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Our ref LMH/CDW

9 December 2016

Charities SORP
CIPFA
77 Mansell Street
London
E1 8AN

For the attention of Matthew Allen

Dear Sirs

Research exercise on Charities SORP (FRS 102)

We are pleased to submit our response to the Invitation to Comment on 'Research exercise on Charities SORP (FRS102)' in the appendix to this letter.

Saffery Champness is a top 20 firm of chartered accountants with nine offices in England and Scotland. We act as advisors, auditors and independent examiners for a range of charities with a total of some 300 clients.

We welcome the opportunity to provide feedback on the SORP. The main theme running through our responses is the need for reducing the reporting burden for smaller charities, together with the simplification of what the definitions and thresholds are of 'smaller' and 'larger' charities.

We look forward to reading the outcome of the research.

Yours faithfully

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Appendix

Q1. Do you agree that the new format of the SORP meets the needs of all those preparing accounts using the SORP, including smaller charities? If not, what improvements should be made and why?

1.1 The full SORP is a comparatively manageable and readable document. The ability to tailor the SORP to a charity's circumstances makes it even more accessible, particularly useful to staff and trustees. However, there is a risk that charities may exclude certain modules which then become relevant resulting in new transactions being treated incorrectly by mistake.

1.2 Assuming that the modular basis is to be retained, it would be useful to have further tailoring available such as the option of selecting the SORP requirements by size of charity. This would allow smaller charities to easily exclude the sections which do not apply or are not required, for example certain elements of the trustees' report and the cash flow statement.

Q2. Is more assistance required to help smaller charities? If so, please explain what is needed and why.

2.1 The multiple thresholds which currently exist, including charities with income over £1million requiring an audit but charities with income over £500,000 being considered as "larger" charities could be confusing. We consider that a decision tree or table would be helpful to enable a charity to determine what its size is and for what purpose. This could be on the SORP website rather than in the SORP itself.

2.2 The thresholds used in the SORP are purely income driven resulting in asset rich charities, a number of which have considerable grant making activities, not being required to produce cash flow statements and other enhanced disclosures. Consideration should be given to whether this is intentional.

2.3 Smaller charities tend to have fewer 'experts' available to them, whether due to fewer internal resources or an unwillingness to pay for advice. It would therefore be helpful to have more guidance and worked examples on the more difficult transactions and circumstances, such as investments, pensions and revaluation reserves.

Q3. Q3. Is the use of the terms 'must', 'should' and 'may' successful in distinguishing between those requirements that have to be followed to comply with the relevant accounting standard and the SORP from those recommendations which are good practice and those that simply offer advice on how a particular disclosure or other requirement might be met? If not, what alternative format should be adopted and why?

3.1 We consider the 'must', 'should' and 'may' terminology to be reasonably well defined and a useful system to identify how compulsory certain disclosures are. However, they are used inconsistently in places within the SORP and the guidance notes which have not necessarily been updated in the same way. We are also concerned that over time there may be an increased blurring between 'must' and 'should' such that charities find that in practice 'should' is interpreted as 'must'.

Q4. Given the requirements for financial reporting that are now explained in FRS 102, is the retention of a SORP still necessary in the charity sector? Please give reasons for your answer.

4.1 Yes, the SORP is still required in order to supplement the requirements of FRS102 in certain areas where charities need to report in more detail or in a different way to a standard company. The charity sector needs to tell a story, numbers alone cannot convey what a charity really does, so narrative reporting, which is set out in the SORP, is key to the understanding of charity accounts. Fund accounting also plays a big role in charity accounts and is not addressed in FRS102.

Q5. Do you have any suggestions as to the changes needed to address issues on implementation or in meeting the SORP's requirements? If so, please explain what are they are and where possible please give examples.

5.1 As mentioned in our response to Q2 above, more worked examples would be useful.

5.2 Specifically, examples detailing the related party transaction disclosures would be useful to help clarify the requirements, since the SORP's requirements are different to those required by FRS102.

5.3 The example accounts provided do not cover many of the more difficult issues, such as inclusion of defined benefit pension scheme liabilities. It would be useful to have an example including these.

Q6. Do you agree that there needs to be a third tier of reporting by only the largest charities and if so at what level of income should that reporting requirement apply?

6.1 Arguably there is already ample reporting for the largest charities but could be less for the smaller ones. We would hesitate to bring in yet more threshold criteria as to size as there are so many different definitions for different purposes already. Many of the largest charities include additional reporting in their trustees' reports already thus setting their own levels of best practice. We do not consider that additional reporting requirements for the largest charities need to be included in the SORP.

Q7. If you agree that there should be a third tier of largest charities, what items in the existing SORP that apply to larger charities should be restricted to just these largest charities?

