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Charities SORP
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8 December 2016

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Dear Mr Allen

Response to the Research exercise on Charities SORP (FRS 102)

Grant Thornton UK LLP is a leading financial and business adviser with a strong presence in the charity sector. We are pleased to respond to the 'Research exercise on Charities SORP (FRS 102).' Overall, we welcome this research exercise which explores a number of important areas and themes relevant to the users of charity accounts and the sector.

We believe that the future of financial reporting is important and this research exercise is a tremendous opportunity for the sector to revisit the sector's financial reporting requirements, focusing on the needs of charities and the users of their accounts. In our view, the charity sector, through this research exercise, could help drive forward more purposeful financial reporting by exploring who the real users of charity accounts are, what information they require and challenging the status quo where it fails to meet the users requirements.

By reflecting on the fundamental purpose of financial reporting, we believe the outcomes of the research exercise will result in more relevant reporting and thereby help to build a vibrant economy. As part of this, we have included in our response the feedback and comments received from key stakeholders in the charity sector through our recent opinion poll on the SORP Research exercise.

Interestingly, our poll findings, notwithstanding from a small non-statistical population, suggest that there is a perception in the sector that the most important users of a charity's annual accounts and financial statements are the funders of the charity, followed very closely by the charity regulators. Such findings further support that this research exercise is timely and will allow the SORP-making body to explore the needs of these users. We are more than happy to share with you further detailed findings from our poll.

We also appreciate this research exercise will assist in addressing some of the challenges arising from the implementation of FRS 102, provide further clarification to the users of the SORP and assist in raising the standards of financial reporting.

We believe that a number of the themes suggested in the research exercise have been prompted to increase transparency for larger charities in the public eye and to focus on the financial sustainability of all charities.

Whilst we support the aims of the regulators, we do believe that the outcome of this consultation should be proportionate and not create superfluous 'clutter' in charities' annual reports or prove to be a cost and administrative burden for auditors and accountants

Chartered Accountants

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operating in the sector, as this will ultimately be passed onto the charities themselves.

Our responses to the questions are attached below. If you would like to discuss any of our responses in more detail, please contact myself or Omadevi Jani on +44 (0)207 728 2630, or via email at omadevi.jani@uk.gt.com.

Yours faithfully

A handwritten signature in black ink that reads "Carol Rudge". The signature is written in a cursive, slightly slanted style.

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Responses to specific questions

Q.1 Do you agree that the new format of the SORP meets the needs of all those preparing accounts using the SORP, including smaller charities? If not, what improvements should be made and why?

Overall, we welcome the modular approach to the format of the new SORP with the relevant accounting topics laid out in a logical and user friendly way. However, we believe that the SORP layout could be improved further in order to make it more user friendly for the needs of smaller charities as well as charities which are incorporated under the Companies Act 2006.

For instance, we wish to see a more advanced option of the tailored SORP being made available for users to download online from the SORP micro-site. Such a facility would allow the users to fully customise the SORP for their own individual needs by inputting key data such as size, applicable legislations, jurisdiction and whether they are preparing receipts and payments or cash-based accounts. We believe this would be particularly helpful for smaller charities so that they are able to understand what the mandatory requirements are for them.

Another suggestion in terms of the format is for the SORP modules to clearly distinguish the requirements which are applicable to all charities, separating those which are mandatory for larger charities and the exemptions available to smaller charities.

It may be helpful to have an overall appendix or checklist to highlight each of the requirements at a higher level so that users can also carry out a sense check to ensure areas have not been overlooked for their level of reporting, but also so that users of the SORP are able to see those areas of reporting where there are clearly differences depending on the size of the charity.

Q.2 Is more assistance required to help smaller charities? If so, please explain what is needed and why.

In our view the current accounting and financial reporting framework for smaller charities has become unnecessarily complicated. The recent changes in the audit thresholds both under Charities Act 2011 and the Companies Act 2006, the de-linking of the definition of 'larger' charities from the audit thresholds and the recent Charities (Protection and Social Investment) Act 2016, have all increased the complexity of the framework for reporting.

We believe that guidance is required in the SORP specifying the requirements on which primary statements should be prepared by smaller charities and what exemptions may be taken by small charities.

As a result of these changes, we suggest that it would be helpful for charities to have a flowchart or decision tree which makes it easier to assess whether they are small for financial reporting purposes and the implications this will have in terms of financial statements, particularly due to the recent changes arising from the Charities (Protection and Social Investment) Act 2016. We do not necessarily think that the SORP is the best

place for this information to be published however, a CC helpsheet/information sheet may be a more suitable place for such guidance.

