

## Feedback from Engagement Strand and Working Groups on the funds note

<b>Engagement Strand: Trustees</b>
<b>Options Considered by the Engagement Strand</b>
<ul style="list-style-type: none"> <li>• <b>Option 1:</b> The engagement strand reiterated its recommendations put forward at the end of the exploration phase ie: <ul style="list-style-type: none"> <li>- Use of plain English language</li> <li>- More comprehensive glossary of terminology</li> <li>- Provide wider range and more divers supporting documents for trustees</li> <li>- Reduce the length and complexity of the financial notes by better use of referencing, signposting, cross – referencing and hyperlinking</li> </ul> </li> <li>• <b>Option 2:</b> Introduce different thresholds by which different sizes/complexity of charity arrangements would capture additional reporting requirements</li> <li>• <b>Option 3:</b> Make the Fund Note more prominent.</li> </ul>
<b>Advantages and disadvantages</b>
<p>The engagement strand noted that there was no clear preference from either the Charities SORP Committee’s debates or the Briefing Note for the specific options the Charities SORP Committee would like the engagement strands to discuss. The engagement strand made the following comments:</p> <ul style="list-style-type: none"> <li>• The Funds Note can be long with and include unnecessary historical information.</li> <li>• There are inconsistencies between the Charities SORP definitions and key concepts used in the Funds Note.</li> <li>• The Charities SORP table as presented in Appendix A of the Briefing paper helped in understanding transfers between funds.</li> <li>• The detailed requirements of the Funds Note do not apply to receipts and payments accounts.</li> <li>• The Funds Note can contain many small funds with no movement, this does not add to the understanding of the accounts.</li> <li>• There needs to be better use of cross referencing and hyperlinking to reduce the length of the Funds Note.</li> <li>• The Funds Note should be able to link better to other parts of the accounts.</li> </ul>
<b>Conclusions</b>

The engagement strand indicated that it preferred options 1 and 2 with the following amendments:

- **Option 1:** should specifically cover addressing the way restricted fund transfers are defined, alongside the descriptors used for gains and losses. For example, this could differentiate between realised and unrealised gains on investments, income, and expenditure. There also needs to be greater clarity and consistency in the use of definitions used for different accounting concepts. This should better promote understanding and application of accounting principles within the Charities SORP, especially for those practitioners who do not have a detailed accounting knowledge or experience.
- **Option 2:** It should be made clear that part of the as a minimum the legal requirements for information must be reported by all charities. This must include a report on the funds available to the charity (and their movements).

#### Other comments

The engagement strand made the following additional comments:

- It recommended that the Charities SORP Committee should review the need for the Funds Note to contain comparative historical data that should be publicly available elsewhere. This could be better addressed by better hyperlinking and cross referencing as included in Option 1.
- The Funds Note should focus on material funds. Information about all such funds should be available elsewhere to ensure transparency and accountability. A hyperlink or reference to onsite material should be in the financial statements to enable the reader to source that data.
- The funds are a very important factor with regards to the charity's liquidity, risk, going concern etc. There needs to be consistency in the of definition of funds.
- There is a need to better link information contained within the annual report to the remainder of the accounts. An exercise in mapping all necessary information presented in the annual report and accounts may remove duplication and improve the experience of non-financial users of financial accounts.

#### Engagement Strand: Smaller charities and Independent Examiners

##### Options Considered by the Strand

- **Option 1:** To make no changes to the existing requirements of the Charities SORP.

##### Advantages and disadvantages

- The wording is clear in its current form and the template note structure is useful.

##### Conclusions

- To make no changes to the existing requirements of the Charities SORP

<b>Other comments</b>
<p>The engagement strand made the following additional comments:</p> <ul style="list-style-type: none"> <li>• The Funds Note is made more prominent in the accounts. The constraints on note order arising in Company Law were recognised, ie that they appear in the order in which, where relevant, the items to which they relate are presented in the financial statements.</li> <li>• It would be helpful to add information in the Charities SORP regarding the order of notes in the financial statements in relation to different kinds of charities as this may serve as a reminder for trustees that in some circumstances there may be more freedom regarding the order of the notes.</li> </ul>

<b>Engagement Strand: Larger charities</b>
<b>Options Considered by the Engagement Strand</b>
<p>The engagement strand considered the following options:</p> <ul style="list-style-type: none"> <li>• <b>Option 1:</b> To make no changes to the existing requirements of the Charities SORP.</li> <li>• <b>Option 2:</b> To make the Funds Note a primary statement.</li> <li>• <b>Option 3:</b> To rearrange the order of the notes to make the note more prominent.</li> </ul>
<ul style="list-style-type: none"> <li>• Advantages and disadvantages</li> </ul>
<p>The engagement strand commented:</p> <ul style="list-style-type: none"> <li>• The Funds Note is very important and could be made a primary statement. However, a compromise would be to make it more prominent.</li> </ul>
<ul style="list-style-type: none"> <li>• Conclusions</li> </ul>
<p>The engagement strand concluded:</p> <ul style="list-style-type: none"> <li>• The Funds Note should be made more prominent and preferably be presented just after the primary statements and not at the end of the notes.</li> <li>• Revisit the wording of the Charities SORP with regards to the notes to ensure the Funds Note is presented towards the front of the accounts.</li> <li>• There is no need for a comparative information to be presented in the Funds Note would declutter accounts to remove this requirement.</li> </ul>
<ul style="list-style-type: none"> <li>• Other comments</li> </ul>
<p>The engagement strand commented:</p> <ul style="list-style-type: none"> <li>• It had considered making the note a primary statement, but this was considered to be unnecessary.</li> </ul>

