

CHARITIES SORP COMMITTEE GOVERNANCE REVIEW  
2018/19

Invitation to Comment: *Guiding the Development of the  
Charities SORP*

**Response from the Chartered Institute of  
Public Finance and Accountancy (CIPFA)**

4 February 2019

**CIPFA, the Chartered Institute of Public Finance and Accountancy**, is the professional body for people in public finance. CIPFA shows the way in public finance globally, standing up for sound public financial management and good governance around the world as the leading commentator on managing and accounting for public money.

Further information about CIPFA can be obtained at [www.cipfa.org](http://www.cipfa.org)

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CHARITIES SORP COMMITTEE GOVERNANCE REVIEW 2018/19  
Invitation to Comment: Guiding the Development of the Charities SORP

CIPFA is pleased to present its comments on this Invitation to Comment which has been reviewed by CIPFA's Accounting and Auditing Standards Panel with input from CIPFA's Charities and Social Enterprises Board

CIPFA is an accountancy body which specialises in matters relating to public services, encompassing all parts of the public sector, and non-profit entities which operate for public benefit. CIPFA members work both in the main charitable sector and in charitable entities associated with the public sector.

In common with some of the other UK accountancy bodies, CIPFA is also a charity. CIPFA exists to promote public benefit and create public value by:

1. advancing public finance and promoting best practice
2. regulating and supporting members
3. educating and training student members.

For all of these reasons CIPFA is very interested in the charity and wider not-for-profit agendas for financial reporting. CIPFA has responded to consultations on the Charity SORP over several decades, and was heavily involved in the development of thinking on how to apply UK GAAP to public benefit entities through membership of the Committee on Public-benefit Entities (CAPE) and its predecessor Public Sector and Not-for-profit Committee (PSNC). CIPFA has also provided input to the work of the International Forum of Accounting Standard Setters (IFASS) Not-for-Profit Working Group.

We would note that CIPFA provides secretariat services to the Charity SORP committee under the current working arrangements. This means that some CIPFA staff have privileged access to information on the working of current arrangements. It also means that CIPFA has some commercial interest in the current arrangements, which might be affected by future changes to the process. To avoid potential conflict of interest, CIPFA staff involved in the SORP secretariat arrangements have not contributed to the development of this response. Nor is this response knowingly influenced by information gained by these CIPFA staff.

We would also note that one of the members of CIPFA's Accounting and Auditing Standards Panel is employed by a charity regulator and is a joint chair of the Charity SORP Committee. To avoid concerns over conflict of interest or access to privileged information, they have not contributed to the development of this response.

### **Response to questions in the Invitation to Comment**

Detailed answers to selected questions in the Invitation to Comment are attached as an Annex.

Q.1 Please explain your role (or the charity or organisation on whose behalf you are responding) including your specific interest in or use of charity accounts.

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In common with some of the other UK accountancy bodies, CIPFA is also a charity. CIPFA exists to promote public benefit and create public value by:

1. advancing public finance and promoting best practice
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3. educating and training student members.

It is in the context of a specialist accountancy body that CIPFA is responding.

As explained in the covering note, CIPFA is not responding in a capacity which reflects its direct involvement with the current process through provision of SORP secretariat. Nor is this response knowingly influenced by information gained by staff engaged as SORP secretariat.

Q.2 Who do you see as being the main users of charity reports and accounts? To whom are charities being accountable when they prepare their reports and accounts?

FRS 102 states that *The objective of [general purpose] financial statements is to provide information about the financial position, performance and cash flows of an entity that is useful for economic decision-making by a broad range of users who are not in a position to demand reports tailored to meet their particular information needs*

The idea that charity reports and accounts are written for an audience who are not 'insiders', and who are not in a position to demand specific information is a key consideration of who the main users are. Although in practice these documents may also be read by regulators (both charity regulators and e.g. HMRC) this is not altogether relevant. Nor is the fact that the financial statements may provide useful information to internal stakeholders.

For this reason, the main users of charity reporting include

- financial supporters (whether these are donors or provide other finance); and
- beneficiaries

They also include employees working for the charity, and members of the public. Academics and the charity press are also main users where they act as proxies for e.g. financial supporters, beneficiaries etc.

