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Our ref: CR/OJ

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Dear Sirs,

Response to the 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) ('Draft Update Bulletin 2')

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 'Draft Update Bulletin 2' consultation. Overall, we welcome this consultation and the proposed amendments, which update the current Charities SORP (FRS 102) for the amendments to FRS 102.We believe the amendments will result in more relevant reporting and bring consistency in a number of areas including the treatment of gift aid payments in the sector. We do not feel that the amendments will create any significant administrative or cost burden for the sector.

Whilst we are grateful that the Charities SORP-making Committee has elected for a shortened comment period, allowing the amendments to be reflected in the Charities SORP (FRS 102) promptly and thereby allowing charities to early adopt changes, we suggest that you issue an updated Charities SORP (FRS 102) to cover all amendments, including previous Update Bulletins for ease of reference.

Our responses to the questions are set out 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

C A Rudge

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Responses to specific questions

Q.1 Do you agree 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?

Overall, we believe that the amendments to the Charities SORP (FRS 102) have been clearly and concisely reflected to assist the preparers of charity accounts in applying the requirements of FRS 102 and to incorporate any sector-specific application, where this is permitted by the accounting framework, relevant legislation and regulations.

However, there are some areas of the Draft Update Bulletin 2, which in our view could be improved, and where additional clarification is required. These have been set out in Appendix A below.

Q2. 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).

Please refer to Appendix A below for other amendments that we believe would be helpful and may be required to provide further clarification following the triennial review of FRS 102.

In addition, whilst we understand the need to issue Update Bulletins in order to update the Charities SORP (FRS 102) in a timely manner, it can become increasingly difficult if users of the SORP are required to refer to a number of documents to understand the financial reporting requirements that must be followed. We therefore suggest, that the SORP-making committee consider this option and update the Charities SORP (FRS 102) to reflect both Update Bulletin 1 and 2.

Appendix A

Reference	Comments
Introduction – 1.4	***Effective date and application of the amendments*** The current wording of paragraph 1.4 here implies that the amendments set out in Section 3 are effective immediately due to the phrase '*must be applied immediately by charities*' and are not linked to the date of the triennial review amendments, which are only mandatory for periods commencing or after 1 January 2019. This statement appears to be contradictory to the Background section on page 1 which states the following: '*The amendments set out in this Update Bulletin apply to all charities in the United Kingdom and Republic of Ireland that follow this SORP for reporting periods beginning on or after 1 January 2019.*' The Draft Update Bulletin appears to be have two effective dates, an immediate effective date for clarification amendments and another effective date for significant amendments. It would be useful to signpost this in the Background section of the draft document.
Section 3: Clarifying amendments	***Section 3: Clarifying amendments*** It would be helpful for this section to clarify the accounting treatment of the Gift Aid payments received by the parent charity and how this should be accounted for in the books of the parent charity. In our view, the Gift Aid payment received or receivable should only be recognised and accrued as income in the books of the parent charity, when the charity's right to receive payment is established. Thus in the parent charity any incoming gift aid receipts will not be recognised until the obligation exists in the subsidiary. This means that the gift aid payment is recognised in the same period for each entity. When there are no specific requirements, paragraph FRS 102.10.5 requires an entity to first have regard to any requirements dealing with similar and related issues. In this case, this would be requirements relating to dividends. Refer to Charities SORP (FRS 102) 5.52/FRS 102.23.29 which addresses the accounting for dividend income and, in our view, the principles of this accounting treatment should be applied, as this is also a distribution. It may also be helpful for the Update Bulletin to encourage charities to early adopt the amendment to FRS 102 in respect of the tax effects of the gift aid payment, in order to provide information that is more relevant to users of the financial statements. Where the payment of the gift aid is probable, entities can apply the exemption in Section 29 of FRS 102 and recognise the income tax consequences of the gift aid payment earlier. This does not appear to be mentioned in the Draft Update Bulletin 2, however, we do appreciate that this is most likely to impact the entity making the Gift Aid payment e.g. the subsidiary entity's accounts.
Module 13: Events after the end of the reporting period	***Module 13 and constructive obligation reference removal*** Whilst it is considered necessary to remove the reference to 'constructive obligation' in paragraph 13.5 of the Charities SORP (FRS 102), we suggest that additional narrative is used to explain the rationale behind this and why this amendment should be applied immediately by entities. In our view, the removal of the reference to 'constructive obligation' should not have a significant impact on the charitable parent entity's financial statements, as the entity which tends to make the Gift Aid payment, e.g. the trading subsidiary, is normally under FRS 102, not the Charities SORP (FRS 102). Thus in practice,

	such entities would need to follow the requirements of FRS 102 and would require a legal obligation to be in place, not a constructive one, when accruing for the Gift Aid liability at the end of the reporting period. It would be helpful for the Draft Update Bulletin to incorporate some guidance on processing this change as it may result in a change in accounting policy for some charities. The guidance could focus on the considerations that should be taken into account, in accordance with Section 10 of FRS 102, in such circumstances and how this may impact the accounts. Further, the current narrative in paragraph 3.5 of this Draft Update Bulletin 2 could be improved to make it clear that in most cases, the adjustments will need to be made in the subsidiary of the parent charity, or the charity group member making the gift aid payment. Lastly, FRS 102 does not provide any transition reliefs in respect of accounting for gift aid payments and this should be made clear in the guidance.
Section 4: Significant amendments, paragraph 4.4	***Module 10: Balance Sheet*** We note that the Charities SORP (FRS 102) paragraphs 10.36A-10.48B have been updated to reflect the accounting policy choice between the cost and revaluation model, available to charities that rent investments properties to other group entities. However, it would be useful to include some information on the 'deemed cost' transitional relief available on the first application of the triennial review amendments. Refer to paragraph A4.40B of the 'Amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland Triennial review 2017' which states the following: *Paragraph 35.10(c) permits first-time adopters to use a fair value at the transition date as the deemed cost of an item of property, plant and equipment, an investment property or an intangible asset. Paragraph 1.19(a) provides a similar option for investment property rented to other group entities, which is accounted for as property, plant and equipment, on the first application of the Triennial review 2017 amendments.*