Q.3 Is the use of the terms 'must', 'should' and 'may' successful in distinguishing 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 on how a particular disclosure or other requirement might be met? If not, what alternative format should be adopted and why?

Overall, we believe that the use of all three terms throughout the SORP is not helpful and is highly confusing for the users of the SORP. In our view, the SORP could be simplified on this matter and we suggest that all the SORP requirements which are considered mandatory by the SORP-making body to provide a 'true and fair view' are stated as a 'must' requirement.

The SORP-making body should re-visit and consider whether a number of the current 'should' requirements need to be updated to a 'must' requirements in the SORP, as they are already being followed by the sector and are considered to be a 'must' requirement by other parties such as the regulator.

In our view, the use of the term 'should' has overtones of compulsion and therefore we believe the SORP-making body consider whether this term could be replaced by 'This SORP requires....' and consider avoiding the use of the term 'should' to avoid ambiguity.

We also believe that charities should still the opportunity of adopting best practice and the SORP should provide information where this is possible, making it clear where a matter is best practice, rather than a requirement of the SORP.

Q.4 Given the requirements for financial reporting that are now explained in FRS 102, is the retention of a SORP still necessary in the charity sector? Please give reasons for your answer.

We do believe that the SORP is still required, however, we wish to emphasise that the purpose of the SORP is to provide sector specific guidance which has not been covered by FRS 102 and add further guidance on how FRS 102 requirements should be implemented for charities. The SORP should aim to provide guidance and clarity on the nuances of charity accounting, for instance, fund accounting, or accounting for social investments, and how charities should account for matters as related party transactions and donations/legacy income recognition.

We understand that those preparing charity accounts value having one document that covers the vast majority of the accounting and financial reporting requirements, coupled with additional guidance for sector specific issues. However, we wish to add that where FRS 102 already addresses an accounting matter and its application is relevant to the charity sector, the wording should be repeated and not paraphrased. In some cases, it may be more appropriate to simply cross reference to the relevant section of FRS 102 to avoid the risk of inconsistencies and ambiguity. Specific areas that need to be addressed due to inconsistencies with FRS 102 have been reflected in our response to question 5 and the detailed examples in Appendix A.

Q.5 Do you have any suggestions as to the changes needed to address issues on implementation or in meeting the SORPs requirements? If so, please explain what they are and where possible please give examples.

As noted above, there are a number of areas that we have identified as being inconsistent with the requirements of FRS 102. We have also identified a number of areas where charities have found practical issues on implementation of the requirements, where in our view, with potentially little value to the readers of the accounts.

We have noted these examples in Appendix A.

Q.6 Do you agree that there needs to be a third tier of reporting by only the largest charities and if so at what level of income should that reporting requirement apply?

As mentioned earlier, the regime for financial reporting and the requirement for external scrutiny is already overly complicated for the charity sector and adding an additional tier to the existing SORP would only add to the burden. We believe that by introducing a third tier of reporting within the existing SORP, a new threshold would be required for this highest tier of reporting. If the threshold is set too high, there is risk that some intermediate charities, including many 'household names' are not caught by the highest tier of reporting, thereby potentially reducing transparency where users may require it. Conversely, if the threshold is too low, this will result in additional reporting burden and cost to smaller charities.

Therefore, before we are able to provide any conclusion on this suggestion, we wish to understand what this third level of reporting would mandate on the very 'largest' charities which is not currently covered by the existing SORP requirements.

We believe that the concept of a third tier should also consider who the users of the accounts are, what information they require and why. We feel that any additional requirements placed on a third tier should take into account the corporate reporting requirements for these very large charities. The question which requires further exploration in our view, is whether these large charities should look to the current framework for listed entities in terms of guidance or consider a framework specific for charities.

Further consideration for a third tier outside of the existing SORP may be helpful for the very largest charities which operate and perceive themselves to be akin to listed entities. For instance, we suggest that should the SORP-making body wish to explore a third tier outside of the current SORP requirements, they may wish to consider additional reporting requirements for those in the 'top tier' such as a compliance statement on internal controls or compliance with a code of governance. We have commented on this in more detail in Question 10.

Q.7 If you agree that there should be a third tier of largest charities, what items in the existing SORP that apply to larger charities should be restricted to just these largest charities?

As noted above, we would support some of the proposed additional reporting requirements being applicable to the largest tier of charities only.