These users are the ones to whom charities are being accountable when they prepare their reports and accounts, (although in so doing, they may of course produce information which is useful for other users, such as regulators).

Q.3 What do you see as being the main purpose of the Charities SORP? Do you feel it is effective at meeting that purpose? If not, what changes would you suggest to the processes of developing the SORP to improve its effectiveness for those who prepare and use charity accounts?

The charity regulators have determined that there should be requirements for charities above a certain size to produce general purpose financial statements.

Recognising that the main body of UK Generally Accepted Accounting Practice (GAAP) was initially developed with a focus on company financial statements, the regulators have followed procedures developed by the Financial Reporting Council (FRC) and its predecessor bodies, whereby sector specific material is set out in a Statement of Recommended Practice (SORP) for the sector.

In line with the FRC *Policy on Developing Statements of Recommended Practice (SORPs)* this is a set of sector-driven recommendations on financial reporting practices, which supplements FRC standards and other legal and regulatory requirements in the light of factors prevailing in the sector that are either not addressed in FRC standards, or where additional guidance is considered necessary. While framed as being 'recommended', preparers are expected to follow the SORP and relevant FRC standards except in relation to matters which are not material, or in rare circumstances where an alternative treatment is necessary to achieve a true and fair view.

The current SORP takes as its starting point mainstream Generally Accepted Accounting Practice (GAAP) in the form of Financial Reporting Standard (FRS)102. FRS 102 was primarily developed to provide understandable and informative information for companies, but also has some regard to application to public benefit entities. Additional or different approaches are specified in the SORP where there are good reasons to do so, reflecting the specific characteristics of the charitable sector, and after appropriate consultation with stakeholders.

The main purpose of the SORP is thus to use UK GAAP to provide accountability to the users discussed in question 2, in a way that is understandable, and consistent across the charitable sector.

We consider that this process is effective, and usefully promotes consistency across the sector, and maximises consistency with reporting outside the sector thus aiding understandability and making the information useful.

Q.4 Do you agree that having an advisory SORP Committee is the best way of ensuring stakeholder engagement with the development of the SORP? If not, what alternative arrangements would you recommend and why?

The current approach of having an advisory SORP Committee seems to be effective in delivering a SORP with the characteristics described in our response to Question 3.

We have no critical observations on the current approach, which appears to work effectively, and offer no comment on whether or not it is 'best'. The specifics of how effective participation in the development process are managed are less important than the results of the process.

When extending the remit of the SORP to encompass new jurisdictions, additional complexity may be introduced into the SORP committee structure and the SORP process. However, we see this primarily as a function of the need to work within multiple sets of charity law. The need to align reporting with legislative and regulatory requirements will exist whether it is dealt with inside or outside of the SORP process.

Q.5 Do you consider that the composition of the current SORP Committee is appropriate both:

(a) to provide the necessary expertise in charity accounting and

(b) to reflect the range of stakeholders who use charity accounts and reports?

If not, what changes are necessary to the membership of the Committee and why? For example if you feel more representation is needed from beneficiaries or from donors, or from particular types or sizes of charities, please give details.

We believe the technical quality of the SORP is high, and that the current SORP committee provides the necessary expertise.

It's possible that the composition could better reflect the range of stakeholders who use charity accounts and reports, but achieving this can be difficult to realise, given the nature of the SORP and the technical issues. Most of those with the expertise to contribute to SORP development may already be inside the charity financial reporting community, and those with the motivation and time to contribute may tend to work for larger charities or accountancy firms.

Approaches to getting wider engagement include academic research and outreach, and we believe that the charity regulators have made use of these. It can however be very difficult to achieve engagement on all but the headline issues.

Q.6 Do you consider that the work of the SORP Committee is overly technical in its approach?

If so, what changes should be made? (In your answer you may wish to reflect on how the work of the SORP Committee could be made less technical, whilst still ensuring the SORP reflects the requirements of general purpose accounting standards and the requirements of charity law.)