- Feedback is requested on the total return issue, only required in England and Wales. The issue is difficult to understand and apply and needs further guidance for those instances where it is required.
- The Funds Note could be tied into the explanation of reserves.
- Materiality should be considered when applying the requirements of the note.

**Engagement Strand: Academics, regulators and proxies for the public interest – regulator A**

**A. Comments**

The engagement strand member commented:

- On the provisions of Charities SORP regarding the Funds note except to note that:
  - It is important for the understanding of all readers of the accounts, including trustees, funders and the wider public to truly understand a charity's financial position (and so should not be removed).
  - It can be used to highlight where funds have not yet been received or are not freely expendable; this might help to address some of the concerns about income recognition highlighted in previous engagement exercises.
  - There is a read across to the reporting of reserves.
- They saw no reason for change to the current approach in Charities SORP.

**Engagement Strand: Academics, regulators and proxies for the public interest – regulator B**

The engagement strand member was of the view that the Charities SORP already explains the requirements well and did not think further guidance is required. Additionally, it did not consider there was a need to make the note more prominent.

**Engagement Strand: Major funders & Donors and Government & Public Bodies**

**Options Considered by the Engagement Strand**

The engagement strand considered:

- **Option 1:** To make no changes to the existing requirements of the Charities SORP.

**Advantages and disadvantages**

The engagement strand commented:

- Currently the Charities SORP requires three separate disclosures:
  - An explanation of the nature and purpose of each material fund
  - The table of movements on individual funds
  - Explanation of inter-fund transfers.
 This could be made clearer as the accounts fail to cover all three.
- The requirement to provide current information can obscure the current year's analysis with the previous years.
- There can be confusion between what is a fund and a project. The analysis needs enhancement or more narrative than is currently presented in this note.

### Conclusions

The engagement strand made the following conclusions:

- Not to change the Charities SORP significantly to leave its provisions and the presentation of table 2 unchanged.
- More explanations and enhanced plain English language guidance should be included within the Charities SORP.
- To move the Funds Note to a more prominent position away from the end of the notes to the accounts.
- The comparative information can be of confusing. The engagement strand expressed the view that as funders 'we rarely use this note'.
- To address the lack of understanding by preparers of accounts as to the three requirements in the notes.

### Other comments

The engagement strand made the following additional comments:

- Feedback is requested on the total return issue, only required in England and Wales. The issue is difficult to understand and apply and needs further guidance for those instances where it is required.
- The Funds Note could be linked to the explanation of reserves.
- Materiality should be considered when applying the requirements of the note.
- Additional guidance regarding Endowed Trusts and the requirements for reporting returns on these was needed.

## Engagement Strand: Professional and Technical Strand A

### Options Considered by the Strand

<p>The engagement strand considered the following options:</p> <ul style="list-style-type: none"> <li>• <b>Option 1:</b> To make no changes to the existing requirements of the Charities SORP.</li> <li>• <b>Option 2:</b> To make the Funds Note more prominent.</li> <li>• <b>Option 3:</b> Whether further guidance is required for this note.</li> </ul>
<p><b>Advantages and disadvantages</b></p>
<p>The engagement strand made the following comments:</p> <ul style="list-style-type: none"> <li>• The Funds Note is an important note and needs more prominence in the accounts, but the strand expressed the view that this may require changes to FRS 102.</li> <li>• The use of comparative information creates unnecessary clutter, the value of other notes is clear, but the value of this comparative information is questioned.</li> </ul>
<p><b>Conclusions</b></p>
<p>The engagement strand concluded the following:</p> <ul style="list-style-type: none"> <li>• There needs to be a change to the order of the notes. The engagement stand was of the view that this would require a change to FRS 102 but recommended that further action should be taken on this.</li> <li>• To remove the comparative information requirement which would require a change from the requirements of FRS102.</li> <li>• Current year movement should be clearly linked to the SOFA and relevant sections of the Trustees Annual Report.</li> <li>• Any material issues with reserves should be explained in the narrative.</li> </ul>
<p><b>Other comments</b></p>
<p>The engagement strand made the following additional comments:</p> <ul style="list-style-type: none"> <li>• the term 'material funds' (paragraph 2.8) requires further clarification.</li> <li>• more guidance is required in the disclosure of the summary of assets and liabilities of each category.</li> </ul>

