

## Research exercise on charities SORP (FRS102)

Invitation to comment issued by the Charities SORP Committee in May 2016

Comments from ACCA  
9 December 2016

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ACCA welcomes the opportunity to provide views in response to the invitation to comment from the Charities SORP Committee. This has been done with the assistance of the members of ACCA's Charity Technical Advisory Group. They have considered the questions raised and their views are reflected in the following comments.

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## SPECIFIC COMMENTS ON THE QUESTIONS RAISED

***Q.1 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?***

We support the format of the SORP and consider that it has been helpful to smaller and less complex charities. We would not propose any significant change to the format.

***Q.2 Is more assistance required to help smaller charities? If so, please explain what is needed and why.***

Many smaller charities prepare receipts and payments accounts and their form of financial statements are not supported by the SORP. It would be helpful if guidance for them was at least signposted in the SORP.

***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?***

In our view the SORP should have simply two categories of provisions. Those items that are required should be referred to as a "must" and those that are not mandatory but are recommendations should be stated as "may". The current three way classification is not as clear and relies on a subtlety of tense of verbs which may not be appreciated by all. The SORP is being used by charities where the preparers may not have English as their mother tongue.

To emphasise those mandatory requirements the SORP could state them in a bold font.

***Q.4 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.***

We are of the firm view that the SORP for the charity sector is useful and should be continued. There is a need for the requirements of FRS102 to be supplemented with application guidance for charities or for the optional treatments in FRS102 to be restricted. The SORP helpfully combines the guidance on the preparing the financial statements (based on FRS102) and the trustees' report.

The SORP is a helpful document that has been shown to work particularly for smaller charities. In most cases for them the SORP suffices without regular reference back to FRS102 as well. More so we consider than with commercial companies, there are charities where the people preparing accounts may be volunteers and have little accountancy training. The SORP is a particularly helpful document for them.

***Q.5 Do you have any suggestions as to the changes needed to address issues on implementation or in meeting the SORPs requirements? If so, please explain what are they are and where possible please give examples.***

We do not have any issues to put forward in this regard.

***Q.6 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?***

The current definition of large charities as those having income of more than £500,000 we consider is set too low. Charities of that size may not have much access to an accountant familiar with reporting requirements.

Income is a relatively crude measure of the capabilities and accountabilities of charities. It may be that a combination of thresholds with employee numbers or assets as with the Companies Act, might be a better approach

However we would not like to see greater complexity in the thresholds and so consider that further research is merited into setting that threshold. If it were set higher at say £1 million of income then we would expect full transparency for those charities. We do not see the reasons why there might be reductions for those below say £10 million as suggested in the consultation.

The SORP should also make clear that trustees of smaller charities (however that comes to be defined) need to consider whether greater transparency is appropriate in their case and so to go beyond the mandated disclosures.

***Q.7 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?***

We do not support a third tier for the largest charities.

***Q.8 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?***

Our comments on each are as follows.

Better integration of the whole report – we agree that there is scope for improving the consistency in the picture given by the financial statements and in the trustees' report. This could be reinforced in the directions given for the latter. We also recognise that charities could be better at telling their story and guidance could be provided to help them as the SORP Committee have suggested. However this should be done by finding a new way to signpost such guidance and examples, but not by inclusion in the SORP itself.

More detail in the reporting – we agree that this should be looked at in revising the SORP. We suggest that trustees should be reminded of this and they should have regard to the level of detail that their funders commonly require in any grant-specific reporting. This should cover not simply the quantity of the information provided which 'detail' would seem to imply, but also the quality and relevance of the information.

Key facts summary – in our view this should not be an annex to the report and should not contain the mandated items that are proposed in 3.4. Instead we think it should be a prominent part of the main body of the report and contain the charity-specific key performance indicators that the trustees use to manage the charity. This will require more thought from the trustees about how the performance should be reported than presenting them with a mandatory generic list of measures.