In respect of the current requirements of the SORP, we have not identified any specific requirements that we believe should only be applicable to the largest tier.

Q.8 Do you agree with one or more of the four suggested areas for review of the trustees' annual report recommended by the SORP Committee? If so, which ones do you support and if you do not support any of these suggestions, please give your reasons as to why not?

We believe that the SORP needs to encourage clear and concise reporting which is also in line with the FRC's drive forward in 'Cutting Clutter' in the annual reports.

We have considered the four suggested areas of reviews and have some comments as set out below on each of these.

8.1 Better integration of the report with the accounts

We do believe that the aim of the trustees' annual report (TAR) is to allow the charity to tell their story, however, this will be unique to each charity and therefore there is a risk that by providing examples of best practice some narrative may become 'boilerplate'. We do appreciate that this can be a difficult report to prepare, therefore, additional guidance notes expanding on key principles may be useful, such as ensuring the report is clear and concise, focusses on the material areas, is consistent with the accounts etc.

In relation to ensuring better integration between the TAR and the accounts, the guidance could be embellished to ensure charities are fully explaining their operating results, the balance sheet position and the cash flows within their financial review and linking this to other areas of the report. This can be done using key performance indicators that focus on both the financial and non-financial performance of the charity.

8.2 Detail of reporting

We believe that this is an opportunity to revisit the purpose of the annual report and the financial statements. We recognise that the financial statements have a dual purpose to meet the regulatory requirements, but also to provide information to the principal stakeholders. From our recent poll, respondents indicated that the main readers of their charity accounts were the Regulators, external funders and individual donors.

However, our preference would be to focus a review exercise on the clarity of the content, rather than the level of detail. Many reports already contain a huge amount of detail, but we would question whether all of this is of value to the reader. There is a risk that the TAR will become too detailed and some of the information which has been suggested from themes could be better placed elsewhere. For instance, the fundraising ratio which has been considered as part of this theme is a valuable piece of information for various stakeholders, especially funders, however, we do not believe that the TAR is the best place for this information. This could be produced on the charity's website or even the 'glossy annual review' copy but not necessarily a part of the statutory financial statements and annual report.

8.3 Key facts summary

We do not believe that a summary of information which can already be deduced from the information produced in the financial statements should be included as an annex to the annual report as users that wish to collate such information should be able to do so from a review of the accounts. As confirmed by our recent poll, we believe it to be rare that the general public would refer to the financial statements to obtain this information as they are more likely to look to the charity's website.

Many charities already prepare a separate publication that includes summary financial information. This publication is more focussed on the charitable activities and how they have achieved their aims and objectives for the year. It does also include summary information from the financial statements. This document is optional but suits some charities where there is a demand for such information from their stakeholders.

However, we do consider that there is merit in disclosing some of the information which the public may be interested in as mentioned in section 3.4 of the consultation under disclosure of key facts. See our detailed comments on this matter under question 10.6.

8.4 Reserves definition and guidance

In our view the disclosure of the reserves policy needs to address the requirements of the individual charity. We support the move to include additional information in the reserves policy however we believe that there is sufficient guidance in the SORP and the Charity Commission's publications for charities on this matter.

Q.9 Do you agree with either of the two suggested areas for the review of the accounts recommended by the SORP Committee? If so, which ones do you support and if you do not support any of these suggestions, please give your reasons as to why not?

9.1 SoFA – more specific definitions of support costs and fundraising costs

We do not believe that having specific definitions of support costs and fundraising costs is helpful to the users of the accounts as this can vary depending on the nature of the charities activities. We recognise that the current regime results in a lack of comparability between charities, however, this will always be the case given the disparity in how charities are structured and managed. As such, we do not consider that the current regime requires further changes.

9.2 The mixture in the SoFA between 'revenue' and 'capital' items needs to be considered.

The split between 'revenue' and 'capital' is not required by the existing SORP and we do not believe that such a split is considered necessary to assist the users of the accounts on the face of the SoFA. We do not believe that an additional column in the SoFA for capital items e.g. fixed assets restricted/unrestricted column will offer better disclosures for the users as the basis of income recognition has moved on since the requirements of SSAP 4 Accounting for government grants.

All charities are required to recognise income, regardless of whether it is 'capital' or 'revenue' in nature, in line with the income recognition criteria, namely, entitlement

probability and measurement, and therefore we do not believe that this additional disclosure is relevant to the accounts. As charities cannot adopt the accruals model, this split is not considered to be appropriate to charity's accounts.

