

## SORP Consultation

### British Council responses

<http://www.charitycorp.org/media/642814/charities-sorp-consultation-paperv4.pdf>

**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?**

Yes. The modular format is helpful as you can focus on the sections that are relevant and information is easy to find.

**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?**

Yes, these are helpful distinctions and should be retained.

**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.

The SORP's explanation of how FRS 102 applies to particular situations is very useful for applying FRS 102 in practice. This is particularly true for accounting for grants, donated goods and services, and the more specialist matters covered in Sections 2 to 4 of the current SORP. For example, FRS 102 does not explain the concepts of restricted and unrestricted funds.

The SORP is written in language that is easier for most people working in charity finance to understand than FRS 102. We only need to refer to FRS 102 for the most technical and complex issues. As a large charity, we have the expertise to do this but many charities use the SORP as the sole guidance for preparing their accounts and might struggle if they only had FRS 102 to refer to.

**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 they are and where possible please give examples.**

It would be helpful if the SORP could provide more guidance on recognition of grant income and expenditure. We have had different interpretations by auditors and know that others have too, resulting in some inconsistency in this area. In particular, the following would be helpful:

- A clearer definition of what does and does not constitute a performance related grant. We rarely treat grants as performance-related, but many grants have some elements of delivering units of activity, eg number of scholarships disbursed, number of workshops delivered etc.

- More examples of conditions that do and don't delay recognition of grant income and expenditure, particularly where grants are paid in instalments, and there is some sort of review before each instalment is paid.

**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?**

No answer – as one of top 10 charities, we would fall into 'largest' however defined.

**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?**

- 1. Better integration of the report with the accounts** – Suggestions or good practice examples of how to do this would be helpful but we would not support additional mandatory requirements.  
There are already a large number of mandatory requirements, which makes the Annual Report crowded and can make it less transparent. More prescription in this area also makes it harder to tell the charity's story in the way that is most relevant to what it does, and how it is funded.
- 2. Detail of reporting** – Again, this is an area where good practice examples might help, and 'bring alive' to the preparers of the Annual Report and Accounts why certain disclosures are required and how they can make them interesting and relevant to their charity.
- 3. Key facts summary** – Many charities already provide this, and it is better that they can provide facts that are relevant to their circumstances, activities and funding mechanisms. The key facts on the Charity Commission website could perhaps be expanded/presented more clearly/publicised more widely to provide data that is comparable across charities.
- 4. Reserves definition and guidance** There is already a requirement to provide information about reserves – and in the case of larger charities, this is pretty comprehensive. Rather than adding to this, it might be helpful to provide a range of good practice examples, so that charities can see what sort of information fully meets the requirement to explain their policy on reserves.

**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?**

Support costs – no comment.

Presentation of capital items – We do not support having an additional column for capital items. We think this would crowd the SOFA and make it more difficult to understand, not more transparent. We maintain a designated reserve for fixed assets. We agree that clearer disclosure on the type and purpose of reserves, with some of this in the primary statements, would be the best way to address this issue.

This issue also applies where we have to recognise all the income from a grant at the point the grant agreement is signed, but spend it over a number of years. Again, clearer disclosure of reserves would help to show that a) although the income is recognised in the first year, it has not all been spent in that year and is carried over b) in subsequent years, although there is an excess of expenditure over income for a project, it is funded by the income received in a previous year.

One solution would be to have a reserves category called something like 'funding received for expenditure in future years' which would address both the grant and capital funding issues.

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

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

**a. Theme: Public benefit**

No comment.

**b. Theme: Risk Management –**

**Whether all charities be required to advise if the reserves are sufficient to avoid service disruption to the charity's beneficiaries.**

This should be linked to enhanced reporting of reserves generally, to going concern disclosures, and commentary on other risk mitigation measures (eg extent to which costs are fixed/can be reduced, uncertainty around funding etc). This would give a more holistic picture that would enable users to better understand a charity's position.

**Whether all charities be required to explain what assurance they have that the charity's internal financial controls are operating effectively and state when they last carried out a review of the effectiveness of internal financial controls.**

**Larger charities be required to explain how the charity manages the risk of fraud and whether fraud is an item on the corporate risk register.** Agree – fraud is generally an under-recognised and under-reported issue and this would help to raise the profile of fraud risk and prompt charities to put adequate consideration and resources into tackling fraud.

**Larger charities be required to explain 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.**

If introduced, this should be aligned to equivalent requirements (in terms of threshold and matters disclosed) applying to companies.

The value of this additional disclosure should be balanced against the administrative burden to the charity of adding another disclosure, and making an already long report even longer.

**c. Theme: Enhanced analysis of expenditure.**

**Identifying charitable expenditure outside of jurisdiction of main registration. There are issues around (i) which countries charities operate in and (ii) how much they spend in these countries. The public, regulators and stakeholders have an interest in understanding how much money charities are spending overseas each year and in which countries charities operate.**

We are already required to disclose details of overseas expenditure by country in the annual return so perhaps better access and signposting to this can be introduced rather than adding additional disclosure requirements to the annual report.

However, if this is introduced, consideration should be given to whether the criteria or reporting requirements of IFRS 8 could be applied (modified where appropriate), both in terms of geographical areas and activities.

**d. Theme: disclosure of who funds a charity**

**Information about who funds the charity was identified as of interest to funders in the SORP research carried out in 2008-09 and in responses from the Republic of Ireland to the consultation on the Exposure Draft of the SORP in 2013 regarding government funding of charities.**

**All charities could identify by name and amount any material individual/ corporate/ government/ organisation donations and/or contracts.**

If implemented, we would only support this approach for the most material funders, ie those providing more than 10% of a charity's income.

Segmental disclosure would be better, both by organisational type – eg central government /local government /individuals / charitable trusts and foundations etc. and income type – contract / grant/ donation. This would also better mirror the 'expenditure by organisation type' disclosure requirement.

**e. Theme: Disclosing for whom is the charity acting. The report/accounts must disclose if the charity has been a party to any agency or consortia arrangements in the year (see module 19, paragraph 19.12 for current disclosures) but in addition a requirement could be added to explain how these arrangements supported the key objectives**

No answer – don't object but not sure what problem this is addressing.

**f. Theme: disclosure of key facts**

Commented in question 8.

**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?**

As the report and accounts are already long, careful consideration should be given to the value of adding new requirements. Charities can always include additional information where they think it helpful to stakeholders. It is better that this is optional so that charities can tailor additional disclosures to their circumstances and stakeholders.