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By email to: charities.sorp@cipfa.org
Charities SORP
CIPFA
77 Mansell Street
London
E1 8AN

3 April 2018

Dear Ladies and Gentlemen,

Draft Update Bulletin 2 - Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102) (the 'draft update bulletin')

We welcome the opportunity to comment, on behalf of PricewaterhouseCoopers LLP, on the draft update bulletin. PricewaterhouseCoopers LLP is auditor to a number of registered charities.

We broadly agree with the changes proposed to the *Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102)* (the 'SORP'). However, we consider that the Charity Commission for England and Wales and the Office of the Scottish Charity Regulator (together the 'joint SORP-making body') should consider:

- publishing an updated SORP incorporating all changes made to the SORP since it was issued in 2014;
- providing additional guidance on how comparative information is presented;
- whether comparative information is required for each disclosure required solely by the SORP;
- providing additional guidance as to which disclosures may be required in different scenarios in order to meet the new requirements of paragraph 11.42 of FRS 102; and
- whether charities can apply section 1A of FRS 102, and if so, if there any additional disclosure exemptions available for qualifying entities.

Our responses to the specific questions asked by the joint SORP-making body are given in the appendix to this letter.

If you have any questions or would like to discuss any of the comments we have made in this letter, please contact Jill Halford on 07968 722 216.

Yours sincerely,

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP, 1 Embankment Place, London, WC2N 6RH
T: +44 (0) 2075 835 000, F: +44 (0) 2072 124 652, www.pwc.co.uk

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Appendix

Question 1:
Do you agreed with how the amendments to FRS 102 have been reflected in the proposed amendments to the Charities SORP (FRS 102) in draft Update Bulletin 2? If not, which of the proposed changes do you not agree with, and why?

We largely agree with how the amendments to FRS 102 have been reflected in the proposed amendments to the SORP suggested by the joint SORP-making body. However, we have the following observations on how the changes can be refined to reduce confusion amongst preparers and improve the quality of information reported:

Publication of an updated SORP

This is the second update bulletin to the SORP. Taken together with the first update bulletin and the original SORP, this means that preparers will need to consult three separate publications to identify the financial reporting requirements applicable to charities, in addition to consulting FRS 102. This increases the risk of confusion and of preparers following incorrect accounting treatments.

We recommend that a revised edition of the SORP is published once the amendments are finalised so that preparers need only consult one document, an updated SORP, in addition to FRS 102. This is particularly important for these updates, since charities will follow this version of the SORP for several years.

We also recommend that any example financial statements prepared by the joint SORP-making body are updated for changes to the SORP including, in particular, the disclosure of comparative information and risks relating to financial instruments held.

Comparative information

We welcome the update to Module 3 *Accounting standards, policies, concepts and principles, including the adjustment of estimates and errors* of the SORP to clarify that comparative figures must be provided for all amounts presented in the financial statements except where permitted by FRS 102 or the SORP.

However, this does not provide clarity over where these comparatives are provided in the financial statements. We recommend that comparative information should be given equal prominence and thus presented alongside current period information for the primary statements. This would include comparative information presented on the Statement of Financial Activities (the 'SoFA') and so we also recommend paragraph 4.2 of the SORP is updated to reflect that comparative information for the SoFA is either presented on the face of the SoFA or directly after the SoFA in the financial statements. Where the charity chooses to opt for the later, the reconciliation of funds lines, usually presented at the base of the SoFA, need to include the prior year totals because the reconciliation forms the charity's Statement of Changes in Equity, which is a primary financial statement.

We also encourage the joint SORP-making body to reconsider whether comparative information should be disclosed for all of the disclosures required solely by the SORP. Where it is determined that comparative information need not be presented for specific disclosures, we suggest that the SORP is updated to specifically state that comparative information is not required for that disclosure, as is currently the case for disclosures required by paragraphs 7.43 and 7.44 of the SORP. We would expect that no exemption is granted for comparative information required in respect of funds (required by

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Module 2 *Fund accounting* of the SORP) and in respect of expenditure (at a minimum those required by paragraphs 4.58 and 8.13 of the SORP).

Financial instrument disclosures

Paragraph 11.42 of FRS 102 has been updated to require, where risks from financial instruments are particularly significant, that relevant disclosures, normally only applicable to 'financial institutions', are made. Paragraph 5.8 of the exposure draft updates the SORP for this amendment but does not assist charities apply this new requirement. We anticipate that this will lead charities either to omit disclosures that ought to be made, or to provide all of the disclosures required by section 34 of FRS 102, which might obscure material information on the risks posed by financial instruments, by disclosing large volumes of immaterial information. For instance, a charity with large amounts of aged trade debts, may inadvertently obscure information disclosed on credit risk, by making excessive disclosure of price risk and liquidity risk.

We suggest that the SORP is updated to reference the specific paragraphs of section 34 of FRS 102, and that application guidance is given to charities which describes each of the risks (credit, market and liquidity risks) and examples of when the risks could be of particular significance. For instance, the credit risk examples would include circumstances where a charity is exposed to material overdue trade debts and where a charity has material social investments in the form of concessionary loans.

This would also assist charities, classed as 'financial institutions', determine which disclosures it should make based on their particular circumstances. Similar guidance is already provided on the accounting for financial instruments - Table 7 assists users in identifying how to account for common financial instruments.