No. We do not consider that the work of the SORP Committee is overly technical in its approach.

The work is necessarily detailed and technical to a degree, reflecting the need to comply with the requirements of general purpose accounting standards and the requirements of charity law across the relevant jurisdictions.

Of course, to the extent that the SORP straightforwardly reflects the requirements of FRS 102, the work is not particularly technical. However, this more straightforward work naturally takes less time than the more nuanced consideration of how to apply FRS 102 in situations which are specific to the charity sector.

Q.7 Do you have any comments on the balance of the membership of the SORP Committee?

CIPFA has no specific comments on this matter.

Q.8 Do you have any suggestions as to how the SORP making body might improve the consultation process – either at the research stage or at the exposure draft stage?

CIPFA has no specific comments on this matter.

Q.9 Can you suggest any particular organisations (in particular, those that may not have taken part in past SORP consultations) that you consider it would be useful for the SORP-making body to consult?

CIPFA has no specific comments on this matter.

Q.10 Do you think that the balance given to various groups during consultations concerning the development of the SORP should change? For example, do you consider that more or less weight should be given to any of the following groups:

- (a) beneficiaries
- (b) the donating public
- (c) representatives of smaller funders
- (d) representatives of larger funders
- (e) representatives of smaller charities
- (f) representatives of larger charities
- (g) the accountancy profession
- (h) commentators on the sector and journalists
- (i) any other categories you consider relevant?

The views of all of groups (a) to (f) are valuable (and the views of group (h) have similar value inasmuch as they encapsulate viewpoints relevant to (a) to (f).

Their views may be mostly relevant input into what should be included in other reporting, such as the Trustees Report. They also provide the basis for considering what is important and material, which is crucial to considering how financial statements should be prepared which are as clear as possible and no longer than they need to be. It is however difficult for members of these groups to contribute to the technical development of the SORP unless they have a finance background.

For this reason, the technical development of the SORP will, for practical reasons, be likely to fall to members of the accountancy profession (group (g)) who are associated with groups (a) to (f), and for the reasons noted in our answer to Question 5 these may often be from larger charities, or audit firms, or regulators.

We cannot think of any other relevant categories that should be involved in the SORP development process.

Q.11 If you felt in Q10 that more weight should be given to one or more groups listed, what are your suggestions as to how these views can be obtained?

CIPFA has no specific views on this matter.

Q.12 Do you have any other suggestions for improvements that can be made to the consultation process in the development of the Charities SORP?

CIPFA has no specific suggestions for improvements that can be made to the consultation process.

Q.13 Do you think that the SORP development process should cover all forms of financial reporting by charities – both those required by charity law (or company law) and other financial communications issued by charities – for example in a non-statutory annual review, summary financial reports, or visual summaries of a charity’s finances?

This question does not seem to specifically relate to governance.

Clearly, it is desirable that the regulators develop their overall package of requirements and guidance in a way which avoids contradictions and conflicts. One way of achieving this might be to link it to the process through which the SORP is developed.

Expanding the remit of the process to go beyond the FRC SORP development process, to incorporate substantially wider categories of charity regulator guidance and requirements might add to the complexity of the process. It is also not clear whether there would be any counterpart to the role of the FRC in reviewing the extended material.

We have no particular view on whether this would have a net benefit compared to separate development of this material, together with other measures which co-ordinate the SORP with development of other regulator pronouncements.

Q.14 If you agreed that the SORP Committee should issue guidance on non-statutory financial reporting by charities, what form do you feel such guidance should take, bearing in mind that (without a change in the law) it would not be mandatory?

CIPFA has no specific views on this matter.

Q.15 If you considered that the SORP process should cover all forms of financial reporting by charities, what changes to the SORP Committee and SORP consultation process would you recommend and why?

CIPFA has no specific views on this matter.

Q.16 Do you have any other comments on how the SORP is developed, the SORP-making body, the advisory SORP Committee or the SORP consultation process?

CIPFA has no specific comments on this matter. The endgame should be to produce a process which is not over complicated, but where the various strands of charity regulator activity are managed in a co-ordinated and effective way.