

15 December 2016

**Charity SORP**

Attn: Matthew Allen  
CIPFA  
77 Mansell Street  
London  
E1 8AN

Dear Sirs,

**Research Exercise on Charities SORP (FRS 102)**

Kingston Smith are a mid-tier firm of accountants and auditors with a strong specialism in providing expert advice to not-for-profit organisations. Our collaborative approach to gaining an understanding of our clients, their needs and their aspirations has helped us to maintain our position as one of the leading advisers to the UK charities sector. We are pleased to respond to the Charities SORP Research Exercise and include our responses below.

**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?**

We do agree with the new format and feel that it is more accessible to users than the previous iteration. However we feel that some more things could be done to help preparers of accounts. The first suggestion is the addition of an index. Whilst many users access the SORP on screen and can search the pdf, it would be very useful to include an index in the print edition.

We also feel that whilst the SORP's aim was to reduce the number of lines in the SoFA, there has been significant resistance to this in practice and we agree that for many charities additional lines by activity do add a greater level of transparency. We suggest that paragraph 4.12 is expanded to provide examples where such additional lines might be inserted onto the face of the SoFA.

We have noted that Update Bulletin 1 wasn't reflected in the SORP on the [www.charitySORP.org](http://www.charitySORP.org) website. We feel that updating the pdfs would have been a relatively minor exercise in typesetting and would hope that future updates change the SORP.

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

We have had a strong internal discussion on this and feel that a SORP which had the ability to filter out all of the requirements that did not apply, e.g. only those requirements applicable to smaller charities, or requirements applicable to smaller unincorporated charities, would be a benefit, however we understand that this might be a lengthy process to implement.

**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?**

We feel these are working reasonably well.

**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**

Absolutely! We feel that whilst FRS 102 is more accessible than old UK GAAP and includes a section on PBEs, the SORP is vital in interpreting these rules for the transactions that are found in charity accounts.

**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.**

One issue we feel requires greater guidance is that of comparatives. FRS 102 paragraph 3.14 requires comparative information for all amounts presented in the current period financial statements and for narrative and descriptive information. For commercial entities that did not prove an additional requirement. However charities typically have large amounts of information presented in the notes to the financial statements which have not typically featured comparative information (e.g. income analysis by type, expenses by activity and reserves analysis).

We feel that such information is not required. Firstly because the information has not previously been presented and the accounts still gave a true and fair view and secondly they provide unnecessary clutter in the financial statements. We would like the SORP making body to provide some guidance on this issue:

- a) Explaining whether paragraph 3.14 of FRS 102 is to be followed strictly; and
- b) Providing guidance on which disclosures need comparatives.

One other issue is whether a charity only SoFA is required in consolidated accounts. For incorporated charities there is an exemption available within the Companies Act 2006 to not include a company only profit and loss account. There is no explicit guidance within the SORP on whether this should be taken or whether it can apply to unincorporated charities. Further to this, it is an explicit requirements for charities registered in Scotland. We would welcome some guidance within the SORP one way or the other.

We assume that in the fullness of time, the Charity Regulations in England and Wales will be updated to permit the SORP 2015. Perhaps, if this situation is likely to repeat itself when the next version of the SORP is released, guidance on disclosures during this 'transitional period' would be useful.

**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?**

We do not believe a third tier is required and note that the requirements that only apply to larger charities are limited.

However we do believe that the threshold at which charities need to prepare a statement of cash flows is too low at £500,000 and encourage the SORP body to consider making this equivalent to the Small Company thresholds (i.e. £10.2m of income).

**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?**

We are not convinced that the four suggested areas are worthy of further research. Three of the four areas seem to have been fully addressed in the current SORP. The fourth area, a key facts summary, we disagree with. We do not believe this will aid transparency or make the financial statements more accessible; we certainly do not believe a mandatory list of facts should be included. The suggestion that 'pence in the pound' figures be included might lead to disclosure that is of little use considering the vast variety of charities in the UK and Ireland.

**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?**

We're afraid we don't agree with either of these areas. Firstly we are satisfied that the definitions of support costs and fundraising costs are sufficient. Secondly we don't think there is an issue with the way funding for capital projects is currently dealt with. Where a charity receives a large sum in any given year for a capital project, it is right that a 'statement of financial activities' should show a large amount of income. Similarly the benefits from the amounts spent reach the beneficiaries over a period of time, reflected through depreciation charged over the useful economic life of the asset. We accept that other sectors may use a different approach, but we feel that recognising the income in this way best reflects the way charities operate.

**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?**

We agree that there should be a greater emphasis on impact reporting. We feel it is very important that charities report to stakeholders on the impact of their activities. Whether this forms something that is part of the Trustees Annual Report or something reported on a charity's website should be considered. We favour including such information within the annual reports. We also broadly support the idea of considering who funds a charity.

However we are not sure the remaining themes focus on deficiencies within the current SORP or charity annual reports. We have expressed our opinion on the key facts summary 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?**

We have discussed the issue of comparatives above. Other than this we think some explicit guidance about aggregating or simplifying notes relating to defined benefit pension schemes would be useful. Many charities participate in multiple schemes and the disclosures provided by actuaries are lengthy and, in our opinion, provide little useful information to the majority of the readers of the accounts.

We also would ask whether retaining the requirement to disclose donations from trustees in aggregate is necessary. This appears to be a sensitive topic, in many cases the information is hard to obtain; trustees will have attended a number of fundraising events over the financial year. Furthermore we believe this does not provide useful information as to the performance of the charity. We suggest that a threshold is applied, say, if more than 10% of the income of the charity is donations from trustees then this should be disclosed. This will allow for transparency when such donations have a significant effect on the charity.

We would also ask for more clarity in interpreting the requirements for disclosure of key management remuneration. We have seen limited comparability as different charities treat key management personnel in a variety of ways. Perhaps requiring the disclosure of the number of staff covered would address this.

The requirement to disclose redundancy costs, whilst admirable, has caused a few practical implementation problems. Often charities will enter into settlement agreements which include confidentiality clauses. These clauses mean that framing disclosure that meets the requirements of the standard but does not risk breaching the agreement is a very difficult task. We would appreciate it if there was some guidance on this scenario.

If you have any questions on the contents of this letter, then please contact Nick Brooks.

Yours faithfully,



**Kingston Smith LLP**