

Research exercise on Charities SORP (FRS102)

Response by the Scottish Churches Committee

The Scottish Churches Committee is an interdenominational body on which are represented the main Christian denominations in Scotland, namely the Church of Scotland, the Roman Catholic Church in Scotland, the Scottish Episcopal Church, the Associated Presbyterian Church, the Baptist Union, the Free Church of Scotland, the Free Presbyterian Church, the Methodist Church, the United Free Church of Scotland, the United Reformed Church (Scottish Synod) and the Salvation Army. The Committee also maintains links with the Scottish Council of Jewish Communities.

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?

Full compliance with FRS 102 is challenging for many smaller charities. This has resulted in a considerable increase in the number of congregations opting to prepare Receipts and Payments Accounts. Unfortunately such accounts do not necessarily give the best view of a charity's financial position, particularly where sales of fixed assets or investments have taken place during the year. It is however difficult to recommend any specific changes to the SORP which would help this situation.

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

As above, it is difficult to give any specific examples of how smaller charities might be helped.

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?

The terms as currently used might not be particularly helpful. While the use of the term "must" clearly relates to requirements that have to be followed in order to comply, both "should" and "may" could prove to be unhelpful where a charity chooses not to follow these recommendations as it could then be seen as not following good practice particularly when compared to a charity which chooses to

follow. On the other hand, the guidance on these terms given in the SORP is clear. It might be useful to highlight this guidance within the text, possibly by placing it in bold type or separating it out within the introduction.

Q.4 Given the requirements for financial reporting that are now explained in FRS 102, is the retention of a SORP still necessary for the charity sector? Please give reasons for your answer.

Yes. There are still a significant number of situations which are "charity specific" and which therefore require guidance and regulation which could not be included in FRS102.

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.

The requirement to disclose the aggregate amount donated by trustees is difficult to comply with and seems to be of little merit in assisting users of the financial statements to obtain a better understanding of the charity's financial affairs. It is also misleading in the case of charities such as churches who are often constituted both as one "over-arching" national, denominational charity and separately as a number of individual charities at local level. The trustees of such national bodies may donate nothing to the denominational-level charity but donate significant amounts to the local charity (congregation) of which they are members.

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?

It is difficult to comment on this question without knowing what additional reporting would be required. There seems to be no logical reason to require additional reporting for its own sake, simply because of a charity's level of income. It would seem to be better to reduce current reporting requirements for smaller charities whilst retaining these requirements for larger bodies. The suggested tiers of reporting seem reasonable, although there will inevitably be some divergence between what is "small" in relative terms as between the different UK jurisdictions.

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?

One example might be the requirement to disclose the aggregate amount donated by trustees, as referred to above.

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?

a) Better integration of the Trustees' report with the accounts is clearly desirable but it is difficult to see what changes to current requirements would assist in this objective. If current requirements are met in full then both documents should already be integrated with each other.

b) Again, it is difficult to see how current requirements could be expanded in a useful way.

c) A key facts summary could be potentially misleading as not all "key facts" would be appropriate for different types of charity and inclusion of such key facts could lead to unfair and unhelpful comparisons between charities being made.

d) Greater explanation of levels of reserves would be useful, particularly in ensuring that charitable funds are being properly used for the purposes for which they are given.

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?

It is unlikely that support and fundraising costs could ever be sufficiently well defined as to apply in all cases. Any attempt to provide more stringent definitions is likely to lead to increased confusion. This is an area of particular concern to churches, where certain aspects which are properly part of their charitable activity and form an integral part of their theological understanding of themselves would be correctly described as fundraising in other charities.

The current practice of including capital receipts in the SOFA is confusing, particularly in relation to depreciation of assets which have been fully funded in earlier years.

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?

- a) We are not convinced that the SORP is the appropriate place for an exploration of how (or indeed whether) a charity is meeting the public benefit test. It is for the charity regulator in each jurisdiction to satisfy itself on registration that this test is met and it seems to us that any additional ongoing information which may be required in this regard already has to be supplied within the existing SORP.
- b) Details of Risk Management are already required to be included in the Trustees' Report and the inclusion of additional detail could actually increase the risk of a charity being the target of fraudsters.
- c) It would be helpful for all charities to be required to disclose details of "going concern" considerations each year.
- d) Enhanced analysis of expenditure, particularly in relation to executive and staff pay could lead to unfair comparisons being made between different types of charity.
- e) Any requirement to disclose the identity of material individual donors could have a significant and adverse effect on small charities, perhaps particularly in the case of church congregations where there has been an historic practice of giving being confidential. Imposing such a requirement has very real potential to disrupt trustee relationships. We will not be alone in having examples of people who have made substantial donations on condition of anonymity. There is no suggestion in the consultation as to what might constitute a "material" donation, but in the case of small charities dependent on a number of people giving small amounts it would not take much for a particular donation to be classed as material in the context in which it is made. As referred to in response to Q5 above, it could also lead to confusion in relation to the question of aggregation, where trustees at denominational level may on the face of it give little or nothing to their charity because they are giving at local level, to different individual charities.

We would also question whether such a requirement is compliant with Article 8 of the ECHR i.e the right to respect for private and family life, subject only to such interference as is necessary in certain limited and prescribed circumstances which do not immediately appear to be in play in this context.

We therefore strongly oppose this recommendation.

- f) As above the inclusion of key facts which by their nature are selective could lead to unfair and misleading comparisons between different charities.

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?

As outlined in response to Q10 above.

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?

As per previous responses the requirement to include the total amount donated by charity trustees does not add anything to the usefulness of the financial statements.

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?

None.

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?

None.

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.

As per Q12 above.

Mary Macleod
Secretary, Scottish Churches Committee
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