

A Summary of the Consultation Responses on the Exposure Draft of the Statement of Recommended Practice for Charity Accounts issued in June 2004

Introduction

There were 158 responses to the consultation paper. The respondents included firms of accountants, charity umbrella bodies, charities, and individuals with interests in charity accounting. Those responding to the Office of the Scottish Charity Regulator have been also included in this analysis and the Regulator has produced a separate report on those responses.

Many responses were limited to individual aspects of the Statement of Recommended Practice (SORP) exposure draft (ED) (eg heritage assets) but nearly half of the respondents took the trouble to respond to all the consultation questions. In addition a number of respondents gave detailed comments on individual paragraphs of the exposure draft.

A large number of the responses were extremely helpful in explaining the reasoning behind the response given, including providing examples of current practice or problems and highlighting concerns about proposals. A few responses contained suggestions that would be difficult to deal with as, though expressing a particular point of view, following them would be contrary to current accounting standards.

48 of the respondents included a general comment about the whole SORP ED. 44 of these welcomed the SORP revision (13 with some reservation) and 3 expressed strong reservations about the changes.

A number of responses indicated that the SORP was, or was becoming, more complex and that every effort should be made to keep the document as simple as possible. The SORP committee have been very much aware of this but struggle to balance this with requests for more explanation and wider coverage – sometimes from the same respondents who comment on the complexity.

The generally supportive comments mean that the SORP committee believe that the SORP does not need any major changes. They will however take up many of the constructive suggestions that have been made in revising the text before final publication. Where responses require any action other than this, for example in relation to heritage assets, the proposed action is explained. The Charity Commission will be working with the charity sector in producing a number of example financial reports which will illustrate how the SORP principles can be applied in different situations.

The rest of this paper summarises the responses to most of the questions posed in the invitation to comment. Responses were classified as to whether the respondent agreed or disagreed with the proposed treatment on the following basis:

Agree	Complete or substantial agreement with the proposal
Qualified	Agreement in principle though with some reservation, perhaps of detail or definition
Disagree	Does not agree with the proposal, for whatever reason

There were a small number of unclear and non-committal responses in relation to most questions and these have been ignored in the analysis.

Copies of the non-confidential consultation responses will be available for inspection by appointment at each of the Commission's Offices.

Responses to the Questions

A Does the proposed restructuring of the Trustees' Annual Report create a clearer focus for the reporting of a charity's performance and achievements and provide a clearer link between the charity's objectives, activities and results achieved?
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The responses to the questions A-C overlap to some extent. Where possible comments have been placed under the relevant question and not duplicated.

Responses

There were 74 responses specifically answering this question and a further 21 responses which made general comments about questions A-C. Taking all these together, 78 responses were happy with the restructuring of the Trustees Annual Report (TAR) though 17 of these had some reservations. Three respondents definitely did not agree but there were also a number who indicated that, though the approach was right in principle, there needed to be some concessions for various groups, especially smaller charities. Many reiterated the comment that they felt the changes would produce an improvement in the level of understanding of what charities were doing and how this was shown in the accounts.

Several respondents noted that there was actually very little change in content from the existing Charity Commission guidance in CC59 ("Reporting the Activities and Achievements of Charities in Trustees' Annual Reports" - which was largely a restatement of SORP 2000 provisions). Some respondents felt the order was an improvement, though one respondent did not feel that the order was particularly important for a smaller charity and others felt that the 'static' information (legal and administrative information) should follow rather than precede the 'activities' and 'achievements and performance' sections. Some respondents also commented that the TAR to some extent paralleled the Operating and Financial Review that is being rolled out for (larger) commercial companies.

There was concern that charity trustees may not have a common understanding of some of the terms (eg aims objectives, strategy) and that even if they did, they may not have formally developed ideas in areas such as objectives and strategy. Equally it was felt by some that having to express ideas in a report may lead to trustees developing a clearer understanding of what they are aiming for and achieving.

A number of responses queried whether the amount of information was such that the TAR would not be read. One questioned whether the report would be regarded as a useful source of information and another commented that the general public would be unlikely to request copies of audited accounts before donating. Others raised the issue of the link between the TAR and any non-statutory annual review that a charity may produce.

Several respondents wished to have clarification of how the TAR related to the proposed Standard (now Summary) Information Return (SIR – for charities in England and Wales).

There was some feeling that the TAR is becoming less flexible, though it was also recognised that this will produce more consistency across the sector. One suggestion was that the main recommendations should form paragraph headings with the narrative providing details of how the recommendation might be achieved.

Many respondents pointed out that there would be a cost associated with the proposed changes, and many were also concerned at the cost to smaller charities. It is unclear from the responses whether this latter point took into account the concessions in the SORP ED for smaller charities. It was also unclear as to whether the concern about cost related to the cost of reporting what was happening or to

the cost of ensuring the charity governance was improved in order to provide the information needed for the report.

Another issue of concern to some respondents (particularly in Scotland) is the extent to which the TAR is being used as a vehicle for the collection of regulatory information, especially if that information is specifically linked to regulation in England and Wales.

Some respondents felt that there should be an option for charities to withhold commercially sensitive information from the report. And several respondents felt that the reporting of performance and outcomes was so much of a distraction that it could alienate 'independent grant-makers' to the extent that perhaps it would prevent new charities of this sort being established.

The responses also made a number of suggestions about detailed contents, imprecision of wording, duplication, etc., which will be taken up in consideration of the detailed changes to the SORP.

