

**Goodman Jones LLP**

**Comment on Research exercise on charities SORP (FRS102)**

**Section 3.1: The SORP's structure, format and accessibility**

Q1: Yes we agree that generally the new format of the SORP meets the needs of all those preparing accounts using the SORP.

One possible addition to the SORP, although perhaps not part of its remit, would be a section that states the reporting thresholds and definition of a larger charity. This may assist charities in determining the nature/level of examination required, and whether the larger charity disclosures are required, without the necessity to look elsewhere.

Q2: We believe that the structure and format of the SORP together with the example found on the SORP website provide sufficient assistance for smaller charities in the majority of cases.

Q3: The uses of the terms 'must', 'should' and 'may' have helped significantly in distinguishing between those requirement needed to comply with the SORP and those which are good practice or offer advice on how a requirement might be met.

However, consideration should be given as to whether the 'should' option is appropriate. To encourage best practice and better (as well as more consistent) reporting across the sector, there is an argument for making 'should' options 'must' and removing this category of disclosure.

Q4: Despite the requirements for financial reporting now explained in FRS102 the SORP still very much has a place in charity accounting as it enables preparers of charity accounts, particularly those from smaller charities, to have a "one stop shop" tailored specifically for charities without the need to wade through complex reporting standards many of which may not be relevant.

**Section 3.2: Implementation issues that require improvements to the SORP**

Q5: One area that would benefit from additional guidance would be in the application of recognition criteria on performance related grants. A grant may have performance criteria but no specified way of allocating the income across its outcomes and assistance from the SORP by way of examples and methodologies would be helpful.

**Section 3.3: SORP Committee member suggestions for changes to the SORP**

Q6: Two of the stated aims of the SORP are simplification and comparability however by introducing yet another tier of reporting this will only complicate and confuse preparers of accounts and inter charity comparisons will become even more difficult for the layman to make.

We believe the current two tier system has achieved the perfect balance – a simpler streamlined approach for smaller charities with more detailed disclosures for larger charities.

Q7: Not applicable as disagree with this suggestion.

#### Narrative reporting

Q8: We very much support the following:

*Better integration of the report with the accounts* – additional guidance and example here would be very welcome.

*Detail of reporting* – this varies enormously from charity to charity and additional guidance and example here would be very welcome to aid comparability. For example, indicating what additional information is required by section 1.36 compared to section 1.17.

*Reserves definition and guidance* – all of the areas highlighted would benefit from additional guidance. Help explaining why reserves are necessary and reasons for their use, how they are calculated and expressed would be very beneficial and aid the comparison between different charities.

We would however strongly disagree with the need for a *key facts summary*. We feel this is too simplistic an approach and may lead certain readers of the accounts to look at the key facts without understanding the context of the information or the specifics of the individual charity. It may lead to crude comparisons being made without an appreciation of finer details.

#### The accounts

Q9: Areas for review of the accounts:

SoFA – Dropping the “support costs” definition would certainly simplify accounting but would make comparison between charities impossible. Much more useful would be a greater specification and guidance on what is to be included within the support cost definition.

Revenue and capital – having yet another column on the face of the SoFA would only increase confusion not alleviate it. The current practice provides the required information within the notes and a full explanation of the treatment may be made in the note and referenced within the reserves section of the Trustees report.

### **Section 3.4: Charity regulator suggested themes for making changes to the SORP**

Q10 & Q11: Themes

- i. Making a difference for the public benefit

We agree that charities must explain who the beneficiaries are that the charity seeks to serve.

Where relevant we agree that charities should explain how beneficiaries are involved in identifying activities to be undertaken and the nature of those activities.

ii. Risk management

We agree all charities should be required to advise if the reserves held are sufficient to avoid service disruption to its beneficiaries.

Insisting that all charities be required to explain what assurances they have that the charity's own internal controls are operating effectively is seldom relevant for smaller charities that often have much simpler internal controls.

We agree that larger charities should be required to explain how the charity manages the risk of fraud. However, the benefits of larger charities stating whether fraud is an item on their risk register are unclear. In fact, this may just become to be seen as a necessary accounts disclosure.

We also agree that all charities be required to explain how they ensure effective governance arrangements are in place to identify and manage conflicts of interest, ensure sound decision making and ensure adequate oversight of decisions delegated to staff. We see this as a fundamental requirement of interest to regulators, donors and beneficiaries.

iii. Going Concern

We agree that all charities must (not should) be required to explain why they consider that they are a going concern as this is important for all charities not just large ones.

We therefore agree that the requirement to explain their plans for addressing material uncertainties regarding going concern should be extended to include all charities.

iv. Enhanced analysis of expenditure

Explicit definitions of administrative and fundraising costs as in Q9 would always be helpful in aiding comparisons.

If a charity operates outside the jurisdiction of main registration this will be stated (or be implicit) in the Trustees' Report as part of the description of a charity's aims and objectives, and review of activities in the year. Requiring disclosure of expenditure outside the jurisdiction of main registration may, like key facts summary, lead certain readers of the accounts to look at this disclosure without understanding the context of the information or the specifics of the individual charity. Again, it may lead to crude comparisons being made without an appreciation of finer details.

We do not understand why senior employees of charities should be at a disadvantage over their commercial colleagues when it comes to disclosing their levels of pay, as this may discourage potential staff members from joining a charity. They should be entitled to the same privacy as employees of commercial organisations.

Interim/agency staff should be subject to the same disclosure requirements as full time staff.

v. Disclosure of who funds a charity

We disagree with the proposal to disclose who funds a charity as donors for a number of valid reasons often wish to remain anonymous and forcing them to declare themselves could discourage potential benefactors.

We do however agree that a charity should always disclose for whom they are acting, and if party to an agency or consortia arrangement should explain why this work is in support of the charity's key objectives.

vi. Disclosure of key facts

As mentioned in answer to Q8 above we are against the 'soundbite culture' that seems to focus purely on key facts without reference to context or underlying circumstances.

The need to include a prominent statement of charitable expenditure seems unnecessary as it is already disclosed in the SoFa, similarly the figure for gross income. The disclosure of how many p in the £ goes directly to beneficiaries is simply too simplistic to be meaningful.