<p><b>Engagement Strand: Professional and Technical Strand B</b></p>
<p><b>Options Considered by the Strand</b></p>
<p>The engagement strand considered the following options:</p> <ul style="list-style-type: none"> <li>• <b>Option1:</b> To make no changes to the existing requirements of the Charities SORP.</li> <li>• <b>Option 2:</b> To make the Funds Note more prominent.</li> <li>• <b>Option 3:</b> Whether further guidance is required for this note</li> </ul>

<p><b>Advantages and disadvantages</b></p>
<p>The engagement strand made the following comments:</p> <ul style="list-style-type: none"> <li>• The existing provisions allow for the presentation of negative reserves, it is felt strongly this should be maintained.</li> <li>• Consideration was given to whether tiered reporting should be applied to the reporting requirements of this Note. However, this was considered unnecessary as users of accounts need knowledge of the charity's funds irrespective of the size.</li> </ul>
<p><b>Conclusions</b></p>
<p>The engagement strand concluded the following:</p> <ul style="list-style-type: none"> <li>• If a columnar approach to the balance sheet is to become the primary approach, the guidance on how to approach the presentation of a group balance sheet and a parent charity balance sheet would be welcomed.</li> <li>• Most of the members of the engagement strand favour the presentation of information on funds in the notes to be on a per fund basis, for material funds. However, the engagement strand acknowledged that it would be preferable if there was a specific requirement for the funds note to be reconciled to the SoFA.</li> <li>• It would be desirable for requirements for comparative information about funds to be determined within the Charities SORP.</li> <li>• A change in approach to designated funds within the Charities SORP to limit requirements to the Trustees' Annual Report would be welcome. This could make the columnar balance sheet approach more feasible, and it would remove any confusion between funds for accounting purposes and funds for internal management purposes.</li> <li>• There was a need for clearer guidance on the aggregation of information in the Funds Note and on the materiality of individual restricted funds (and designated funds if relevant).</li> <li>• There was a need for clearer guidance on any flexibility around the preparation of the Funds Note and where information is to be presented by a material fund, it should be clear that restricted funds, expendable endowment funds and permanent endowment funds should be disclosed separately.</li> <li>• Where comparatives for assets and liabilities continue to be required in the notes, the fact that this is a requirement should be made clear.</li> <li>• Scope for concessions for medium sized and small charities should be considered once other changes have been resolved. However, we are aware that any concessions based on size are unlikely to be welcomed by funders and it would not make sense for charities preparing financial statements in accordance with the Charities SORP to be disclosing less information than charities preparing receipts and payments accounts.</li> </ul>
<p><b>Other comments</b></p>
<p>The engagement strand made the following additional comments:</p> <ul style="list-style-type: none"> <li>• It is acknowledged the order of the notes is set by legislation.</li> <li>• Consideration was given to a new primary statement but as the Charities SORP committee is considering greater prominence to reserves this is not required.</li> </ul>

- Charities may meet the requirements of the Charities SORP in funds reporting, in more than one note.
- Use of the columnar balance sheet can provide an analysis of assets and liabilities per category of fund. The engagement strand would welcome this as a requirement, or, as the preferred option with the presentation of assets and liabilities in the notes being treated as the alternative option.
- However, the use of the columnar presentation does not work well for designated funds, disclosure of these funds could be included in the Trustees' Annual Report and remove any requirement to report on the funds in the columnar balance sheet.
- Similar funds can be aggregated and explained by way of a note.
- Additional guidance could be provided on how to prepare the note.

#### **Working Group: A**

##### **Funds note**

The following comments were made by Working Group A:

- There was unanimous agreement that the Funds Note needs more prominence in the accounts.
- The Working Group did not recommend where it should be presented in the accounts, but it did not consider it appropriate to form part of a primary statement.
- It was content with the flow of the order of the notes. However, it questioned the layout of the notes under the prescriptions of legislation.
- It recommended that the Charities SORP requires the creation of a designated fund for fixed assets.

#### **Working Group B**

##### **Funds note**

The following comments were made by Working Group B:

- It noted that little can be done without legislative change in three jurisdictions.
- There were differences of opinion on whether it would be helpful to move the Funds Note to make it more prominent.
- There was consensus that it would be beneficial to remove the requirement to duplicate the prior year information in the note.
- Presentation can cause issues. For example, some notes are longer than they need to be.
  - The working group recommended that Table 1 in Module 2 be split into restricted and unrestricted funds.
- Consideration could be given to the link between funds and free reserves. For example, unrestricted funds can be presented together, it is not clear what the free reserves are.
  - A separate designated fund could be used for the net book value of fixed assets.



- An education piece on endowment funds could be useful, a change in the Charities SORP is not necessarily required.
  - Application guidance and examples will help.
- The Charities SORP could helpfully clarify what to do in a situation of negative restricted reserves (noting that a negative designated fund is not allowed).