B Does the section on reporting of achievements and performance create an appropriate framework, allowing for performance and achievements to be reported in a meaningful way whilst providing sufficient flexibility in the choice of measures or indicators that a charity may adopt in its reporting?

Responses

Of the 70 responses to this question, 61 were in agreement (11 of these with some reservations) and 3 were not.

Most respondents accepted that this section could not be any more prescriptive as the sector is so diverse, and that it encourages charities to consider how they will evaluate their performance and achievements. Some felt that there needs to be a clear link between this section and the accounts though a few suggested that it may be good to suggest a limit on the number of objectives reported on. Another respondent felt it important to select appropriate indicators and to keep reporting on these, not 'cherry-picking' whichever were the best indicators in any year.

Many charities do not use measures or indicators, perhaps because they are not appropriate or too difficult (no examples given). Care would need to be taken in judging charities adversely for not having any indicators. Care will also be needed in comparing charities due to the diversity of indicators. Some respondents felt that charities in areas where there is strong competition for funding would feel that some performance data is commercially sensitive.

The difficulty of devising and choosing indicators was noted by a number of respondents who commented, variously, that measurement techniques not well developed, difficult to produce in complex environments, difficult to use where projects are long term (eg research, development), problematic when multiple funders and where grant funding is involved, difficult to separate achievements of grant makers from grant recipients. Several respondents felt there is a need for further guidance on reporting (though not necessarily included in the SORP).

Several respondents wondered whether the charity's public benefit could be demonstrated in this section.

There were two respondents who felt that this section (and the TAR in general) went beyond what should be included in the SORP ED. One felt that more is required of charities than public companies and too much information was expected to be disclosed.

C Does the introduction of a separate section dealing with a charity's structure, governance and management create a clearer focus for the reporting of governance issues?

Responses

62 of the 68 respondents were in agreement (5 with some reservation) that this section provides a clearer focus on governance issues.

Most indicated that this was not a contentious issue, mainly reporting who was involved and how they operated. Many reported that they were already providing the necessary disclosures. One respondent felt that more detail was required for larger charities and those with subsidiaries, and another that more information about who were trustees at particular times during the year.

There were some echoes of the general responses to question A about the cost (or burden) of implementation. There were in particular comments on trustee appointments. One respondent felt that disclosure of methods should be voluntary and another that insisting on disclosure may impact adversely on wealthy philanthropists who retain trustee appointment powers. Yet another felt that reporting on trustee training and induction seemed excessive (of course this is not required for smaller charities). One respondent felt that many (presumably smaller) charities struggle to make ends meet and have little time to worry about governance issues.

D Do you agree that the issues surrounding the measure and valuation of the contribution of volunteers prevent, at this stage, the recognition of this contribution within the SOFA?

Responses

Of 90 responses on this issue, 85 were in agreement (4 with some qualification) that recognition of volunteers within the SOFA is not appropriate at this point.

Most respondents were keen to point out the importance of volunteers to the sector and that contribution of volunteers should be mentioned in the Trustees' Annual Report (though a few thought the level of disclosure recommended by paragraph 35 of the SORP ED still too much). Some accepted there is a theoretical need to include contributions in the same way as other donated services whilst others felt that contributions do not amount to 'gains'. Most however recognised the practical difficulties (and expense to charities – including extra volunteer time needed) in deciding who were volunteers, in recording the amount of volunteers' time given and in valuing this. Some respondents also felt there would be at least difficulties, and probably also additional cost, in auditing any included contributions. All such difficulties would be compounded for smaller charities that relied heavily on volunteers.

It was pointed out that the global use of say the national minimum wage may not always be appropriate, for example where the contributions were peer reviews of research by highly paid professionals. A recurring issue is the extent to which trustee time would need to be recorded and valued and one respondent raised the issue of 'volunteering' by members of religious orders.

It is clear that valuation of volunteers is something that is done in the sector, for example for matched funding exercises, and there was some support for such valuations to be made and put into the TAR (which some charities already do).

Many respondents felt that it would be helpful to continue researching the area, though some were adamant that it would never be appropriate to include such a valuation. Such research would need to be linked with the general consideration of how to value donated services.

E Does the proposed restructuring of the SoFA assist the reader in understanding the activities undertaken by a charity and the correlation between income streams and related activity costs?

Responses

There were 75 responses to this question alone, and a further 8 responses covering this question and others (E and F, E to H). Overall 57 respondents support the proposals, 17 with some reservations. 13 did not support the proposals, some being quite strongly against. A number of respondents again raised the issue of the costs of implementation, especially as this is yet another change to the structure of the SOFA.

The SOFA is one area of accounting which is likely to produce the most comment as it focuses on capturing in a single statement all the variety of activity that the charity sector has to offer. Therefore whilst there is a welcome from most respondents of the attempt to link incoming and outgoing resources, many respondents explained why the SOFA does not meet their particular requirements.

Examples of the issues raised include:

- Need to analyse incoming and outgoing resources both by funds (for the providers of restricted funds) and by activity category means extra analysis and explanation
- The SOFA does not allow for a distinction between incoming resources to spend on fixed assets and resources to spend on current operations.
- The proposed activity headings do not suit every type of charity equally well: one respondent suggested that three different types of SOFA are needed. A number wanted the ability to adjust the headings to suit their own charity.
- Whether when there are immaterial items in either rows or columns, these rows or columns could be amalgamated with other rows or columns.

