



**Responses to the Charity Commission Invitation to comment:  
Research exercise on Charities SORP (FRS 102) 4 May 2016**

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?

It is not appropriate for Wellcome to comment on the needs of smaller charities but generally the new format does meet the needs of those preparing accounts using the SORP - the modular format makes it easy to focus on a relevant area and the hyperlinks facilitate easy cross referencing of information.

A detailed index would be useful.

The glossary could also be extended. For example, there should be clearer definitions as to what constitutes a "direct cost" and the practical application of the Related Party disclosure requirements.

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

It is not considered appropriate for Wellcome to comment on the needs of small or medium charities.

Q.3. 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 do not believe that this distinction between "should" and "may" adds much value. The overall consideration at all times is as laid out in FRS 102 1.1. "financial statements (that) are intended to give a true and fair view

of a reporting entity's financial position and profit or loss (or income and expenditure) for a period" and the SORP requirement in 1.2 that the Trustees' Report "should provide a fair, balanced and understandable review of the charity's structure, legal purposes, objectives, activities, financial performance and financial position".

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

Yes, we do believe that the retention of the SORP is still necessary:

It can help the preparer to determine how charities are expected to apply FRS 102 to their particular activities and transactions, and explains how charities should present and disclose their activities and funds within their accounts. It also ensures some consistency between charities. In this context, the following modules are most relevant:

- Trustees' Annual Report
- Fund Accounting
- Recognition of income' including legacies, grants and contract income
- Donated goods, facilities and services, including volunteers
- Accounting for Social Investments

However, there are some areas where the SORP appears to contradict or confuse the intention of FRS 102. Some of these areas are discussed under Q5 below.

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 SORP focuses on fund raising charities and does not take account of the fact that there are various types of charities with different funding sources and structures (for example, charities such as Wellcome that has a complex group structure and funds its charitable donations and operating costs with a material and relatively complex investment portfolio that is increasingly managed in-house.)

There are circumstances where this could lead to the need for charities to disclose commercial or personally sensitive data that is not required of commercial organisations.  
There are also some areas where the SORP appears to contradict or confuse the intention of FRS 102.

Specific areas where this should be addressed:

- The salary banding disclosures

Employer pension contributions are specifically excluded from the employee benefits to be included in the calculations but employer social security contributions are not. This is not in line with the 2005 SORP and is misleading – employer social security contributions should not be treated as a benefit for these purposes.

The £60,000 starting point seems an arbitrary amount and the £10,000 intervals are fairly tight. Whilst Wellcome completely supports transparency, there are circumstances where, as noted above, this could lead to the need for charities to disclose commercial or personally sensitive data that is not required of commercial organisations.

There are no clear guidelines on the calculation of the value of the benefit of any Long term incentive plans to be included in the calculations. This could lead result in inconsistencies between charities and to misleading fluctuations from year to year.

- The calculation of employee benefits

See comments above in connection with Long term incentive plans.

- The disclosure of reserves on the face of the Balance Sheet

It is not clear whether the requirement to disclose all revaluation reserves on the face of the Balance Sheet applies to all charities or to corporate charities only. Whilst 10.92 of the SORP does not specifically state that this applies to Corporate Charities only (in contrast to 334 of the SORP 2005 which did), 10.91 says that all Charities must refer to section 15. 15. 22 specifically refers to charitable companies. This should be clarified.

- The requirements to provide for deferred tax as laid out in FRS 102

FRS 102 29.6 requires that deferred tax should be provided in respect of all timing differences i.e. will include fair value adjustments on investments.

Charities have a unique tax status and many of them have gift aid arrangements in place. This means that in practice, the deferred tax liabilities will not crystallise. There should be a separate module in the SORP which specifically addresses this issue as the inclusion of deferred tax may be misleading and confusing for readers of charity accounts.

- Accounting for Social investments that are subsidiary entities

Where a social investment is a wholly owned subsidiary and is consolidated on a line by line basis, in practice it cannot be shown separately as required by SORP 21.21. and 21.22. This should be clarified.

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 not considered appropriate for Wellcome to comment on the needs of small or medium charities.

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?

It is not considered appropriate for Wellcome to comment on the needs of small or medium charities.

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?