Accounting for 'gift aid payments'

Paragraph 3.5 of the exposure draft references guidance included in the amendments to FRS 102 in relation to 'gift aid' payments, that is payments made by entities wholly owned by one or more charities to reduce its taxable profits. Such payments are only accrued as payable by the entity once a legal obligation exists. The revisions to the SORP do not include reference to the accounting to be followed by a charity receiving such payments, other than an amendment to paragraph 13.5 of the SORP, which deals with events after the reporting period.

We suggest that paragraphs 5.52 of the SORP is updated to read "Dividends <u>and 'gift aid' payments received from an entity which is wholly owned by charities</u> are accrued when the shareholder's right to receive payment is established. Measurement is at the fair value receivable, which will normally be the transaction value". We suggest that this amendment would take effect for accounting periods commencing on or after 1 January 2019, alongside amendments to paragraphs 29.14A and 29.22A of FRS 102, and would be treated as a change in accounting policy when the amendment is implemented.

Question 2
Are there any other amendments to the Charities SORP (FRS 102) that you consider to be necessary based on the recent amendments to FRS 102? If so, please state the amendment to FRS 102 and the relevant SORP paragraph(s).

The amendments to FRS 102 relevant to charities have been largely reflected in the updates to the SORP. However, we have noted one change to FRS 102 which the joint SORP-making body should consider including and several changes to the environment in which charities operate which merit update to the SORP.

Charitable companies - guidance on the recognition of income from non-exchange transactions

Paragraph 491 of the *Amendments to FRS 102 - Triennial review 2017 - Incremental improvements and clarifications*, updates Appendix IV of FRS 102 to include additional material in respect of the recognition of gains by charitable companies (paragraphs A4B.36 and A4B.37). This clarifies that charitable companies receiving income from non-exchange transactions should consider if any gains are unrealised gains, in the context of determining whether profits are realised or unrealised.

We suggest that guidance is incorporated into Module 15 *Charities established under company law* of the SORP so that preparers are aware of which gains and profits can, under company law, be recognised in the income and expenditure account (realised profits and gains on certain assets measured at fair value) and which gains and profits cannot (other unrealised gains) and therefore need to be are recognised in other comprehensive income. We suggest that the SORP should also refer to the ICAEW/ICAS TECH 02/17 guidance on determining realised profits.

Other issues

We also note that amendments have taken place to FRS 102 and to the wider regulatory environment affecting charities, their trustees' annual report and their financial statements since the last SORP was issued. Updating the SORP for these changes would help preparers and ensure comparability across the sector. We recommend updates are made for the following changes:

Application of section 1A of FRS 102

Since the SORP was first issued, the FRC updated FRS 102 to include Section 1A *Small Entities*, which simplifies the presentation and disclosure requirements for small entities. Some amendments were made to Section 1A by the *Amendments to FRS 102 - Triennial review 2017 - Incremental improvements and clarifications*, however the SORP remains silent on whether non-company charities that qualify as small entities under the standard can apply section 1A of FRS 102 and how the SORP's requirements should be applied by a charity applying section 1A of FRS 102.

We suggest that the SORP explicitly states whether Section 1A of FRS 102 can be applied, and if so, whether any further simplifications of the presentation and disclosure requirements of the SORP are made available to charities which qualify as small entities.

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Incorporation of the information sheet issued in April 2017 to the SORP

Information Sheet 1: Implementation Issues was issued in April 2017. This reflected the views of the 'joint SORP-making body' on certain implementation issues. A number of the matters clarified by the information sheet related to matters where the SORP was unclear, which means that the ability to compare amounts reported across the sector is reduced while diversity in practice remains.

We suggest that the guidance given in relation to modules 1, 2, 5, 9 and 15 is incorporated into the SORP to enhance comparability of information reported by entities applying the SORP.

Disclosure of transactions with group entities

The Charity Commission of England and Wales has placed increased emphasis on relationships between charities and connected non-charitable organisations. Paragraph 23.4 of the SORP overrides the exemption from disclosing transactions between group entities provided by paragraph 33.1A of FRS 102, however, this is not referenced in Module 9 *Disclosure of trustee and staff remuneration, related party and other transactions* of the SORP. This increases the risk that preparers are not aware of these additional disclosure requirements imposed by the SORP.

We suggest that paragraph 23.4 of the SORP is incorporated into Module 9, being the section that specifically adopts Section 33 *Related party disclosures* of FRS 102 for charities, and that the SORP states that the exemption provided by paragraph 33.1A of FRS 102 can not be taken by charities.

Changes to the annual return and consistency with financial statements

The Charity Commission of England and Wales requires that charities include in their 2018 annual return the number of employees whose total employee benefits *including pension contributions* for the reporting period fell within each band of £10,000 from £60,000 upwards, similar to the disclosure required by paragraph 9.30 of the SORP, which requires the same disclosure except that total employee benefits *exclude pension contributions*.

We suggest that the SORP is updated to require charities to disclose the number of employees whose total employee benefits *including pension contributions* for the reporting period fell within each band of £10,000 from £60,000 upwards, so that all information captured by regulators on remuneration is included in the financial statements. There would be no additional cost to charities in preparing this disclosure as they will have prepared this data for accounting periods ending on or after 1 January 2018.