There were a number of more detailed criticisms including:

- Many respondents were unhappy with the terminology: some was felt to be confusing (eg use of income and incoming resources); some obscure (eg voluntary income) and some just very longwinded.
- The need for subjective allocation and apportionment was felt by some to reduce objectivity (not a new problem of course). Some charities seem to allocate costs on the basis of what they are allowed to do and not where the costs actually fall and apportioning in a different way may be a problem.
- Linkages between incoming and outgoing resources are not completely clear. There is also an implication that because the terms are the same there *is* a clear linkage when there might not be.
- Many respondents suggested that in both resources expended and incoming resources, charitable resources expended/incoming resources should come before fundraising.

Several respondents felt that the further analysis of fundraising costs helpful and that the supporting tables were also helpful. On the other hand, some respondents felt that support costs and/or grant costs should still remain as separate items on the face of the SOFA.

There were a number of detailed comments on individual lines in the SOFA or supporting schedules which will be taken up in drafting.

F Do you agree that creating a greater focus on activities will enable charities to better present the cost profile of the work that they undertake?

Responses

65 responses related just to this question with a further 10 responses covering a number of other questions as well. Of these 63 agreed to the activity focus, 13 with some reservations. Only 6 did not welcome the change, mainly due to fears about the costs of compliance.

In general, the widespread agreement with this change elicited few additional comments. Many felt the idea of activities easier to articulate than other approaches, though there was some concern that it might be difficult to identify activities in some areas of charity (though no examples were given).

The main concerns appear to be about the allocation/apportionment of costs across activities, though there was a welcome from some respondents for removal of grant and support costs from the face of the SOFA. There was also some concern expressed about how charities with many projects should produce their activity statements.

Some respondents would like more guidance on what an activity is (perhaps in examples?).

A few respondents raised the issue of commercial sensitivity.

G In the context of an activity cost approach to SoFA categories, do you agree that it is appropriate for disclosure of support costs and their allocation to be dealt with by a note to the accounts?

Responses

74 responses were made to this question alone and a further 2 joint responses with other questions. Of these 64 agreed (3 with reservations) that the support costs should be disclosed in a note to the accounts. The 9 who disagreed still wanted to see support costs on the face of the SOFA, with reasons including to avoid apportionment, to reduce cost and to ensure readers can see the costs.

In general responses are supportive of the approach without giving many supportive reasons. Some respondents mentioned that this approach was consistent with moves to get donors to pay for the full cost of operations (eg the ACEVO Full Cost Recovery work), another that the issue was not previously well understood. Several respondents felt that the moves would improve consistency of accounts across the sector. A few respondents were however concerned that support costs will not be apportioned to charitable activities alone but spread over fundraising and governance costs as well.

The tone and content of several of the responses indicates that respondents believe many readers still want to know what these support costs are, probably equating them with 'wasteful' 'administration' costs. One respondent wondered why we could not drop the term 'support costs' in favour of indirect costs or overheads. A number of respondents felt that there is a public desire to know about overheads (as an efficiency issue?), despite the theoretical correctness of the proposed approach. Therefore, there is perhaps room for some further education (or discussion in the SORP) on the whole area of efficiency, support and governance costs in charities.

One respondent raised the problem that the indicator of "support costs as a percentage of total direct charitable expenditure" will be lost by moving support costs to a note (though it is not clear from the response why this indicator is of great value).

Despite the fact that allocations and apportionments are extremely common in all types of accounting, several respondents were not at all in favour of allocation or apportionment (and especially spreading

costs across charitable activity). Reasons for this included the arbitrariness of the methods and the feeling that it complicates the preparation and understanding of accounts.

One respondent would like the definition expanded, in particular to cover central costs (finance etc.). Others would like to see example disclosures of support costs with breakdowns linking to the table in paragraph 172.

H Do you agree with the introduction of a governance cost category within the SoFA?

Responses

Out of 81 respondents commenting on this issue, 61 agreed with the introduction of this category and 16 disagreed.

Governance costs contain similar elements to the existing 'management and administration costs' but the name provides an activity focus rather than being confused with an 'overhead' category or 'support costs'. Several respondents welcoming the change described the existing terms as 'muddled' and 'confused'. Those agreeing with the introduction felt that it provided a clearer description and definition of this category of costs. The definition is felt to be more prescriptive and be less subject to 'interpretation' and should allow better comparison between charities

A number of respondents commented on how governance costs will be perceived by readers of accounts. If governance costs are seen as the only 'administrative' cost it may mean that funders would not provide enough support costs. What would readers interpret as high or low governance costs? (a similar problem already exists in interpreting current costs categories). Would some charities simply convert existing 'support costs' to governance costs?

A number of suggestions were made for more detailed guidance on what should be included in the definition, including the meaning of strategy costs (which some felt may otherwise be used to inflate costs), inclusion of apportioned costs (eg CEO's time). Several respondents noted that defining governance costs would not remove inconsistencies in reporting due to the subjectivity in apportioning costs.

Some respondents felt that the costs would be such a small part of a charity's resources expended that they should not be included as a separate category in the SOFA and another that separate explanation of what is included in the costs (in paragraph 190) is unnecessary.

One or two respondents wanted a different name than governance, including 'Cost of governing the organisation' and 'other costs', but none of these was as succinct or descriptive as that proposed. One respondent felt that these costs were being removed from being 'charitable', though the SORP does not comment on this issue.

I Are the proposals in relation to attributing costs between the activity categories of the SoFA practical? If not, how might they be improved?

