1 charities to provide a summary of their plans for the future is proportionate?**

**Yes**

ACCA supports the idea but doubts that the very general disclosure envisaged would achieve the intended aim (Exposure Draft paragraph 1.48). In view of the evidence of stakeholder interest (refer to our overarching comments) might it be better framed as: The report must advise whether the planned level of charitable activities for the coming year will stay the same, increase or reduce with an explanation as to why this is the case?

**13 Do you consider that the additional disclosure will help to explain the treatment of legacies in the accounts?**

**Yes**

The recommended reporting (Exposure Draft paragraph 1.46) appears intended to explain why an apparently strong balance sheet position, due to a material legacy debtor, is not reflected in the level of operational activities or is perhaps an element of reserves unavailable to spend. This a useful prompt but is potentially also true of any amount of material income which has been recognised but for which cash settlement has not been made.

**14 Do you have any other comments on module 1 and the proposals for the trustees' annual report?**

**Yes**

ACCA supports the think small first approach but the Exposure Draft increases the reporting requirement for the vast majority of charities. Since tier 1 charities are almost always wholly reliant on volunteers (see overarching comments) ACCA is concerned that insufficient attention has been given to the demands being placed upon these volunteers.

Reference is made in the Exposure Draft to incorporating the requirements of the charity reporting and accounting regulations (Exposure Draft paragraph 1.6) but as the draft notes not all requirements are incorporated (paragraphs 1.6 and 1.7). The effect of this taken together with the some of the additional reporting requirements being introduced is to make the trustees' annual report even longer.

ACCA would encourage the SORP-making body in developing future SORPs to test all the reporting requirements against the evidence of what is important to the general purpose user of financial information (refer to our overarching comments).

In support of a future rethink, ACCA notes the move to integrated reporting and bringing together sustainability reporting into the statutory reporting with a focus on the operating model. IFAC are leading in this area and so ACCA recommends the SORP-making body keeps a watching brief on these developments<sup>10</sup>.

In conclusion, a more holistic operations focussed approach might consider resilience as more than financial but encompass the resources of: volunteers, donated goods, money, access to the operating environment, its people and their skills, and the networking or collaborating arrangements. Many of these elements are already found separately in the SORP in a piecemeal form, however a holistic approach would allow a different emphasis for a charity on each of these resources. ACCA recommends consideration is given in the future to changing the focus of reporting to consider a charity's resilience, capability and capacity through a more holistic approach to reporting.

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<sup>10</sup> <https://www.ifac.org/knowledge-gateway/integrated-reporting-resources>

## **Section 5 lease accounting**

### **25 Do you find the module easy to navigate as drafted?**

**Yes**

The new accounting for leases by lessees is more complex than the current one. The SORP-making body has a difficult balancing act since those familiar with lease accounting might find the module too long whereas for the majority of charity trustees and preparers this lessee accounting is wholly new and challenging and so they might have greater information needs than the text fulfils. The table of contents (table 9) and the listing of terms (Exposure Draft paragraph 10B.8) are useful.

ACCA notes that the current SORP on occasion refers to Information Sheets where more information is provided (for example current SORP paragraph 27.4A) and ACCA recommends the SORP-making body commits to develop equivalent material for lease accounting and incorporate such references into module 10B.

### **26 Does the module explain the relevant requirements of FRS 102 in a clear and understandable way? Please select all options that apply:**

**In part**

The lessee accounting for social donation leases infers full recognition of the value of the identified non-exchange element as income at the point of initial recognition (Exposure Draft paragraph 10B.82). This treatment is different from that of the lease liability, imputed financing costs and depreciation of the right of use asset all of which are treated as linked to the lease term and happening through time as the charity makes use of the leased asset to further its charitable purposes. This accounting treatment may potentially have a distorting effect on reported income in the reporting period on initial recognition of a social donation lease.

