

Our ref SR/AFE

28 March 2018

Charities SORP  
CIPFA  
77 Mansell Street  
London  
E1 8AN

Dear Sirs

## Draft Update Bulletin 2 – Invitation to comment

Kreston Reeves LLP appreciates the opportunity to respond to Draft Update Bulletin 2 issued by the Charity Commission in England and Wales and the Office of the Scottish Charity Regulator, in their role as the joint SORP-making body for accounting and reporting by charities.

Kreston Reeves LLP is a firm of Chartered Accountants that is amongst the top 25 largest firms in the United Kingdom. Based in London and the South East, we have a wide range of clients but predominantly we operate in the SME market providing audit and other accountancy services. At the present time we act on behalf of over 400 charities and other not-for-profit organisations that will be impacted by the proposals set out in Draft Update Bulletin 2. We are a member firm of Kreston International, a global network of independent accounting firms.

We would agree that following the publication of amendments to FRS102 made by the FRC in December 2017 there is a need to reflect these changes in the Statement of Recommended Practice in order to ensure consistency with the underlying reporting framework applicable in the UK and Republic of Ireland. The overall approach adopted by the joint SORP-making body in doing so appears to us to be an appropriate one, and in general we would support the proposals set out in the Draft Update Bulletin.

We note that the scope of the proposals is restricted, in that at present the joint SORP-making body is only seeking to update the SORP to reflect recent changes that have been made to FRS102. Our response does not include any further changes to the SORP that we believe would be beneficial, but we hope to have the opportunity to make such suggestions in future consultations.

Our detailed responses to the questions raised in the Invitation to Comment are contained in Appendix 1.

If you have any questions on the contents of this letter then please contact Susan Robinson at the address shown.

Yours faithfully

*Kreston Reeves LLP*

## Appendix 1: Detailed response to the consultation questions set out in the Invitation to comment on Draft Update Bulletin 2

### Question 1

*Do you agree with how the amendments to FRS102 have been reflected in the proposed amendments to the Charities SORP (FRS102) in Draft Update Bulletin 2? If not, which of the proposed changes do you not agree with, and why?*

Overall we support the amendments being proposed, but would like to make the following specific comments:

- We agree that the proposed paragraph 3.49 to be inserted into the SORP correctly reflects the requirements of FRS102 in respect of comparative information, and is an issue which has already been addressed by the joint SORP-making body in Information Sheet 1: Implementation issues.

We would like to point out though that in our opinion this requirement can have a detrimental effect on the presentation of financial information in the annual accounts, as the additional content that this requirement results in can make it difficult to present the accounts in a format that can be easily read and understood, particularly when a charity has multiple funds in operation. We encourage the joint SORP-making body to consider the inclusion of an exemption from the provision of comparative information for areas where the inclusion of such information is not considered necessary for a proper understanding of the accounts. This would encompass the summary of assets and liabilities of each category of fund, and the movement in material individual funds. This would also require the amendment to Information Sheet 1: Implementation Issues.

- We believe that the proposed amendment to paragraph 13.5 of the SORP in respect of events after the end of the reporting period could be improved by stressing that in the absence any legal obligation, any post year-end Gift Aid payment made by a subsidiary undertaking to its parent is not an adjusting event. This could be achieved by adding an additional bullet point to paragraph 13.7 of the SORP that read as follows:

*The determination of the amount of a Gift Aid payment to a parent charity by a subsidiary undertaking, when the subsidiary has no legal obligation to make the payment at the reporting date.*

If this change were adopted it would also be necessary to amend proposed paragraph 18A so that it also makes reference to paragraph 13.7 applying immediately.

- We welcome the inclusion of proposed Table 1A, providing guidance on the format of Analysis of Changes in Net Debt.

However, we question whether it is appropriate to include current asset investments as part of this table, given that the definition of net debt does not include such investments.

- We are concerned that the proposed amendment to paragraph 20 of the Scope and Application module of the SORP will have the unintended consequence of increasing the number of charities which are deemed to be financial institutions, rather than providing the simplification that the change to FRS102 was intended to have.

We believe that there should be a general exemption for charities being considered to be financial institutions where any lending that is undertaken is done so in the furtherance of its charitable objectives, even when there is an element of market return. We encourage the joint SORP-making body to reconsider this proposed amendment.

## **Question 2**

*Are there any other amendments to the Charities SORP (FRS102) that you consider to be necessary based on the recent amendments to FRS102? If so, please state the amendment to FRS102 and the relevant SORP paragraph(s).*

We have the following comments to make in response to this question:

- We note that other than the proposed change to paragraph 13.5 there is little reference in the proposed changes to the SORP to the accounting for Gift Aid payments made by subsidiary undertakings to their parent charity. We believe that it would be beneficial for the SORP to include guidance of the correct accounting treatment for such payments in order for the SORP to provide a single reference source for charities and their groups.
- Although not related to the recent amendments to FRS102, we would encourage the joint SORP-making body to include as part of the SORP guidance on the disclosure of fundraising activities, as required by the Charities (Protection and Social Investment) Act 2016. Again this on the basis of ensuring that the SORP continues to be a single reference source for the preparers of charity accounts as to their reporting obligations.