

Purpose

The purpose of this paper is to –

- confirm the decisions of the joint SORP-making body on the approach to tiered reporting for the SORP Drafting Process and
- provide details on the consideration the joint SORP-making body has given to the application of section 1A FRS102 and the ‘this SORP requires’ specifications.

1. Tiered Reporting Approach for the Charities SORP Drafting Process

1.1 The Charities SORP Committee has considered the approach to tiered reporting at various meetings during the development process. The joint SORP-making body previously outlined its proposed approach to tiered reporting as a working assumption which has informed the SORP drafting to date. The approach taken has been to introduce 3 tiers for reporting as follows:

- Tier 1 requirements were set for charities with not more than £500k gross income.
- Tier 2 requirements were set for charities falling between the tier 1 threshold for gross income and the higher threshold of £10.2m (consistent with the turnover requirements for the Companies Act 2006 threshold for small companies).
- Tier 3 requirements were set for charities with gross income higher than the £10.2m threshold.

The joint SORP making body has been clear that due to the nature of the operating activities and the financial reporting approach for charities, the thresholds will be based on gross income only. This will help to reduce the complexity of the approach to tiered reporting.

- 1.2 When drafting SORP modules, consideration has been given to whether the requirements can be set into tiers, and discussions have taken place with the SORP Committee in relation to the modules drafted so far.
- 1.3 The joint SORP-making body made a commitment to review the working assumption on the tiers to ensure that there was a demonstrable difference between the tiers so to avoid over complicating the framework without significant benefit.
- 1.4 One of the principle aims of introducing 3 tiers was to identify potential areas where requirements could be reduced, thereby simplifying requirements for smaller charities in particular. The joint SORP-making body has concluded that there is little flexibility available for more fundamental change as much of the disclosure is required by FRS102 and secondary legislation.
- 1.5 When assessing the disclosure requirements, the joint SORP-making body has considered whether section 1A of FRS102 could be applied given the approach taken in FRED 82 and reviewed the requirements of the SORP that do not originate from accounting standards (usually referred to as ‘this SORP requires’). The joint SORP-making body concluded that section 1A, if applied,

would not significantly reduce disclosures and the ‘this SORP requires’ requirements remain important for transparency. Even though these conclusions have not provided scope for significant change, this was a worthwhile exercise. The conclusions to this work are set out at Annex A below.

- 1.6 Having concluded that scope for more fundamental change is not available, the joint SORP-making body then reviewed the working assumption of 3 tiers as outlined in 1.1 and have agreed to proceed with drafting based on the 3 tiers.
 - 1.7 When considering the tier 1 threshold, the £500k/(€500k) threshold is consistent with the current threshold for smaller charities in the SORP as specified in paragraph 1.9. It is also noted that this is consistent with the statutory audit thresholds of Scotland and Northern Ireland.
 - 1.8 For tier 2 and 3, as noted above the income threshold is based on the Companies Act 2006 threshold for small companies’ turnover (Note: In the Republic of Ireland, the small companies’ turnover threshold is €12m). Although the threshold is intended to align with the Companies Act, it should be noted that the full Companies Act definition also includes balance sheet and number of employee thresholds. The effect of this is that there may be situations where a charity has gross income less than £10.2m and so would qualify as either a tier 1 or tier 2 charity for the purposes of the Charities SORP but would not qualify as a “small entity” under the Companies Act meaning it may be subject to additional requirements as a result of company law.
 - 1.9 At the July 2022 meeting a member enquired why the thresholds were not described as being £500k or above. The Secretariat considers that for consistency with the Companies Act 2006 approach which refers to thresholds being ‘not more than’ it might be useful if the approach to tiered reporting in the SORP also followed that approach. It is noted that the application of gross income thresholds in secondary legislation is mixed, with some referring to ‘not more than’ and others referring to ‘£x or more’.
 - 1.10 So that the thresholds for the tiers are clearly understood when applying the SORP it is suggested that in addition to the application of the tiers being inserted into each module that they should be introduced and explained in the early sections of the SORP. A new paragraph has therefore been inserted at paragraph 2.9. An extract of the SORP section *How to Use a Modular SORP* has been provided at Appendix 1 to this report. The Charities SORP Committee is invited to consider if the specifications are clear and understandable and introduced at the right juncture in the SORP. It is anticipated that details about the tiers will also be included in Module 1 where they are most relevant.
- 2. Tiered Reporting Decisions to Date and Possible Approach to Other Modules in the SORP**
- 2.1 Attached to this report at Appendix 2 is an Excel spreadsheet setting out the tentative decisions made by the joint SORP-making body to date about tiered reporting in a number of modules (taking into account the advice of the

Committee). It also sets out the suggestions by the Secretariat as to whether it considers tiered reporting is appropriate for a charity following accrual accounting under FRS 102 and the SORP in the remaining modules.