Responses

There were 77 responses specifically to this question and a further 2 replied as part of their response to question J. 66 respondents felt the attribution of costs reasonable though 13 with some reservation. 6 respondents disagreed. The main reasons for disagreement were cost, practicality, and the inherent arbitrariness of apportionments.

A few respondents made detailed comments about the content of individual paragraphs and these will be taken up in reviewing the text of the SORP.

Several respondents were positive about the flexibility given and others indicated that the crucial disclosure here is the basis for the allocations. If this is provided, it will assist cross-charity comparisons which are difficult where flexibility is allowed.

One respondent felt that undertaking cost attribution would be beneficial in assisting charities in understanding what is driving their costs, but there were others who felt that this was an unnecessary cost. A number of respondents echoed the criticism seen in other questions that apportionment can be difficult and arbitrary and some felt that it is difficult to audit.

One respondent felt that the advice on allocation did not go far enough and a step-by-step guide was required. Others also felt that there would be problems for smaller charities (though these are not required to adopt activity analysis).

Two respondents pointed out that there may be differences between actual apportionments and what grant providers/contractors were prepared to pay for. They also drew attention to the fact that some of these issues may be commercially sensitive.

One respondent suggested, and others implied, that there would be a need for cumbersome measurement processes to be put into place.

J Do the criteria for determining when information provided as part of fundraising activities may be regarded as educational assist in identifying joint costs that may be allocated in part to charitable activities?

Responses

Out of 62 responses to this question and 2 to questions I and J, 56 were in favour (9 with some reservation) and 4 were against.

Most of those in favour provided little comment, possibly because this guidance has been in place since the 2002 SORP review, a fact that several respondents mentioned. Some do not consider this a problem area, though others clearly feel the guidance is very helpful.

Several respondents felt that despite the advice this was still a judgemental area

It may be necessary to look at the wording of paragraphs 149 to 153 as two respondents wanted to see advice where fund raising was a minor part of a clearly charitable activity – something which the paragraphs are intended to cover. On the other hand another respondent felt it could hardly be more concrete.

K Do you agree that where an objective or activity is pursued by a combination of direct service provision and grant funding of third parties, the focus in the SoFA should be the analysis of the objective or activity rather than the method by which it is undertaken?

Responses

62 respondents answered just this question and a further 6 combined their answers with questions L or L and M. 66 of these responses agreed with the approach (5 with reservation) and only 1 disagreed (with no reason).

Two respondents felt that this approach is potentially misleading where the basis of accounting for grants (especially multi-year grants) is different from the basis of accounting for direct activities.

Several respondents did not feel it was up to the SORP to specify what was material (para 175)

L Do you agree that it is nevertheless appropriate for the notes to the accounts to differentiate between direct service provision and the funding of third parties by way of grant?

Responses

There were 58 responses to question L alone and a further 6 responses to this and other questions. Of these 62 were in agreement (3 with some reservation) and 1 was against.

Though the suggested treatment here is a natural corollary from question J, one respondent agreed with the activity approach but saw no reason why this should be broken down into delivery methods and a number of others felt that though this was logical it may not provide major benefits to readers.

Some respondents had reservations about how easy it would be to provide the split where charities use both grant and direct service provision.

A few respondents indicated that the risk profile and staffing and management characteristics of grant provision are different from service provision and therefore this analysis is interesting to readers.

M Do you agree that it is appropriate for the SORP to continue to allow information listing details of the largest institutional grants made by the charity to be provided through a separate publication?

Responses

There were 66 responses to question M alone with a further 2 responses linked to question K. Of the responses 47 were in agreement with 16 not agreeing.

The main reasons for the non-agreement are that:

- disclosure in the accounts is not onerous;
- disclosure is required to ensure transparency;
- the separate publication would not be audited;
- separate publication means it is difficult to get the information.

Some respondents who agreed with the proposals did so on the understanding that any separate publication would be easily and publicly available at no additional cost and apparently some have had

difficulty obtaining such publications in the past. Some suggested that such publications are lodged with the regulator(s).

Respondents strongly supporting separate publication also explained that the publications could be used to explain what had been done in more detail than if this was included as part of the statutory accounts.

N Do you agree that a liability for a voluntary payment should be recognised once the offer has been formally communicated to the recipient and no conditions, that may prevent payment, remain within the control of the donor charity? If not what alternative recognition principle would you apply?

Responses

There were 71 responses to this question and a further 7 combined with other answers. Overall 54 responses supported the proposal (7 with qualification) with 9 being against.

The issues covered by this and the next 4 questions are all closely linked to accounting standards.

In several cases charities have explained their own grantmaking procedures and tried to link the proposal to this, in some cases without properly understanding what the SORP ED is saying. Others have drawn inferences which are not supported by the text (eg that adding together grants and direct service provision into activities means that grants and performance related contracts should be accounted for in the same way).

Many of the respondents accept that this proposal is a straightforward and useful explanation of the operation of FRS12 in these circumstances.

The major sticking point appears to be with those charities that have multi-year grants which they want to commit to but which they clearly need to fund out of future income. For some, the issue is that the grant commitment is made in one year for payment from the next year's income and they do not see that it is sensible to accrue this in the year in which the commitment is made. All these respondents explain the problem that this will create for them but neither accept that the condition suggested will achieve this nor do they suggest an alternative recognition principle that would satisfy the FRS12 requirement by which the SORP is bound. The only suggestion is that these grants should be recognised in the same way as performance related grants, though they are clearly not such grants.

