

Dear Nigel and Laura

Here are my comments as invited. I am replying in a number of capacities – as Chief Executive of two Scottish Charities that have recently produced accounts on the FRS102 basis for the first time, as a chartered accountant, as a former employee of OSCR and as a former member of the SORP Committee (2005 SORP).

Before I start, could I just comment that this exercise seems to have a very low profile? The OSCR website is impenetrable at the best of times, particularly when looking for documents, but I could not find your paper anywhere on it.

Question 1

An index would be very useful. It would save endless searches and conversations of the type “I’m fairly sure I read somewhere in the SORP that.....”

Question 2

The best assistance would be to raise the accruals accounting and auditing thresholds, which are far too low, and to de-regulate independent examination for the smallest charities (ie not require an examiner of the smallest charities to have a qualification).

Question 3

Yes

Question 4

Yes. There is a need for common interpretation and understanding of terms, guidance on funds, endowments etc..... all the same reasons that originally gave rise to our developing a SORP have not gone away and are not addressed by simply looking at FRS102.

Question 5

No

Question 6 and 7

No. There is no need for a third tier, only for a higher single threshold. The suggestion of £10.2 million may be ok to adopt for that new threshold.

Question 8

- a) Better integration... - no, more guidance is not needed. It's long and detailed enough as it is.
- b) Detail of reporting – No action necessary
- c) Key facts summary – Adding yet more words to a report that simply repeat the same information in a different way does not help anyone. (Incidentally, the opening premise “given that the general public are interested in the annual report and accounts of a charity” does not chime with my experience at all.)

- d) Reserves definition and guidance – no further guidance is needed

Question 9

Support costs and fundraising costs - there is nothing to be gained from further specification and written guidance. Diminishing returns apply to forever expanding guidance.

Revenue and capital – Please no additional column in the SOFA for “Capital” items. It would be utterly confusing. Creating a designated fund equal to fixed asset NBV is counter to the SORP, and charities doing so should be asked not to.

Questions 10 and 11

All these suggestions expand the size of charity annual reports and accounts, which are already too big, and too daunting for a lay person to attempt to read. This is the wrong approach now, and we’re into seriously diminishing returns. I think that rather than adding endless padding to charity reports, the regulator’s (ie OSCR’s) approach should now be:

- a) To feed back informally to a large charity if its annual report does not seem to cover what it ought to, or if it’s misinterpreting the SORP in its accounts.
- b) To pick up on auditors that are letting accounts through that don’t follow the SORP, meet with them and discuss improvement. Charity auditing is fairly technical, but yields a low margin, and so auditors in smaller firms without a national scale technical function are prone to use junior staff and to blindly follow simplistic templates.
- c) To hold briefings/seminars for auditors of charities and ie’s of medium sized ones to pick up on commonly occurring issues
- d) To ensure that accounts are publicly available. This year I have looked online for the accounts of several charities who declared to OSCR that their reports are available on their websites, to find that they are not. OSCR should be checking this and following up strongly. I would make this an immediate priority.

My response is “no” to pretty much every suggestion in section 3.4, though I would qualify that with the following comments:

- a) The suggestion “where there are uncertainties about going concern” applies only if the charity is nevertheless accounting on a going concern basis. Arguably it should not be accounting on that basis if going concern is uncertain.
- b) Any definition of fundraising costs faces the challenge of allocation and apportionment. For example, my own charity has staff who are engaged both in marketing our service to potential service users and in fundraising, and some of their activities are relevant to both purposes. We are never going to get totally clean comparison between different charities – back to my theme of diminishing returns.
- c) I like the idea of disclosing material donations and contracts, but I would set a high threshold, say 30% of total income.
- d) Again in the next paragraph “for whom the charity is acting” is a good one, but again needs a high threshold, and should be about arrangements with non-charities.

Arrangements with charities are less of an issue. For me the important thing for the report that it should say what steps the trustees have taken to ensure their charity's independence.

- e) Regarding the fundraising "pence in the pound", the regulator should simply discourage charities from making statements like this in their fundraising literature, and encourage them instead to give a link to their accounts. I think OSCAR should be actively regulating fundraising, but that's another debate!

Questions 12 and 15

This is an easy way to improve the readability and usefulness of charity accounts at a stroke. The items to dispense with are:

- i) The cash flow statement: no-one reads it, other than the FD, a couple of Board members and the auditor, and it adds nothing useful at all. It's also a real pain to prepare.
- ii) The statement of trustees' responsibilities. Same for every charity, and same every year. Kill it and have on the regulator's website a guide for the public on charity accounts that contains it.
- iii) The new note about financial instruments. I didn't understand it, or what it's for, so Joe Public hasn't a hope.
- iv) The note about judgements and estimates. States the obvious. Same for every entity, and same every year.
- v) Severely shorten the pension scheme disclosure, but require that the charity possesses the information, says so in the accounts, and provides it on request.
- vi) There is no point in providing for holiday pay in a going concern/continuing activity.

Question 13

No suggestions at this point

Question 14

No – see my opening comment on questions 10 and 11.

A final comment – the Committee appears to lack a clear vision as to who a charity's accounts are principally designed for. It seems to me that, in priority order, highest first, it is:

- i) The members of the charity, where the charity has a membership that is independent of its Trustees.
- ii) Those who interact with the charity as donors, bankers, contractors etc

- iii) The Trustees, being for them an organised and comprehensive source of reference to supplement the reporting they receive through other channels
- iv) Interested members of the general public
- v) Regulators.

If the SORP becomes too strongly guided by a desire on the part of a regulator for information that meets the regulator's own purposes, but not those of the higher priority users, it seriously interferes with the focus and usability of the report for those parties. Remember that most people have a genuine difficulty reading and comprehending big documents and formal language, and really very few people can comprehend a set of accounts, or indeed any table of figures. So keep it short and simple.

Hope this is all useful to your thinking.

Kind regards

Richard

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