Full recognition of the non-exchange element implies that the charity as lessee enjoys the full utility of using the asset at the point of recognition but a charity makes use of a leased asset to further its charitable objects over the lease term. ACCA notes that in its submission to the FRC of 10 May 2023 commenting on the draft amendments to FRS102 the SORP-making body requested in respect of a lease containing a non-exchange transaction: ‘...the intended treatment would be for the PBE to recognise deferred income at the commencement of the lease of equal value to the amount included in the right of use asset...’ This approach would link the non-exchange component to the use of the leased asset through time.

Since social donation leases are likely to be distinct to the PBE sector, ACCA would support the SORP-making body should it decide to approach the FRC to discuss allowing more time to identify the most appropriate technical solution for non-exchange compliments of leases (see also our answer to question 29) given that the proposal of the SORP-making body was not accepted and the solution in the Exposure Draft is potentially misrepresenting as to the level of income upon initial recognition.

**27 Does the section (paragraphs 10B.68 to 10B.84) on arrangements that are significantly below market value provide clarity on how to account for such arrangements?**

**In part**

This section does provide very helpful guidance to supplement the brief reference in FRS 102 (paragraph PBE34.70B) to such leases which states: 'When a lease contains a non-exchange transaction (eg when the lease payments are significantly below market rents), the incoming resources shall be accounted for as a receipt of resources that form part of the cost of the right-of-use asset.' ACCA appreciates the difficulty in balancing the provision of examples and detailed explanations against length and complexity but in this instance although the table of examples (table 9A) is a helpful start, the detailed working through of each example is missing. In view of the reliance of tier 1 charities on volunteers (see our overarching remarks) a fully worked scenario for each example is needed.

The differentiation of social donation leases from other types of leases attracting a low rent due to the condition of the asset involves contextual judgment. Where the lessor is a public body this judgment is made more difficult unless the lessor is specific about the character of the lease. It might not be as obvious as the SORP-making body assumes (Exposure Draft paragraph 10B.79) to identify social donation leases. Also differentiating nominal or peppercorn leases from social donation leases may not be straightforward since no indication is given as to the likely boundary between the two in terms of the amount of rent due. It would be helpful if the SORP made it clear that this is an area where trustees will need to make a judgement.

**28 Are the additional disclosure requirements set out in paragraphs 10B.95 and 10B.129 reasonable for charities with such arrangements?**

**Yes**

ACCA agrees with the disclosure required for social donation leases by lessee and lessor.

## **Section 9 Smaller charities**

**40 Do you agree that the drafting, structure and proposals in the Exposure Draft SORP support the needs of smaller charities whilst addressing the needs of users of charity reports and accounts?**

**Yes**

Within the constraint of the process ACCA agrees that the Exposure Draft does improve significantly upon the current SORP in assisting trustees and preparers of accounts for smaller charities understand what is required.

There are competing demands on the SORP, to offer advice and support in terms of detailed explanations, illustrations and examples to help preparers understand the requirements of FRS102 offset by concerns at the SORP becoming longer and complex with each iteration. ACCA notes that following the 1995 Charities SORP, a booklet was produced aimed at those charities otherwise eligible for receipts and payments accounting but choosing the SORP- Accruals Accounting for the Smaller Charity (CC55). The SORP-making body might consider the feasibility of issuing a similar document aimed at tier 1 charities only (See also our response to question 42) subsequent to the issuing of the next SORP.

## Section 10 Other comments

### 42 Do you have any other comments on the Exposure draft SORP?

**Yes**

Anecdotal evidence suggests that the transition to lessee accounting and the adoption of the five-step revenue recognition model will prove very demanding for charities. To ease the transition ACCA suggests the SORP-making body develop a suite of helpsheets to assist charities manage this change. The FRC already takes this approach<sup>11</sup> with a number of Factsheets but these are not focussed on PBE entities and so there is a gap in the support available. Since the FRS102 and the new SORP take effect for financial years beginning on or after 1 January 2026 there is an urgent need for this assistance to be developed.

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<sup>11</sup><https://www.frc.org.uk/library/standards-codes-policy/accounting-and-reporting/uk-accounting-standards/frc-factsheets/>