One respondent who agreed with the recognition approach suggested that the accounts should analyse which grants were expected to be paid commencing after the charity's year end.

Another respondent believes that a grant condition of requiring matched funding should not be treated as a liability but as a promise and therefore not a liability. However such a grant would satisfy the FRS12 requirement to be a constructive obligation and should be shown as a liability. Closely related to this is the response which explained that many charities may have made a commitment that should be regarded as an obligation, but they know from experience that not all these commitments will be taken up. In these cases the suggestion is that these should be regarded as contingent liabilities. An alternative treatment in these cases might be to apply a 'discount' factor to the liabilities as a whole in recognition that the only a percentage of these liabilities will crystallise.

Several respondents wanted wording inserting to indicate that the recognition point should be when the obligation is unavoidable in the legal sense. However this approach is not consistent with FRS12.

One respondent was very much against the use of a 'single methodology' for recognition although the explanation of possible alternative approaches was already provided in paragraph 132-138 of the SORP ED.

It was suggested by two respondents that there is a discrepancy between the views of the ASB, PSNC and SORP committee on this issue. A close liaison has been maintained between these groups during the development of the SORP ED and will continue during finalisation of the revision to ensure the existing consistency in approaches is maintained.

Two respondents felt that forcing charities to recognise multi-year grants in one year is actually affecting the way the sector works in preventing a helpful practice. Other respondents covered similar issues and suggest that the SORP is, in this respect, not a neutral device for liability recognition.

One respondent noted that there are may be conditions which are under the joint control of a grant maker and a third party (presumably another funder) and that a liability will not arise until both have agreed.

O Where a multi-year grant payable is conditional on an annual review, do you agree that evidence of the operation of a review process is sufficient to demonstrate the operation of the condition? Alternatively, do you believe the full commitment for multi-year funding should be recognised unless evidence exists of the donor charity using the review process to rescind future funding?

Responses

There were 71 responses to question O and a further 8 responses covering this as part of a wider answer. 54 responses were supportive of the approach, 8 with some qualification. There were a number of responses where it was not clear whether the respondent was agreeing with the question or not, most rehearsing the arguments without reaching a conclusion.

A number of respondents explained the background and thinking to their own grant making and explained the impact of not supporting multi-year funding. It seems many want to commit to multi year funding (as this is good for the sector and reduces risk on the part of recipients) but the provisions for either recognition of all the grant in year 1 or imposition of annual reviews mean that they feel constrained from doing so if they would be relying on future funding, however firm that future funding may be. As with some responses to question N there are those who think that accounting standards are dictating how they can operate.

Most respondents agreed that, in relation to the crux of the issue, it was not necessary to demonstrate refusal of future funding to validate review procedures. Many felt that there are many charities which rarely refused to continue funding but which had strong selection, monitoring and mentoring procedures. There was one respondent who wondered whether an 'internal' review would really constitute sufficient grounds to make the grant conditional but most clearly indicated that objective reviews were possible. There were nevertheless some respondents who believed that the occasional rescinding of future funding was necessary.

A number of respondents reported already undertaking reviews and occasionally stopping funding.

Some respondents feel that trustees should be able to recognise grant commitments when they like – ignoring FRS12. This is sometimes expressed in academic terms 'we need to be able to follow the matching principle' and sometimes that the matter is one with which the SORP should not be concerned – it is just a matter for trustees.

One respondent suggested that the SORP ED had not sufficiently clarified that in a multi-year grant situation, the first year may well need to be recognised but only future years shown as contingent liabilities (para. 139)

Another respondent suggested that para. 136 should be expanded to include more details of FRS12 and that 137 should be expanded by giving further examples. They also suggested that a link to performance related grants (para. 130) may also be useful.

P Do you agree that grants which contain specific conditions linking payment to the performance of a particular level of services or unit output, in a way that is analogous to a contractual arrangement, should be recognised to the extent that the specific service or goods has been provided?

Responses

There were 69 responses with 53 agreeing (8 with some qualification). 3 disagreed.

A number of respondents drew attention to the difficulty of determining when a grant is a quasi-contractual arrangement. The issue of the distinction between a performance condition and a restriction has also been raised. Some respondents raised the issue of when grants had conditions that were not output-performance related but quality- or process-performance related (issues of quality or management). Others raised the issues including:

- whether research grants could be regarded as quasi-contractual
- whether certain types of DfES and European Social Fund grants are contractual or not.
- how to deal with staged payment grants linked to activities
- what to do when the performance element is an immaterial part of the total payment

One respondent was concerned that there may be a difference in recognition between management and statutory accounts. A number of others suggested that the point at which performance takes place can be difficult to establish administratively and attempting to do so can increase costs.

Two respondents felt that this treatment should also apply to 'time limits for expenditure', but there was no further explanation as to what this meant.

One or two respondents questioned whether this question covered both recognition of incoming and outgoing resources, and clearly the issues raised above relate to both.

Q The Exposure Draft continues to allow the recognition of donated services within the SoFA where a demonstrable cost is borne by the donor and a current value to the recipient charity can be measured. Is this appropriate? If not, should the guidance limit recognition of such contributions to those services that the charity would have been obliged to purchase in the absence of a gift?

Responses

There were 72 responses to this question, 62 agreeing with the proposed treatment and 3 disagreeing).

Almost all the respondents agreed that a value for donated services should be included in the accounts, and for the most part they agreed with the proposed approach. Some went further to suggest that not including them would actually detract from understanding the true nature of the charity's operation.

