

## Truro Diocese

### Archbishops Council funding

#### Consideration of Income Recognition Policy

(For reference, I have included the extract from our 2024 audit completion report that explained the position and conclusion at the end of this document)

#### Current Policy

The grant income is recognised according to when the related expenditure is incurred – because, per Sophie, the grant provides for any surplus to be repaid.

#### Review & Conclusion

I have reviewed the charity SORP below to determine if the criteria for income recognition has been met. My comments are in blue. I believe it has, because, in particular:

*5.28 ... a condition that allows for the recovery by the donor of any unexpended part of a grant does not prevent recognition*

*And 5.26 ... there do not appear to be any conditions imposed that are outside the control of TDBF.*

However, I have also been looking for anything in the SORP that may justify the client's position and I believe clarification is needed on the following points:

- 1. 5.22 Time-related conditions may be implied. For example when a multi-period grant is approved and is to be paid on the basis of agreed annual budgets, the charity may not be entitled to spend part or all of that income in advance of its budgeted year(s) without the further prior approval of the grant-maker*

These AC grants are multi year grants. The grant applications would have included budgets for each year but from discussion with Sophie it is well known that these are fluid. I did not get the impression from Sophie that funding would be held back if it was spent ahead of the budget – it would just mean that the objectives/activity were being achieved sooner than expected.

The above has been discussed with Sophie Eddy 25/3/25 and she explained that, as for all Diocese's, they can only claim the funds quarterly in arrears after the expenditure had been incurred. She has provided the email on [Q29.1](#) to demonstrate this. It relates to SDF, STF, Capacity, DIP and PPF grants.

## Charity SORP

### Core principles for income recognition:

Must have entitlement, receipt must be probable and measurable.

5.11 In the case of a grant, evidence of entitlement will usually exist when the formal offer of funding is communicated in writing to the charity. However some grants will contain terms or conditions that must be met before the charity has entitlement to the resources.

[They have received a grant award letter. Recognise.](#)

5.13 Charities need to identify donations or grants that are subject to terms or performance related conditions or other conditions that must be met before there is unconditional entitlement to the gifted resources.

[The letters do not appear to contain performance related conditions. Recognise](#)

5.18 A restriction on the use of a grant or donation to a particular purpose or activity of a charity does not create a performance-related condition.

[The awards are restricted. Recognise](#)

### Other terms and conditions that limit the recognition of income

5.20 Performance-related conditions are not the only conditions that may apply to donations and grants. For example, a grant may be conditional on a charity obtaining matched funding, or subject to a successful planning consent. Meeting these conditions would not be wholly within the control of the recipient charity and the outcome of the specified event is uncertain. The charity would not have unconditional entitlement to the income until these conditions were met.

[There do not appear to be any conditions that are outside TDBF's control. Recognise](#)

5.21 Donor imposed conditions may also specify the time period over which the expenditure of resources on a service can take place. Specification of a time period may amount to a pre-condition for use that limits the charity's ability to spend a grant or donation until it has performed the activity related to the specified time period. For example, a condition might specify the provision of a number of training weeks or the completion of a number of work placements in a particular period.

[No specific period when expenditure must take place but the grants are multi period – see below .](#)

5.22 Time-related conditions may be implied. For example when a multi-period grant is approved and is to be paid on the basis of agreed annual budgets, the charity may not be entitled to spend part or all of that income in advance of its budgeted year(s) without the further prior approval of the grant-maker

[They are multi year grants. The grant applications would have included budgets for each year but from discussion with Sophie it is well known that these are fluid. I did not get the impression](#)

from Sophie that funding would be held back if it was spent ahead of the budget – it would just mean that the objectives/activity were being achieved sooner than expected.

**To confirm if they would need approval from AC to draw earlier than the budget phasing.**

### **Terms and conditions that do not prevent recognition**

5.26 When meeting terms or conditions are within the charity's control and there is sufficient evidence that they have been or will be met, then the income must be recognised. Terms or conditions such as the submission of accounts or certification of expenditure are administrative requirements and would not prevent the recognition of income.

**No known Ts or Cs outside TDBF's control.. Recognise**

5.27 A donation or grant without conditions should not be deferred even if the resources are received in advance of the expenditure on the activity funded by them. The timing of the related expenditure is at the discretion of the charity and the income cannot be deferred simply because the related expenditure has not been incurred. For example where a donation or grant is given specifically to provide a fixed asset or a fixed asset is donated (a gift in kind), the charity is normally entitled to that income when it is receivable. At this point, all of the income must be recognised in the SoFA and not deferred over the life of the asset.

**They appear to have entitlement to the funds but have not drawn them so deferral is not in point.**

5.28 Similarly, a condition that allows for the recovery by the donor of any unexpended part of a grant does not prevent recognition. Instead, a liability to any repayment is recognised when repayment becomes probable.

**The grants include this term but I do not believe repayment is probable. Recognise**

For reference, this is an extract from our audit completion report that explained the situation

## Section two

# Key audit and accounting matters

### Archbishops Council Funding - Recognition

It has been identified that various Archbishop's Council grants are awarded that cover several years and that the charity is only recognising them when the related expenditure has been incurred.

The amounts of grant income awarded but not recognised in respect of the four grants we examined are as follows:

|                                 |       |
|---------------------------------|-------|
| Strategic development – Phase 2 | £640k |
| Diocesan Investment Programme   | £349k |
| Building for Mission (CBSO )    | £77k  |
| Building for Mission (MR & I)   | £96k  |

Management have undertaken further work as set out opposite to review the position for other grants.

The grant award letters indicate that the *'funding is payable when the activity is started'* but also explain that if the funds are not spent, they must be returned to the Archbishop's Council. Management have therefore only accounted for the funds as they are spent.

Discussion with management has indicated that, in reality, funds are rarely repaid and also that the original grant applications do not limit when the funding should be spent.

We do not consider that this accounting policy meets the requirements of the charities SORP, which requires grant

income to be recognised when the charity has entitlement, it is probable that it will be received and that the amount can be measured.

Management have subsequently calculated the effect of a change of policy, to recognise income when entitlement is established on receipt of the grant offer (assuming there are no significant conditions that must be met) and have established that income is overstated by £128k and £148k for 2024 and 2023 respectively. This is not material to the Statement of Financial Activities (SOFA). A change in the policy also results in accrued income and restricted funds being understated by £1.6m at 31 December 2024 which is not material to the balance sheet.

Management have decided not to adjust the 2024 accounts but plan to adopt the new policy, to recognise income when entitlement is established on receipt of the grant offer, in the 2025 accounts.

### Conclusion

As the figures involved are not material, we will be able to sign a clean audit report. The Trustees will be asked to confirm, in the letter of representation, their agreement to the continued use of the original income recognition policy in the 2024 accounts. It is noted that on the change to the new policy in the 2025 accounts, £1.6m will be recognised as restricted income in 2025. No prior year adjustment will be required.