Reserves definition and guidance – the current requirement should be supplemented in the ways proposed here which will require trustees to explain the basis of their reserves policy. These requirements should apply to all charities and not just the larger ones. The further more detailed requirements for larger charities currently set out in paragraph 1.48 should be reconsidered if the supplementary explanations above are provided and also to avoid duplication with what is required in the financial statements.

***Q.9 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?***

We agree with the scepticism about the support costs' disclosure. The SoFA should continue to require fundraising costs to be separately disclosed and we are not aware of significant uncertainty about their definition.

On the mixture of revenue and capital items in the SoFA we remain to be convinced. Any change would have to be supported by a definition of the two categories and we are not aware of an obvious source for this in the accounting literature. The SoFA structure is already complicated and requiring further columns in all cases would increase this complexity. We note that there are presentational possibilities to overcome this where the resulting fluctuation in the surplus or deficit might merit this.

***Q.10 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?***

Our comments on each of the themes are set out below.

Public benefit – we see merit in the first suggestion for the clear identification of the beneficiaries and in that context to note that 'public benefit' does not just refer to the wide concept of the general public as beneficiaries. The second suggestion of beneficiaries' involvement in service design can be a recommendation but should not be set as a requirement for all, as there are cases where this is not appropriate for example animal welfare charities.

Risk management – we agree that the theme is important to consider in the revision of the SORP. The requirements of the SORP are best stated succinctly and the existing paragraph 1.46 does this. This should apply to all charities not just the larger. Beyond that requirements to make certain specific disclosures may lead to the disclosures being repetitious and encourage 'boiler plate' responses. For example fraud and internal financial controls overlap and potentially also the governance arrangements. Disclosure around the adequacy of reserves has been noted above – the suggested disclosure here might be a useful expression of what is needed. The other suggested items may be best addressed as example considerations in support of the basic requirement from existing 1.46.

Going concern – we agree this is an important issue for the next SORP to address. The existing disclosures material uncertainties could be further strengthened by the first two of the proposed disclosures of why the going concern assumption is appropriate and how material uncertainties are being addressed. The third suggestion about pensions needs to be addressed but only by those charities with material defined benefit pension obligations. The fourth point seems somewhat the same as the second.

Enhanced analysis of expenditure – This is certainly worth considering for the next version of the SORP and we support the approach of researching users' views of what they would find of importance. Our preliminary views on the four items raised are that

- If there can be improved definitions of administrative and fundraising expenditure then that would be useful, but we have some scepticism about how much that can be advanced.
- Country-by-country reporting of expenditure may not be a significant factor for many charities. Even for those that do operate on a truly international basis, ensuring a proper description of the charity and its performance in the trustees' report may be sufficient to meet demands.

- It would be worth researching what users of the accounts of charities are looking for in executive pay disclosures. Many may be interested in a general picture of the pay levels of senior staff and the proportion of income that has been spent in this area. If so the current banding disclosures may be sufficient for their purposes and the specific post and pay details may not be relevant. We do not think that the SORP should go beyond the commonly accepted definitions of staff, for instance those required for the Companies Act for example.

Funding – these disclosures will provide useful context to the charities’ activities and many charities would already show this information. Trustees should be encouraged to provide suitable analysis perhaps aggregating similar funders or contracts. A SORP requirement will however need a minimum disclosure and a clear unambiguous definition of material for the disclosure of the individual donor, grant giver or contracting body.

Key facts – as noted above we do not support the mandatory generic approach, but prefer the charity-specific measures of performance. The proposed disclosures are all shown in the SoFA and we see no reason to require them to be shown twice.

***Q.11 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?***

See our comments included above in answer to Q10.

***Q.12 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?***

We suggest that the following disclosures in the trustees’ report are not very relevant to the users of the reports

- the policies and procedures for the induction of training of trustees (in 1.51)– there should be such policies and procedures in place, but they do not need to be disclosed in the annual report.
- the names and addresses of the bankers, solicitors, investment advisers etc in 1.52.

***Q.13 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?***

We have no items to propose here.

***Q.14 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?***

We have noted a number in our answers above and we have no further items to add to them.

***Q.15 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?***

We have no items to propose here.