There were however a number of issues about what value to use. One respondent wanted clarification on the meaning of 'current value'. Some respondents agreed that the donor's cost was not necessarily the best basis for measurement. One suggested that charities should be allowed to establish their own value, provided it was reasonable. Another suggested that the value should be obvious and the option of reducing the value in para. 114 should be removed.

Because of the nature of the question, the second part was not answered by all. Many agreed that only donated services that the charity would have had to purchase should be included but there were a number who felt that *all* donated services should be recognised – because they must have had some usefulness to have been received. One respondent indicated that sometimes a charity may receive a very valuable service that it would not have been able to afford and would not have purchased but which was nevertheless extremely useful to the charity. One respondent felt that the issue of when something would have been purchased is open to interpretation and others gave examples of when this could happen (eg just how much donated office space would have been purchased?)

One respondent suggested an alternative to the 'purchase' test: whether the charity was able to do something with the services that it would otherwise not have been able to do, without incurring some financial cost.

It was also recognised that including donated services as incoming resources may be difficult for small charities and may also push some over the next threshold (eg for audit)

Most did not question the omission from valuation of any donated services where there was no cost to the donor. A number of respondents indicated that a valuing donated services is inconsistent with not valuing volunteers (but one commented that it is consistent with valuing donated goods).

One respondent suggested that this issue (and the related issue of volunteers in question D) is something that should be considered further outside the current SORP review process with a view to changes later.

One respondent would like more guidance on the extent to which 'cause related marketing' should be regarded as a donated service.

R Application Note G to FRS 5: Reporting the Substance of Transactions requires that revenue represents the fair value of the right to consideration arising. Do you believe that the proposals in the Exposure Draft are consistent with the reasoning of this Application Note?

Responses

There were only 50 responses to this question, 33 of which agreed with the treatment (4 with reservations). Although there was only one respondent who disagreed, there were 16 where the response was difficult to interpret. This suggests, and an analysis of the responses confirms, that the significance of this application note is not well understood.

A number of respondents suggested that the application note needs careful application in charities. Some noted that the application note is mainly about trading which is not a major issue in many charities and one respondent felt that gift accounting should not be forced into FRS's commercial accounting rules.

Whilst several respondents were happy with the long term contract explanation in paragraph 83, some also felt that it was important to realise that the application note goes further than this.

S Do you agree that the term Heritage Assets is more appropriate terminology for this category?

Responses

There were 49 responses to this question. A further 15 responses covered the whole section (questions S-W) and these responses are not counted here. Overall 43 respondents supported the use of the term heritage asset, with 5 of these responses containing certain reservations. 4 respondents did not support the proposals.

Of those disagreeing or giving qualified support the key concern was the potential impact on Cathedrals and Church which were seen as integral to religious and pastoral objectives although not held for specific conservation or preservation purposes. Their exclusion from the heritage asset category was a clear concern. One respondent suggested that exclusion of such assets from the balance sheet based on impracticality of valuation was unsatisfactory as it failed to recognise the principals behind non-capitalisation of such assets.

One respondent extended the argument to schools and pointed out that some schools and almost all Cathedrals offer guided tours of their buildings thereby fulfilling an indirect heritage objective.

The issue of buildings housing heritage collections was also raised with the suggestion that members of the public would regard many building housing a collection as also being an heritage asset despite the building perhaps not being held on specific heritage objects.

Some concern was also expressed that the casual reader may not fully appreciate the distinction being drawn between an historic asset being used "functionally" and one held for conservation objectives.

This question and the next four (T, U, V and W) all address various aspects of the treatment of heritage assets. Some of the responses to all five questions raise issues concerning accounting standards themselves and not just with the SORP ED's interpretation of those standards. These issues affect many public benefit entities general and a need has been identified for these issues to be taken forward in discussions with the Accounting Standards Board to ascertain the flexibility available under accounting standards to address these concerns.

T Are you content with the proposal that continues to require the capitalisation of newly acquired heritage assets? If not, what alternative would you favour and how would you reconcile this to generally accepted accounting practice?

Responses

There were 52 responses to this question alone, and a further 5 responses mention this issue in reply more generally to other questions. Overall 25 respondents supported the proposals, with 3 of these responses containing significant reservations. 27 respondents did not support the proposals raising fundamental concerns as to the approach being proposed within the exposure draft.

Those with fundamental concerns were primarily from those connected with the museums and galleries sub-sector. Those favouring the proposals were primarily from sub-sectors not directly affected by the proposals. Those supporting the proposed treatment often saw the proposal as a pragmatic compromise recognising the constraints placed on the SORP by FRS 15: Tangible Fixed Assets.

The concerns raised by the Museums and Galleries sector were significant and shared a common strand questioning whether the approach would readily be understood by users of the accounts. There was a high level of support for an alternative accounting treatment of expensing new additions to heritage assets where pre-acquired non-capitalised assets are material. In particular, the following concerns were raised:

- Capitalisation misleads readers of the accounts as to the reserves position of the charity;
- Some pre-acquired assets may be valued under cost/ benefit rules and other not. Partial valuation is more confusing than no valuation;
- Valuation subject to significant variations or based on association with persons or places;
- Valuation methodologies often unreliable e.g. unique or irreplaceable items or no active market;
- Often objects are fragile with obligations for ongoing expensive preservation work;
- Prohibitive cost of formal valuation;
- Capitalised assets may only represent small proportion of total assets held resulting in meaningless balance sheet information;
- Such assets do not depreciate in the conventional sense (as indefinite useful life) and therefore recognition of the acquisition cost is deferred indefinitely;
- Often inalienable and therefore cannot be realised;
- Need for consistent accounting policies;
- Need for consistency with IPSAS 17;
- High level of non-compliance indicates dissatisfaction with current approach.