Whilst we appreciate that some charities may be heavily capital grant funded as opposed to revenue grant funded, in which case, such charities could perhaps explain any significant fluctuations in the SoFA via some narrative reporting as the SoFA is already complex enough without adding additional columns.

The SORP could also highlight the fact that FRS 102.5.9A allows an entity to disclose an item which is material, separately on the face of the statement of comprehensive income or the notes. This may aid those charities which have significant fluctuations arising due to material capital funding. We do believe that showing this information separately may help charities assess their financial substantiality and viability, this information may also be beneficial to the users of the accounts. This same concept of disclosing material items could be expanded further to cover other volatile movements which may go through the SoFA such as fair value adjustments.

Q.10 Do you agree with one or more of the six themes for review of the SORP suggested by the charity regulators? If so, which themes do you support, and if you do not support any of these suggested themes, please give your reasons as to why not?

10.1 Theme: making a difference for the public benefit

We would welcome additional guidance in this area and for the SORP-making body to consider this further.

We believe that the statement on public benefit is currently too general for most charities and this could be made more relevant and specific a charity's circumstances. This view was supported by the majority of respondents to our charity poll who agreed that charities should explicitly explain who their beneficiaries are and how they have influenced the activities of the charity. One respondent felt that "charities are seeking to highlight the work that they do – as this is of fundamental importance to funders".

10.2 Theme: risk management

We welcome this theme and do consider that it merits some further consideration.

The management of risks and uncertainties is extremely important to the financial sustainability of charities. Given the current economic climate and the increasing pressures placed on the funding available to charities, the management of risks and uncertainties is central to all charities, regardless of their size.

As a result, in our view the requirement to describe the principal risks and uncertainties facing the charity and its subsidiary undertakings as identified by the charity trustees, together with a summary of their plans and strategies for managing those risks, should be a requirement for all charities not just those which are defined as 'larger' charities.

In addition to this, the SORP making body may wish to explore some of the areas

suggested in more detail. For example, requiring some of the very large charities to explain what assurance they have in relation to operational effectiveness of the charity's internal financial controls (perhaps via a statement of internal control). In addition to this, the SORP committee may wish to consider whether larger charities should be required to explain how the charity ensures effective governance arrangements, and therefore require them to comply with a code of governance. Whilst this would be an additional burden for charities, the largest already look to the best practice on governance, for example The UK Corporate Governance Code as far as it is applicable to a charitable entity.

10.3 Theme: going concern

We do not believe that this area requires significant change as charities are already following these requirements. Whilst we recognise there is an increased risk relating to the continuing financial viability of some charities, we believe that this should be addressed by encouraging better governance within the charity rather than increasing the reporting burden.

10.4 Theme: enhanced analysis of expenditure

In our view the current SORP already requires significant disclosure of administrative and fundraising costs. The difficulty lies in the allocation of costs, which will vary depending on the nature of its activities. Therefore, we do not consider that explicit guidance on defining these costs will be helpful and this was supported by a third of our respondents who disagreed with this theme. We recommend that the purpose and intention as to why this information is required is considered before pursuing this further.

Some of the issues mentioned such as the disclosure of charitable expenditure outside of the charity's registered jurisdiction and overseas expenditure would result in an unnecessary and unbalanced burden for those charities that operate overseas. If this information is important to the reader, it should be included in the narrative reporting on the charitable activities. In our view, if the charity regulators consider that such information is necessary and it should be disclosed by the charity, we suggest that this is collected in a charity's annual return.

In relation to staff pay disclosures, we do not believe that the SORP should impose requirements beyond FRS 102 and we do not agree that charities should be required to disclose the post and pay level of all senior employees. This is a matter for the individual charity to consider and could possibly be in breach of employment contracts which often have confidentiality clauses. There are further concerns in terms of disclosing the pay of senior employees where they are operating under exceptional circumstances, where such disclosure could possibly be detrimental to their wellbeing, due to external factors. As such it could act as a deterrent for charities to try and attract the best talent into the sector.

10.5 Theme: disclosure of who funds a charity

This theme explores the possibility of all charities having to identify by name and amount any material individual/ corporate/ government/ organisation donations and/or contracts. It would be helpful to understand who requires this information and to consider whether perhaps this information may be more efficiently collected via the charity's annual return.

In our view, such information may be difficult to collect or disclose, particularly where individual donations are made anonymously. Our poll suggested mixed views on this theme, with those that disagreed mainly due to concerns about such a requirement discouraging donations being made to the charity.

