To whom it may concern:

Thanks for the opportunity to respond on this, it's a great opportunity.

We were hoping to do a formal published paper, but in reality we've not had the resources to do that. However we do know what we think on the content, so want to share that with you. There are three main areas we want to talk about:

- Governance
- Impact reporting
- Finances (some technical points!)

We agree that the larger the charity, the more it should report. We'd be in favour of a sliding scale. We don't want to be disproportionate, especially in relation to charities with few resources. But charities with resources should step up.

Governance:
Our paper *It starts from the top* covers points on governance, and is our official view on governance issues. However this paper is more general than SORP. On SORP we think that requiring trustees **to report** on their governance activities will create a culture of transparency and healthy competition to follow good practice.

To sum up our recommendations about what charities should say in the report and accounts about governance processes:

- Trustees terms of office: fixed or perpetual?
- What is the board's policy on individual trustee/chair appraisals? Who conducts them?
- Activities undertaken to improve board performance, eg, induction of new trustees, training. We note that for larger charities, they already have to report on policies—but they should report on action too.
- Board evaluations: whether there has been a recent board evaluation or other type of review, such as skills audit. What action taken as a result? NB we wouldn't expect annual board evaluations, but that they are undertaken regularly. Again, any action taken as a result.

We wouldn't necessarily expect there was something to report in all these examples in every year, however reporting on trustee activities would be good discipline. Charities that do this inspire confidence.

It may be appropriate for boards (note the word 'may'!) to report on the **diversity of the board** and any efforts to improve this, especially for larger charities.

Impact reporting:
Referring to the existing SORP, **paragraphs 1.17-1.20** are clear, but could go further.

Paragraphs 1.35-1.45 for larger charities mentions measures or criteria for success, which is helpful, however for larger charities we want to know not only the measures/criteria, but also how they go about getting hold of the data. See below. Charities may want to talk openly about challenges in evaluation or data collection.

Overall it would be helpful if a charity could say something about:

- How it knows about improvements to people's lives. What methods has it used to find out about improvements? For instance, does it ask service users about the service? Is this through surveys, interviews or other methods? Has it formally evaluated a new service? Does it track engagement with its services though some other means? This is a different angle than the measures/criteria for success question, but one that is important in assessing the validity of ambitious claims!
- What has it done with the information? Has it learnt anything from the information? Has the board reviewed information? Has the charity changed anything as a result?
- We think charities should be open about activities that were less successful, and any lessons learnt. The general provisions reference achievements only. The point in 1.45 (larger charities) about negative as well as positive factors, and the context, is a good one. It may be worth having some kind of 'lessons'

question/section.

Although the larger charities section later asks some of these questions, we think charities > £500k income should be encouraged to talk about how they try to assess impact, even if they don't have the resources to undertake state-of-the-art evaluations and measurement. This needs to be proportional of course.

Technical points on financial reporting:
See SORP Para 5.10-5.12 on general principles for recognising income from donations and grants
This can be problematic. The requirement to recognise grants as soon as they are imminent, but before any work is actually done against them (even if restricted), means the audited accounts are often distorted. In NPC's own management accounts, we only recognise income when the work against the grant is delivered. This means we are not lulled into any false sense of security at the start of a lengthy project that has been paid for up front. Its particularly relevant when sums are received in one year, but the work delivered the next. At London Wildlife Trust (where I'm a trustee), we found it extremely difficult, as trustees, to work out whether we were in good or poor financial health, if we relied on audited information. Fortunately our management information is able to tell us how we are doing. But explaining to our members why we made huge surpluses one year (when we were awarded a three-year grant by, say Heritage Lottery Fund) and then incurred deficits the next two years, as we delivered the project, has been difficult. Because we are confident we can deliver the projects we're being paid to undertake, we can't defer the income once we have a grant letter!

The recommendations for a change in presentation of 'revenue' and 'capital' items, which we welcome, could help with this, but not entirely—there may be lumpy revenue income that is affected too.

See this section on p43 of our guide, *What makes a good charity?*

'A quirk of current charity accounting regulation means that grants are entered as soon as there is reasonable certainty that they will arrive, regardless of whether the funds are received or the work has been undertaken. A charity's accounts could show large sums received in one year (resulting in a surplus), followed by costs incurred the following years as work is delivered, with no corresponding income (resulting in deficits). Reserves that look abundant may be designated for a purpose. Audited accounts alone may not tell the reader about the terms under which big 'lumpy' grants have been received, what is to be delivered in return, and what this might cost. Explanation and interpretation will be needed to determine whether the charity is living within its means.'

The fact that this differs so greatly to commercial accounting principles doesn't help. Many commercially astute readers of charity accounts are utterly baffled by this convention.

Other income points
More generally, we are frequently frustrated by the paucity of information on income provided in the notes to the SOFA.

Charities should distinguish the following sources of income (see SORP **paras 4.31** onwards):

A1:

- Legacies vs other donations: important for assessing fundraising risks
- Grants from government vs non-government: important for understanding relationship with government—this plays to the recommendations about transparency of funding sources

A2:

- Contracts--which confer contractual obligations: important for assessing risk
- Restricted grants from government vs non-government: again useful for understanding relationship with government

A3:

- Income from other trading activities:

Income from shops should ideally be reported net, but with a note in the accounts explaining the gross income vs costs. Would be good if guidance was crystal clear on this. We aren't sure ourselves of the interpretation. The risk of gross income being shown on the face of the SOFA is that it greatly inflates charity turnover.

I've seen some really murky accounts for big charities that should, frankly, be more transparent.

I hope this helps, and do get in touch next week if you need further clarifications?

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After the EU referendum, can charities heal the divisions in our society? Join us at our free event.

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