- 2.2 As is demonstrated, the Secretariat is of the view on an initial appraisal that accrual accounting would require that specifications for each of the other modules apply to all tiers of charities following the SORP.
- 2.3 As tiered reporting is most relevant in the reporting requirements for the Trustees' Annual Report a more detailed analysis of the decisions made about tiered reporting in the Trustees' Annual Report to date is provided in Appendix 2.

3. The Application of the Tiers to Reporting Periods

- 3.1 The joint SORP-making body has reflected on whether the SORP could and should introduce prescription about charities moving between tiers as a result of gross income changing due to infrequent events, similar to that provided for in company law. The joint SORP-making body concluded that to introduce prescription in relation to thresholds in SORP would over complicate the regime and would also cause disparity with the thresholds that are set out in the secondary legislation in the respective jurisdictions, for example the threshold for the preparation of SORP accounts for non-companies. The joint SORP-making body therefore decided to proceed without introducing other rules but will feed this into any updates to the regulations as this may be more helpful to charities crossing the initial SORP £250k threshold.

4. Next steps

- 4.1 The drafting of the SORP will continue based on the three tiers; each of the remaining modules will be considered on this basis. Once the remaining SORP modules have been drafted a further review will be completed. At this point the outcome from the FRC FRED consultation should also be known and any further opportunity for simplification and proportionality will be assessed, taking into account the final position set out in the standard.

Recommendations
1. The Charities SORP Committee is invited to note the decision of the joint SORP-making body with regards to tiered reporting which is subject to final review by the joint SORP-making body once the new version of FRS102 is published.
Questions
1. The Charities SORP Committee is invited to comment on the drafting of new paragraph 29 set out in Appendix 1 and whether the reporting requirements are clear and appropriately placed.

Annex A

Application of Section 1A

The joint SORP-making body has considered whether in light of the amendments made to section 1A in FRED82, there was a possibility that section 1A could now be used for charities to relieve reporting burdens. To clarify, the concessions offered by section 1A largely relate to disclosure requirements, not the recognition of income, expenditure, assets and liabilities as such items must be recognised where material under the basic principles of accounting standards.

Within FRED82, appendix C to section 1A sets out the minimum disclosures that an entity would be required to include if applying section 1A. The Basis for Conclusions for FRED82 explains that the FRC is now able to specify (for UK entities) the additional disclosures that are expected to be required in order to give a true and fair view, thereby reducing the judgement that preparers need to exercise.

The joint SORP-making body has considered the minimum disclosures set out in Appendix C in comparison to the disclosure requirements set out in the main SORP modules that are based on FRS102 to identify whether there are any significant concessions offered. Unfortunately, the conclusion is that there are very few concessions available meaning any potential benefit that could be gained from trying to accommodate the use of section 1A by charities within the SORP would likely be outweighed by:

- the complexity that it would introduce for preparers in understanding the requirements that they need to apply (taking into account the interaction of the Companies Act thresholds for the use of section 1A with the criteria for the tiers in the SORP) and
- the challenges for preparers in exercising the appropriate judgement which it is difficult to get away from as the application of section 1A is fundamentally judgement-based despite the development of Appendix C.

This SORP Requires

The joint SORP-making body also undertook an exercise to review the “this SORP requires” requirements which are scattered throughout the

SORP. The phrase “this SORP requires” is used to distinguish the additional disclosures required specifically by the SORP which are not required by FRS 102. The joint SORP- making body felt that as there was a lack of scope in reducing the reporting burden for charities through flexibility in FRS 102, that a potential easement may be found as a result of reviewing the requirements included specifically within the SORP.

In total there are 54 instances of “this SORP requires” or “this SORP also requires” which provide SORP-specific disclosures, ranging from simple disclosures to provide clarification from a charity perspective on disclosures set out in FRS 102, to the requirement for charities to include an explanation on their social investment policies.

Unfortunately, the joint SORP- making body feels that the additional disclosures that arise from the “this SORP requires” requirements are beneficial to provide transparency for the sector. Some of these will have no impact on smaller charities as they are unlikely to be involved in transactions of the nature that would require disclosure but for charities that accounts for these transactions the charity specific disclosures are considered reasonable.

Several of these requirements have already been discussed by the SORP Committee as part of the drafting process to date and the consensus is that these should remain as they provide useful clarity for both charities themselves and the sector.