

RESEARCH EXERCISE ON CHARITIES SORP (FRS 102) NCVO RESPONSE

December 2016

About NCVO

Established in 1919, the National Council for Voluntary Organisations (NCVO) is the largest representative body for voluntary organisations in England, with over 12,000 members. NCVO champions voluntary action: our vision is a society where we can all make a difference to the causes that we believe in. A vibrant voluntary sector deserves a strong voice and the best support. NCVO works to provide that support and voice.

Our response to the consultation questions

NCVO's approach to responding to this consultation has been especially mindful of the questions that the general public ask about charities, and the key issues that have caused public debate over the past years.

We are encouraged to see that the SORP Committee has used this exercise as an opportunity to look at accounts from the perspective of general public, to help them understand how charities are run.

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?

We agree with the use of the different terms 'must', 'should' and 'may' to distinguish those requirements that must be followed in order to comply with the SORP from other recommendations which charities can opt to follow when preparing the trustees' annual report and accounts.

It is important that the SORP is clear about when a recommendation is a requirement and when the text of the SORP is offering advice on good practice or simply suggesting an approach to making a particular disclosure. In our view, the use of these terms is helpful and known to charities, since it replicates the approach already used by the charity regulators in their guidance.

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?

We do not agree that a third tier of reporting should be created for the largest charities with income above £10 million.

According to the latest data in NCVO's 'UK Civil Society Almanac', there are only just over 1,000 organisations that would fit within this category. In our view, the complexity of creating a further tier is not proportionate to the impact it would achieve.

We would rather encourage the disclosure of additional information on a voluntary basis, for example by following the recommendations of the new Code of Good Governance.

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 reason as to why not?

NCVO supports the SORP's Committee suggested areas for review of the trustees' annual report:

- Better integration of the report with the accounts
- Detail of reporting
- Key facts summary
- Reserves definition and guidance

We agree that the SORP should facilitate and encourage charities to explain their performance and report on their achievements. The current approach of recommending that both qualitative and quantitative information is provided, and taking into account the principles of good impact reporting already help achieve this. The Committee's suggestions to improve the areas above will further emphasise the SORP as a way in which charities can tell their story.

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, or if you do not support any of these suggested themes, please give you reasons why not?

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 do not support any of these suggested issues, please identify the issues that need to be addressed and explain your reasons why?

The themes for making changes to the SORP that have been suggested by the Charity Commission for England and Wales and the Office of the Scottish Charity Regulator are the following:

- Making a difference for the public benefit
- Risk management
- Going Concern
- Enhanced analysis of expenditure
- Disclosure of who funds a charity

- Disclosure of key facts

NCVO agrees that a balance need to be struck between adding new requirements, removing existing requirements and ensuring that the trustees' annual report and accounts do not become overlong.

In our view, this balance should be struck by considering the main purpose of the SORP: to meet the needs of the general purpose user of the report and accounts, who (unlike the charity regulators or funders) is not in the position to demand additional information of the charity.

We therefore agree that the next SORP should require the following:

- An explanation of who are the beneficiaries that the charity seeks to serve. This would help to give greater emphasis to reporting public benefit, which is the cornerstone of being a charity. We do not think however that the SORP should ask how beneficiaries are involved in service design, since not all charities provide public services and therefore the information could lead to confusion within the general public.
- An explanation by the larger charities of how the charity ensures 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. The charity's adherence to the recommendations of the revised Code of Good Governance would be an important indicator that effective governance arrangements are in place.
- The disclosure by larger charities of the position and pay level of all senior employees, as recommended by NCVO's inquiry into charity senior executive pay. We do not agree however with requiring charities to also provide the cost of interim staff or agency or similar staff covering specific senior management roles in the charity.
- The identification by name and amount of any material individual / corporate / government organisation donations and/or contracts.
- The inclusion of a key facts section, which should provide information such as the charity's total expenditure in the year, and the figure for total gross income received in the year. However we do not think that charitable expenditure as a proportion of total income should be expressed as a percentage or the equivalent pence in the pound, as is often done in fundraising materials. This is not an accurate reflection of a charity's costs and impact, and would therefore mislead the SORP reader.

We believe that the additional information outlined above will improve the SORP and better enable it to be a useful resource for its readers. It is important however that these new requirements do not cause a disproportionate burden on smaller charities, so careful thought should be given to tailoring the amount and type of information requested depending on the charity's size and income.