Those expressing concern generally supported fuller stewardship disclosures, although support for the introduction of a range valuation within the notes to the accounts had limited support as the same valuation difficulties would be encountered although one respondent suggested that insurance valuations might provide sufficient accuracy for an indicative value to be disclosed (these issues are more fully addressed in the analysis under question W).

A number of respondent suggested guidance should be provided on the accounting treatment of enhancements to heritage assets that were not capitalised under existing rules.

U Do you agree that inalienable assets that are not of a heritage nature should be capitalised?
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Responses

There were 42 responses to this question alone, and a further respondent mention this issue in reply more generally to other questions. Overall 36 respondents supported the proposals, with 9 of these responses containing significant reservations. 6 respondents did not support the proposals.

Those supporting the proposal that inalienable assets, other than those of an heritage nature, should be capitalised recognised that such assets had a service potential and were deployed in providing the activities of the charity. Some qualified their support expressing concern as to the cost of valuation or the reliability cost information. A number of respondents suggested that there was a case for

extending the cost/ benefit test to such assets recognising the potential cost and difficulties of obtaining professional valuations. A further respondent suggested a need for a separate tangible fixed assets category to aid the identification of such assets.

Those who were against the proposal shared these concerns but also expressed concerns at valuing such assets where there was a prohibition on their disposal. It was suggested that capitalisation inferred an economic motive for holding such assets. One respondent was concerned that capitalisation could also lead to readers of the accounts misinterpreting the reserves position of the charity.

V Do you agree that the criteria for the exclusion from capitalisation of previously acquired heritage assets should be applied on an asset-by-asset basis? If not, please explain why.

Responses

There were 45 responses to this question. Overall 27 respondents supported the proposals, with 9 of these responses containing significant reservations. 16 respondents did not support the proposals.

The responses received indicated uncertainty as to exactly what was meant by the cost/ benefit test being applied on an “asset by asset” basis. Those supporting the concept raised doubts as to the practicality of applying the test to the individual assets that made up a collection and others emphasised the need to define and explain more precisely what was proposed by undertaking the test on an asset by asset basis and suggesting that some grouping of assets was likely to be necessary to make this approach practical.

Those disagreeing emphasised these concerns, making it clear that some grouping of assets was essential in applying the cost/benefit test. The onerous nature of such an approach was emphasised and it was suggested by one respondent that the recommendation would simply be ignored by the sector as impractical in the context of a collection of many thousands of individual exhibits.

One respondent suggested that the question was inconsistent with FRS 15 which pointed towards considering asset classes rather than the individual components that make up a class of assets. Another raised a question about how an archaeological site might be addressed on an asset by asset basis.

W Do you consider the stewardship disclosures for heritage assets set out in paragraph 272 to be sufficient, and particularly where such assets are not capitalised on cost/benefit grounds? If not, what particulars could be added to the disclosures, for example would an estimated or indicative value for non-capitalised assets be helpful to readers and be a practical disclosure for preparers of accounts to provide.

Responses

There were 49 responses to this question alone, and a further 5 responses mention this issue in replying more generally to other questions. 43 responses generally supported the adequacy of proposals put forwards for stewardship reporting. The importance of stewardship reporting was clearly recognised in the responses with one respondent suggesting that disclosures could be expanded to include conservation and storage arrangements; another suggested more narrative disclosure of the nature and utilisation of collections.

The supplementary question relating to the provision of an estimated or indicative value for non-capitalised asset received a more mixed response. Generally, charities operating within the museums and galleries sector were opposed to this additional disclosure. Respondents questioned the practicality of such a valuation and the benefit this would give to users. Others questioned the reliability of such valuations if not based on professional advice and others suggested such a valuation would simply encounter the same difficulties that had led to non-capitalisation in the first place. Others questioned where valuation information that was not sufficiently reliable to be included in the accounts whether it was appropriate to include such estimates within the notes.

A number of respondents, not from the museums and galleries sector, supported the inclusion of an estimated or indicative value perhaps based on insurance values believing this would assist users' understanding. The idea of using insurance valuation was specifically rejected by one respondent from the museums and galleries sector as lacking relevance in the context of financial reporting.

X Are there any other new developments or sector specific transactions that you believe the revised SORP should address?

There are over 300 comments making suggestions for further changes to the SORP both in direct response to this question and as separate annexes to responses. The suggestions include:

- detailed concerns about specific paragraphs (eg explanation of restricted funds);
- legacy accounting and recognition;
- questioning operational impact of particular accounting standards eg FRS17);
- general editing issues (eg when 'should' and 'must' are used);
- areas where the SORP committee need to consider whether additional guidance is required (eg research, incorporation);
- detailed legal requirement changes (eg thresholds)

These comments will be reviewed in the process of producing the final document.

Y Is the additional guidance on the accounting treatment of fundraising start-up costs and databases sufficient? If not what further guidance do you consider necessary?

Responses

Of 59 responses to this question, 54 agreed that the guidance (which indicates it is normally inappropriate to capitalise both fund-raising start up costs and database capture costs) is sufficient. Several respondents felt that there was never a situation in which start-up or database costs should be capitalised. One respondent suggested that there may be a case for deferral of cost if the expenditure happened in the last weeks of the financial year with the benefits coming the following year.