If such information were to be disclosed in the accounts, there is a danger that such disclosures could influence funders or give unfair advantage to those charities which are linked to well-known names, thereby resulting in donors/funders supporting an elitist system.

In addition to this, it may be difficult to define whether a donation is considered material or not for disclosure purposes.

10.6 Theme: disclosure of key facts

In our view, we do not believe that a summary of key information which can already be deduced from the information produced in the financial statements should be included, however, we appreciate that some larger charities may wish to include disclosures in the form of a 5 year summary of results, which may be more valuable to the users of the accounts. Such additional information gives the reader greater ability to do trend analysis which is important given the accounts are becoming more and more variable with fair value accounting and income recognition policies. Information over a longer period might assist with this trend analysis and add clarity.

Interestingly our poll results showed that half of our respondents would value some key facts information. Those that disagreed with this theme were concerned that this information would not assist the users of the accounts, particularly if it is already presented in the financial statements. Some even felt that such disclosures could be misleading if it is not explained well or placed out of context.

We welcome the inclusion of the fundraising ratio to be disclosed by charities, however, we do not believe this information should be mandated for all charities, particularly as it depends on the nature of the activities that the charity carries out. For instance, such a ratio would be irrelevant for grant making charities.

However, we suggest that this fundraising ratio should sit outside the trustees' annual report, on the charity's website or in a separate fundraising report, to avoid information overload in the front end of the accounts. This will also mean the information is more accessible to potential donors and funders.

Q.11 If you do support one or more of the suggested themes, which, if any, of the specific issues identified within each theme do you agree needs attention in the next SORP? Alternatively, if you support none of these suggested issues, please identify the issues that need to be addressed and explain your reasons why?

See our comments above.

Q.12 Are there any items in the report or accounts which could be removed. If so, what are they and what are your reasons for removing them?

See our comments Appendix A in respect of improvements to the SORP and areas of the SORP which could be removed.

Q.13 Are there any items in the report or accounts which could be changed to improve the information provided to the user? If so, which items would you change, what would the change be, and how would it improve the information to users of the report and accounts?

Comments on changes and improvements have been noted throughout in our above responses.

Q.14 Are there any items you would like to add in to the report or accounts? If so, what are these items and how would their inclusion help the user of the report and accounts?

No further comments to add.

Q.15 Are there any disclosures in the notes to the accounts that you believe can simply be removed altogether? If so please state the disclosure, the relevant SORP paragraph(s) and give your reasons as to why this disclosure is not useful to the user of the report and accounts?

Please also see our comments Appendix A in respect of improvements to the SORP and areas of the SORP which could be removed as they are sufficiently addressed by FRS 102.

Appendix A

<i>SORP PARA</i>	<i>SORP Module and comments</i>
	<i>1. Concessionary loans</i>
21.26	<p>The definition of what is considered a public benefit entity concessionary loan is covered in Section 34 of FRS 102. However, the SORP appears to imply in paragraph 21.26 that a concessionary loan may be repayable on demand (or within one year) and that it can be accounted for on the same basis as outlined in FRS 102 PBE34.90 to PBE34.97. Under FRS 102, a loan that is repayable on demand would fail the definition of a concessionary loan.</p> <p>This is the area where there is some misalignment between the guidance in the SORP and FRS 102 and as such we recommend that the SORP is updated to match/cross reference to the definition of a PBE concessionary loan, as outlined by Section 34 of FRS 102, in order to remove this ambiguity.</p>
	<i>2. Exemptions available under FRS 102</i>
SORP, para 24	<p>We recommend that the SORP guidance is clarified to make it easier for the user to identify which exemptions are available to charities. FRS 102 and the Companies Act both contain exemptions, but these are not always referred to in the SORP leaving the preparer of the accounts unsure if they apply or not.</p> <p>For example, FRS 102.33.1A allows for group entities to take advantage from disclosing related party transactions with wholly owned subsidiaries. However, this is not included in paragraph 9.18 of the SORP which lists the related party transactions that do not require disclosure. This infers that transactions between wholly owned subsidiaries and their parents do need to be disclosed. However, without an explicit reference, it is not clear.</p> <p>Under the Companies Act 2006, the section 408 exemption allows companies to omit the individual profit and loss account in a set of group accounts. However, the SORP is silent on whether this exemption is allowed for charitable companies.</p>
14.1	<p>Currently, it is not clear what exemptions may be applied by a charity with regards to the statement of cash flows in a set of group accounts. FRS 102.1.11/1.12 allows 'qualifying entities' to be exempt from presenting a statement of cash flows in the consolidated accounts, however, it is not clear whether this exemption can be applied by charities as well.</p>
	<i>3. Trustees and related party transactions</i>
9.18	<p>We believe that the SORP under paragraph 9.18 could be altered, in particular the requirement that <i>'charities must provide an aggregate disclosure of the total amount of donations received without conditions.'</i></p>

