



WorldHorseWelfare

Research Exercise on charities' SORP (FRS 102)

Comments on the research exercise by World Horse Welfare Charity numbers 206658 and SC038384

Dear Sirs

World Horse Welfare has a turnover of around £8million with 135 employees. All income is from voluntary donations or trusts. We campaign for the better treatment of equines in the UK and across the world. We have four rescue and re-homing centres in the UK and work in 13 other countries giving direct support and advice and working in partnership with country based organisations for those who rely on equines for their livelihood. Uniquely across equine charities we also work with organisations engaged in equine sport to improve the welfare of horses used in sport.

Thank you for the chance to comment on the SORP; however we are concerned that the exercise comes less than a year after most charities have completed accounts using the FRS 102 SORP for the first time. It is much too soon to give fully informed consideration and, if changes are made, will increase the work of those who prepare accounts, potentially requiring professional help, which will reduce money available for beneficiaries.

Consultation questions and our responses:

3.1 The SORP's structure, accessibility and format-Questions 1 to 3 Does the format meet our needs and those of smaller charities?

The SORP was described as modular seeking to reduce the need for all sections to be read; in practice this means there are chapters dealing with different aspects. The modules are listed in an index after five plus pages of introduction. It would be more helpful to have the Contents right at the start of the document and to have a proper Index at the end of the document.

The SORP is very wordy. The shorter the document the more likely it is that all those who should read it will do so. For example the section headed Achievements and performance 1.40 to 1.46:

1.40 could be deleted and 1.41 amended to include it "The report must provide a balanced and evidenced based view of"

1.42 repeats 1.40 and 1.41

1.43 to 1.45 could be merged into paragraphs of bullet points which a charity must, should or may include.

We find the use of "must" "should" and "may" very helpful and would like these to be retained.

We would prefer a shorter document with more emphasis on checklists. If a particular phrase/word requires more explanation (eg " impact") then it should be in a glossary and highlighted in some way to indicate its inclusion therein.

Question 4 -is the SORP still needed?

On balance we consider it is still needed because it addresses accounting issues relevant to charities, such as donated goods for resale or donated assets which are not in FRS 102 but it should be much shorter and should clearly separate required from suggested inclusions.

3.2 Implementation issues

We had no issues but suggest that unless FRS 102 is completely silent the topic is not covered in the SORP.

3.3 SORP committee member suggested changes

Questions 6 and 7 -should the largest charities provide more disclosure and if so at what level?

We consider it very important that charities are transparent and financial information particularly that disclosed in the annual accounts has a key role to play here – it is important that there is some consistency in how financial information is presented to assist the donor in understanding the accounts of different organisations whatever their size.

We suggest that two approaches are considered:

Either that additional disclosure requirements should apply to larger organisations but that the levels should be more consistent with those of commercial organisations. Currently a “large” charity is defined as one with gross income of £500k. A small commercial company is one with gross income of less than £6.5m, fewer than 50 employees and a balance sheet total of £3.26m. There is an enormous discrepancy here which has not been justified.

Or that full disclosure is required for all charities relying on the simplicity of many to reduce the actual disclosures needed. This would ensure that even a “small” charity with, say, relatively unique and interesting financial instruments would be required to disclose them.

The current separation into sections for small and large charities also makes the SORP difficult to follow and leads to greater length and repetition. For example paragraphs 1.14 to 1.33 are repeated with few real substantive extra requirements in paragraphs 1.34 to 1.53.

Question 8- the four suggested areas for review in the TAR. (Better integration of the TAR with the accounts: How to encourage helpful detail: Key facts summary: More guidance on reserves)

We do not support these suggestions. We are concerned that the SORP will become longer and wordier making it even harder to use. The TAR will expand with additional disclosures which will rapidly become standard forms of wording, the length will not help users of the accounts to understand them nor the work of the charity. There are many ways a charity can engage and inform its supporters and those interested in its work. Communication and accountability by means of an annual publication is now arguably outdated. Perhaps it should be accepted that the accounts and the TAR have only the purpose described in the audit report, to “give a true and fair view “at one date in the year along with the income and expenditure for the year up to that date.

In order to present this true and fair view every charity will need to include something a bit different and to define the contents of the TAR too closely risks what is essential being lost in the detail. The same reasoning applies to a Key facts summary- this will be different for every charity and the total

income and expenditure are already clearly displayed on the Charity Commission web site. We do not consider that a specific requirement will be helpful.

It is not necessary to add more words to the SORP to remind preparers that the TAR should be integrated with the figures, auditors are already required to check that the two are consistent.

Question 9 –more SOFA definitions and the revenue capital mix

We would support dropping the disclosure of support costs. It is not possible to define them unequivocally because all charities are structured differently and do slightly different things and, more importantly, separate disclosure panders to the misunderstanding about “admin” costs being unnecessary and somehow “bad”.

We do not support any change in the treatment or disclosure of capital funding on the SOFA. There already exists the ability to explain apparent anomalies in the TAR and the notes to the accounts.

3.4 Charity regulator’s suggested themes (Risk management: Going concern: More analysis of expenditure: Who funds a charity: Key facts)

Questions 10 and 11- do we agree with the themes and should they or any others be included in the next SORP?

We find the concept of themes interesting but would not support adding them to the existing SORP.

We suggest that a more radical step is taken, reduce the detail on the content of the TAR and instead express the requirements in terms of, preferably, a handful of themes with a checklist of short suggestions for inclusion. For example: 1.14 lists the headings charities should follow. These could be expressed as the core themes:

- Making a difference (bullets 1 and 2)
- Managing risk and uncertainty
- Finances, reserves, going concern (bullet 3)
- Housekeeping (bullets 4 and 5)

We would not support further definitions or disclosure of admin and fundraising costs. As noted above this is pandering to the prejudice against and misunderstanding of these costs.

Disclosures of areas of operation, executive and other staff pay are already sufficiently covered in FRS 102. We would not support further disclosure unless a charity so wishes in order to present a true and fair view. Similarly we would not support further disclosure of who funds a charity which may stop donations from donors wishing to remain anonymous. There are already sufficient trust and charity laws to enable a charity to refuse a donation it believes it should not accept.

Please see our response to question 8 regarding key facts which explains why we do not support that suggestion.

3.5 Our ideas to improve the SORP- Questions 12 to 15

We have included some of our suggestions above-to summarise:

- Shorten the text, tighten up the verbose paragraphs, make more use of checklists

- Include a proper index
- Remove reference to things which are adequately covered in FRS 102 (most of the notes to the accounts are required by FRS 102)
- Go back to basics when suggesting content for the TAR.
- Do not suggest disclosures which appear to be a reactive response to charity failures or media noise (for example reports on going concern in a TAR will typically not be made public until up to ten months after the end of the financial year and will be of no practical use because corrective action will then be too late.)

We hope that our response is useful in the research exercise.

Yours faithfully

Jane Crumpton-Taylor

Director of Finance and Administration

Charity Secretary