Better integration of the report with the accounts

Yes. More guidance is needed to help preparers to tell their story, perhaps by providing them with guidance notes, prompts and best practice examples.

Detail of reporting

No. This will always be down to the judgement of the Trustees and the advice of the auditors with the overall objective as laid out in 1.2 that the Trustees' Report "should provide a fair, balanced and

understandable review of the charity's structure, legal purposes, objectives, activities, financial performance and financial position".

Key facts summary

Yes. In view of the volume of information that is included in the Annual Reports a brief summary would provide a point of focus for users of the accounts and the preparers. Some examples would establish some consistency between charities. Of the specific items that the charity regulator has proposed should be mandatory, the requirement to disclose "pence in the pound" of charitable expenditure could be misleading viewed in isolation. A "reasonable" figure would depend to a considerable extent on the nature and size of the charity and the manner in which it is funded.

Reserves definition and guidance

No. The existing guidance is sufficient – the extent of disclosure is down to judgement

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?

SoFA – more specific definitions of support costs and fundraising costs.

Yes. Although there is lack of consistency within the sector, the level of support costs is something that the Trustees and stakeholders should be aware of so the requirement to disclose them should not be removed. However, the notes to the accounts should give adequate information as to how the particular charity defines and calculates support costs and it should be made clear if this has not been applied consistently from year to year. Some additional guidance would be useful.

The mixture in the SoFA between 'revenue' and 'capital' items needs to be considered.

No. The level of detail already required on the face of the SoFA and in the notes is sufficient. Capital movements – both cost and the subsequent release of the depreciation – are sufficiently detailed in the notes to the accounts

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?

Theme: making a difference for the public benefit

Yes. It would be very valuable to review the reporting requirements between jurisdictions so we do support this theme.

Theme: risk management

Yes. It would be useful if the SORP included some guidelines and examples of best practice disclosures to assist in providing consistency.

However, it is considered that the existing SORP provides useful guidance in this area including 1.46 (which emphasises the responsibilities of the Trustees). In addition, the adequacy of the disclosures are considered as part of the external audit process

Theme: going concern

No. It is considered that the existing SORP already covers this area in sufficient detail including 1.23;3,14 (which does emphasis the responsibility of the Trustees when considering the Charity as a going concern);3;38 and 13.5. The adequacy of this assessment and of the disclosures will also be considered as part of the external audit process.

Theme: enhanced analysis of expenditure

No. The existing disclosure requirements in the SORP are already extensive. We do support the need to identify charitable expenditure outside of jurisdiction of main registration. However, when considering a suitable level of disclosure, careful consideration must be given to the balance between the burden on charities to analyse the data and the value that would be added for the stakeholders. Whilst we completely support transparency, we do not support the proposal to increase the requirements for Executive pay disclosures with consideration given to implementing the NCVO proposals for larger charities (England and Wales) to disclose the post and pay level of all senior employees. These figures can be misinterpreted both internally and externally as they often need to be put in context (for example the precise level of expertise and experience needed in a role and the associated competition in the employment market)

We do think that that it would be helpful to tighten the definitions of staff pay to cover the cost of interim staff or agency or similar staff covering specific senior management roles in the charity

Theme: disclosure of who funds a charity

No. The requirements of SORP 5.58 and 19.12 are considered adequate. The Charity Commission should be monitoring this but we do not consider that it is the function of the Annual Report to provide any further information. Some potential donors may be unwilling to provide any funds if they are required to disclose their identity publicly.

Theme: disclosure of key facts

See comment on Q.8 above.

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?

The specific areas in the themes that we do support have been addressed under each theme above. One additional theme would be to look at reporting of Social Investments and how these have been treated in practice. This is a grey area and could lead to inconsistencies between Charities. In addition, there is no specific guidance around Social Investments that are subsidiaries (see Q.5 above) or as to the distinction between any write down of a Social Investment as a direct cost or a grant.

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?

Yes. The salary banding disclosures should be removed unless certain issues addressed in Q.5 above are satisfactorily addressed.

There are also some items that are FRS 102 driven that could be reconsidered in discussion with the FRC. One example of this is the level of detail of the disclosures for Defined Benefit Pension schemes.

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?

No.

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?

No.

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?

No.