	<p>Whilst we agree that those donations which have influenced the charity's activities need to be disclosed, we do not believe it is necessary to disclose donations made by trustees/related parties where they have not influenced the charity's activities or such donations have been received without conditions.</p> <p>In practice, it is very difficult for charities to keep records on what donations have been made by their trustees where there are no conditions attached to them, for instance, where trustees have attended charity fundraising events and donated some cash at a stall or collection bucket. It would prove to be highly burdensome and in practice difficult to maintain such recording keeping where clearly there are no conditions attached or any influence to the charity's activities.</p>
SORP Glossary	<p>4. <i>Definition of employee benefits</i></p> <p>The SORP glossary defines employee benefits however this has already been defined in FRS 102. By including another definition of employee benefits in the SORP, this creates confusion as the definition is not the same in both.</p> <p>This has created ambiguity as to what items should be included in the total compensation of key management personnel by a charity. The SORP definition of employee benefits does not cross reference this to the same definition as applied in Section 28 of FRS 102 and as such omits a number of items such as social security costs and other employee benefits.</p>
15.24	<p>5. <i>Guidance for charitable companies</i></p> <p>We note that Section 15 of the SORP could be improved by making it clear what the requirements for charitable companies are in relation to showing revaluation/fair value reserves on the face of the balance sheet. It would be helpful to provide some common examples, e.g. revaluation of tangible fixed assets, heritage assets held at valuation, where charities would disclose the revaluation reserve on the face of the balance sheet.</p>
	<p>6. <i>The application of Section 1A of FRS 102</i></p> <p>We believe that the SORP could be clarified further to state which exemptions may be relevant to charities. Whilst we appreciate that the majority of Section 1A is not relevant to a charity set of accounts due to requirements such as the related party disclosures, there may be some exemptions in Section 1A which could apply, for instance, financial instruments at fair value through profit and loss.</p>
13.5	<p>7. <i>Requirements under paragraph 13.5 in respect of Gift Aid</i></p> <p>We feel that further guidance should be given in the determination of the accounting treatment in relation to Gift Aid payable, on the basis it relates to the presentation of an accounting transaction, thus the SORP is the place to do this.</p> <p>We are aware that there is much inconsistency with how the requirements of</p>

	<p>the SORP para 13.5 is applied in practice, in particular with reference to what constitutes a constructive obligation given these payments are distributions under Company Law and how this is presented in the financial statements.</p> <p>We would like to see the SORP committee provide further clarification and guidance for those applying the SORP to ensure the application is consistent with the treatment of distributions under FRS 102 and Company Law (where applicable).</p>
	<p>8. Use of illustrative tables and example primary statements</p> <p>Use of illustrative tables and example primary statements is helpful to the users of the SORP, however, the SORP could be improved by stating whether such tables/example formats are mandatory or not. In the current version, the text indicates that the structure, format and headings of table 2 are required by the SORP. However, table 5 appears to be for illustrative purposes only.</p> <p>Further, we note that where the SORP does provide examples of how the primary statements are to be presented, it would be useful to clarify the structures and headings which are core to the 'must' requirement and those which may be flexed to accommodate a flexible approach to how charities present their accounts.</p> <p>In addition to this, the illustrative primary statements should also consider the requirements of charitable companies, for instance where there are options to present the financial statements under alternative formats and again the SORP could be improved to provide clarity on this matter.</p>
15.20	<p>9. The requirement for a statement of changes in reserves (equity)</p> <p>The SORP does not require a charity to produce a statement of reserves (equity) as a primary statement. Under FRS 102, the definition of equity would include reserves. Paragraph 15.20 states that 'provided no new share equity is issued, a charitable company preparing its accounts under FRS 102 need not provide a separate statement of changes in equity for the reporting period. Charitable companies with equity must provide details of equity as set out in section 4 of FRS 102.'</p> <p>However, in our view this does not appear to be in line with the requirements of FRS 102 Section 6. There may be additional consideration where charities could be exempt from preparing a statement of changes in reserves, however, again this needs to be explained in the SORP and on what basis that would be.</p>