A number of respondents emphasised that spending on start-up/database costs is necessary and that where revenue occurs in future periods charities would need to undertake a review of the cost/benefit of the schemes in future periods (though they did not comment on the difficulties, eg in apportionment, that may be encountered in doing this). Results of such reviews might be better reported in notes to the accounts rather than the trustees' annual report.

One respondent would like more guidance on treating costs for abandoned schemes (write off would be appropriate), another that perhaps a clearer definition was needed and a number of respondents felt that more explanation of the technical background (UITF 24 and FRS10) might be helpful.

Z Does the need to allocate support costs to relevant activity categories create a burden for smaller charities? If so do you consider it would be appropriate to increase the threshold, allowing a natural classification of costs, to the audit threshold of £500,000 gross income proposed for charities in England and Wales by the Charities Bill?

Responses

We have recorded 69 responses to this question and the responses indicate a wide variety of opinion with 54 feeling that allocation was a burden and 10 saying (sometimes strongly) it was not. It is clear from the comments that the burden of reporting on smaller charities is felt to apply more widely than in relation to the allocation of support costs and responses to this question should be read alongside similar concerns relating to small charities and the Trustees' Annual Report.

The existing concessions (up to income of £250,000) are felt to work well and there was general support for an increase to the audit threshold of £500,000 income. Some felt that this concession should be given to charities with even more income, often because they believe that any allocation/apportionment is onerous.

One of the reasons why such allocations (and activity classification) are a problem for small charities is that donors often insist on reports which have a natural classification. Therefore the use of activity classification for SORP purposes imposes a dual burden on smaller charities.

There is some concern at the meaning of 'audit threshold' due to several problems:

- the fact that some charities are required to have audits (eg by donors) even though they would not be required to have an audit by statute
- the fact that under the proposed Charities Bill the asset threshold could mean that charities with income well under £500,000 would need an audit and
- there may be a different audit threshold in Scotland and Northern Ireland.

A number of respondents question the benefit from doing any allocation/apportionment of support costs, perhaps indicating that there remains a feeling that charities should not be openly declare how much they are spending on charitable, fundraising and governance activity.

These responses also gave rise to a number of comments on the level of the audit threshold and regulation in general which is an issue that concerns legislation (eg the Charities Bill and regulations) rather than the SORP.

AA Are there any further disclosure concessions that could be made for smaller charities? If so, would your suggestions be consistent with the statutory duty of accruals accounts to present a true and fair view?

Responses

There were 42 separate responses specifically to this question and further responses on the general topic of small charities, all of which are considered here. 22 respondents felt no further concessions should be made with 9 feeling they should. It should be noted that most of the responses relate

mainly to larger charities and the voice of the smaller charity may be underrepresented. One respondent organisation which is heavily involved with accounting for small charities has made a number of the observations included in this section.

Certain features related to accounting for smaller charities in the sector were raised by several respondents:

- There is a turnover of people managing accounts and finance so there is a constant retraining need and many smaller charities do not have expert professional assistance.
- The SORP is a difficult document to read, and this is a particular problem for those in small charities who often have little involvement with charity accounting.
- Excessive disclosure can be a burden on small charities who have a largely volunteer staff.
- The large number of disclosure items means that many advisors simply adopt a checklist approach to ensuring disclosure without worrying whether the accounts convey anything about the charity.

Whilst the majority agreed that no further concessions were needed, there was a very wide range of opinion.

Some respondents wanted to encourage all charities to aspire to producing accounts according to full disclosure provisions. One respondent felt that the concessions should be kept at £250,000, and possibly even only applied to charities with income under £100,000. Another respondent felt that there should be no receipts and payments concession and yet another suggested that for many small charities receipts and payments are the same as accruals accounts (though the respondent did not mention the disclosure provisions).

Another respondent noted that the concessions to allow 'natural' classification mean that a large proportion of the charity sector will not have to explain how much they spend on charitable purposes – a fundamental issue of accountability.

Several respondents felt that the concessions were 'self selecting' in that small charities did not need to disclose items that were not relevant. One respondent felt that the removal of the AA markings from SORP had assisted with this (though another wanted the AA's reintroduced!).

At the other extreme, one respondent felt that all small charities should be allowed to account as they liked.

There was some concern expressed at removing the section on receipts and payments from the SORP, though it was accepted that such accounts do not need to follow SORP. Even though the SORP sections on accounts preparation do not apply to cash based accounts, charities preparing these accounts are still required to produce a TAR and ideally should follow the requirements. There were a number of respondents who felt that there should be a section early in the SORP explaining the small charity exemptions.

Several respondents noted that the concessions in SOFA format apply to resources expended only and smaller charities might also benefit from similar concessions relating to incoming resources. Another respondent wondered whether further concessions could be made in relation to grantmaking.

Some respondents considered that the category of small charity for disclosure should be higher than the audit threshold – figures suggested ranged from £1m to £5.6m gross income.

The issue of charities which will come within the audit threshold by virtue of assets and not income was raised again here (already included in another section).

One respondent felt that there should be further disclosure concessions even for charities over the audit threshold in relation to the reporting of activities and performance in the TAR. Another that even a SOFA should not be required for charities under the audit threshold.

One respondent felt that independent examination should not be required of charities with income of under £100,000 and that there should be a pro-forma set of accounts for charities below this level.

One respondent suggested that there may be a problem in setting the disclosure limit so high for Scottish Charities, most of which would fall below this level.