7.1 Not applicable – see our response in paragraph 6.1.

Q8. Do you agree with one or more of the four suggested areas for review of the trustees' annual report recommended by the SORP Committee? If so, which ones do you support and if you do not support any of these suggestions, please give your reasons as to why not?

8.1 We feel that SORP already adequately addresses the link between the accounts and the trustees' report, the detail of reporting and the reserves definition and guidance. There is therefore no need for further review or clarification in these areas.

8.2 There are currently sufficient reporting requirements in these areas. The charity sector is so diverse that further guidance and requirements could result in charities producing longer trustees' reports that tick the boxes but potentially dilute the key messages. Charities should be encouraged to rethink their trustees' reports periodically to ensure the reporting is fresh and relevant, but it is important that flexibility and a certain amount of autonomy is retained to allow charities to be individual and tell their own story.

8.3 We consider that requiring charities to produce a key facts summary would have limited use since all charities are so varied and emphasis may be placed on the wrong things. 'Pence in the pound' has been pounced on by the press in some cases in recent years, often placing unbalanced emphasis on this one measure. If additional statistics are required from charities by the Charity Commission then these could be collected by including it in the Annual Return.

8.4 Currently the auditor does not report on the detail of the trustees' report, however the auditor does confirm they have read the report for material inconsistencies. Requiring charities to include more information potentially results in a more onerous (and therefore more expensive) audit, particularly if a key facts summary is introduced.

Q9. **Do you agree with either of the two suggested areas for the review of the accounts recommended by the SORP Committee? If so, which ones do you support and if you do not support any of these suggestions, please give your reasons as to why not?**

9.1 *SOFA – more specific definitions of support costs and fundraising costs* – we do not consider that this area is particularly in need of further guidance.

9.2 *The mixture in the SOFA between 'revenue' and 'capital' items needs to be considered* – we consider that the current fund accounting arrangements deal adequately with capital transactions carried out by charities. Bringing in an extra layer of capital funding versus income could become unduly complicated and provide less clarity for users of the accounts.

Q10. **Do you agree with one or more of the six themes for review of the SORP suggested by the charity regulators? If so, which themes do you support, and if you do not support any of these suggested themes, please give your reasons as to why not?**

10.1 Making a difference for public benefit – a common approach across jurisdictions would be welcomed. This area of disclosure in relation to who the beneficiaries are and how they are involved in service design would really only be suitable for some of the larger charities. Not all charities' activities can be reported on in this way. It might be an area where disclosure is encouraged in the trustees' report through impact reporting but should not be mandatory.

10.2 Risk management – this area of reporting is already adequately covered by the SORP.

10.3 Going concern – this area of reporting is already adequately covered by the SORP.

10.4 Enhanced analysis of expenditure – we do not feel that additional reporting requirements should be imposed on charities in the areas identified. The level of disclosure surrounding expenditure is adequate.

10.5 Disclosure of who funds a charity – the related party disclosure requirements and the government grant disclosure note already provide significant reporting in this area. Additional disclosures could be very onerous on the charity or may put off potential donors. We therefore do not consider that additional disclosures would be beneficial.

10.6 Disclosure of key facts – a 'one size fits all' key facts section in the accounts will have limited applicability to many charities since what is key to an individual charity will vary from charity to charity and even from year to year. Emphasis on certain measures could provide misleading information or provide users of the accounts with an unbalanced and unhelpful focus on certain figures. See also our comments in 8.3 above.

Q11. **If you do support one or more of the suggested themes, which, if any, of the specific issues identified within each theme do you agree needs attention in the next SORP? Alternatively, if you support none of these suggested issues, please identify the issues that need to be addressed and explain your reasons why?**

11.1 Not applicable

Q12. **Are there any items in the report or accounts which could be removed. If so, what are they and what are your reasons for removing them?**

Q13. **Are there any items in the report or accounts which could be changed to improve the information provided to the user? If so, which items would you change, what would the change be, and how would it improve the information to users of the report and accounts?**

Q14. **Are there any items you would like to add in to the report or accounts? If so, what are these items and how would their inclusion help the user of the report and accounts?**

Q15. **Are there any disclosures in the notes to the accounts that you believe can simply be removed altogether? If so please state the disclosure, the relevant SORP paragraph(s) and give your reasons as to why this disclosure is not useful to the user of the report and accounts?**

15.1 Answer to Q12-Q15 summarised:

We believe that the key to improving charity reporting is further simplification for smaller charities. Only the largest charities should have to report on the higher level items, such as risk management and the cash flow statement. The current system of determining the size of charities using the various thresholds is complex and should be simplified further or explained more clearly (see paragraph 2.1 above). It is important to remember that the charity thresholds are significantly lower than the company thresholds, which we support, but the idea of including all charities over £500k of income within the definition of a 'larger' charity together with all the extra disclosures that this entails is potentially onerous on those charities and disproportionate.