

## Roundtable feedback: update on the debate and emerging themes

### 1 The roundtables in context

- 1.1 The October 2007 meeting of the SORP Committee agreed that a research element needed to be included in its work plan. This initial work plan still remains contingent on the awaited decisions from the Accounting Standards Board regarding the future of UK GAAP and convergence with international accounting standards. An announcement is still expected but 2010 now looks extremely unlikely to be the date set for convergence. Public comments attributed to the ASB Chair appear to indicate 2012 is a more likely convergence date.
- 1.2 The structure of the research phase of the SORP's development was agreed at the November 2007 meeting. In particular, it was agreed that an initial Stakeholders' Forum should be held in April 2008 followed by a series of Stakeholder Roundtables to explore issues identified in more detail. Initially only 6 national roundtable events were planned, of which 2 would be in Scotland. However, there has been very significant interest in these events from both our partners in the sector and within the accountancy profession who have been anxious to ensure as wide as possible an opportunity for those with an interest in charity accounting and reporting to participate in the roundtable dialogue. As a result the roundtable programme has expanded considerably in its scope and coverage.
- 1.3 In addition to the roundtable events, a SORP mailbox facility is available on the Charity Commission's website and is publicised on OSCR's website. The mailbox permits individuals to provide additional comment on issue of importance to them and is especially valuable in allowing comment to be received for those unable to attend a roundtable event. Seven submissions received to date including a request for a SORP exclusively for armed services charities.
- 1.4 The roundtable format was developed following the Stakeholder Forum to allow the opportunity for deeper debate and dialogue with stakeholders and so ensure that SORP development was properly informed by the views and concerns of stakeholders including:
  - Organisations representing donors and financial supporters;
  - Preparers (small - under the statutory charity audit threshold);
  - Preparers (large – over the statutory charity audit threshold);
  - Auditors and accounting firms;
  - Government funders; and
  - Media and analysts.
- 1.5 The websites of the Commission and OSCR have been updated to provide details of each roundtable event. In total 27 roundtable events have taken place or are planned (see 'Table A' below). The roundtable series draws to a close in early June with an event at the national

## Roundtable feedback: update on the debate and emerging themes

Association of Charity independent Examiners (ACIE) conference in York.

- 1.6 Included within the 27 events is a planned symposium of leading academics scheduled for 16 April 2009. The symposium will provide an opportunity to recap on existing and recent research in the field of charity accounting and reporting. The event will provide an opportunity to consider the theoretical underpinnings of good quality reporting. 'Table A' below summarises the coverage achieved by the roundtable series.

**Table A: Roundtable events planned and provided**

<b>Lead organiser(s)</b>	<b>Stakeholder group(s)</b>	<b>Number of events agreed</b>
OSCR	All preparers, auditors and examiners	3
OSCR	Faith charity preparers	1
OSCR	All funders	1
DSDNI/ Queens' University	All	1
DSC	Small preparers	1
WCVA	Small preparers	2
CFDG	All preparers	5
CFDG (Consortia)	Large preparers	1
ACCA/ ICAEW/ ACIE	Auditors and examiners	8
ACF	As funders	1
COMPACT	State funders	1
NPC	Intermediaries	1
Academics	Symposium	1
<b>Total</b>		<b>27</b>

- 1.7 In addition to roundtable events targeted at funders and intermediary organisations, we also approached a number of funders and intermediaries to take part in a series of structured interviews to explore how funders use accounts and reports and identify the information which is of particular relevance to their needs.
- 1.8 The organisation of the roundtable events has benefitted considerably from the support of partner organisations in offering time, resources and facilities. Particular thanks are extended to Queen's University Belfast, the Scottish Funders Forum, Scottish Grant Making Trust Group, ICAS, ACCA, ICAEW, CIPFA, Directory of Social Change, WCVA, Scottish Churches Committee, New Philanthropy Capital, ACIE, Association of Charitable Foundations, HFMA, CFDG, SCFDG, the Commission for the

## Roundtable feedback: update on the debate and emerging themes

Compact, and the Department for Social Development (Northern Ireland). The input and support at events provided by SORP Committee members also helped to ensure the success of these events.

### 2 Coverage and content of the roundtable events

- 2.1 The coverage of events is intended to provide a balance of stakeholder views and to allow the views of particular groups to be identified. As far as practicable the delegate pack materials were kept comparable to facilitate analysis. However, the introduction to each event needed to reflect the background information needs of delegates and scale of each event.
- 2.2 Stakeholder delegates attending the roundtable are all asked to address a number of key questions in discussion and to complete a questionnaire of 20 key issues in charity reporting and accounting. In addition, a form was made available allow those attending to provide more detailed feedback on particular issues of concern to them.
- 2.3 'Table B' below identifies the coverage of the events that have taken place up until the end of February and for which questionnaires and feedback forms had been received. Only 2 funders' events have taken place to date and therefore the interim findings are potentially skewed towards the views of preparers and auditors. However, the agenda item 5 provides an opportunity to give the SORP Committee feedback from the structured interviews with funders and intermediaries.

**Table B: Roundtable events to 28 February 2009**

Lead organiser(s)	Stakeholder group(s)	Number of events held
OSCR	All preparers, auditors and examiners	3
OSCR	Faith community	1
DSDNI/ Queens' University	All	1
DSC	Small preparers	1
WCVA	Small preparers	1
CFDG	All preparers	5
CFDG (Consortia)	Large preparers	1
ACCA/ ICAEW	Auditors	5
OSCR	All funders	1
NPC	Intermediaries	1
<b>Total</b>		<b>20</b>

## Roundtable feedback: update on the debate and emerging themes

### 3 Preliminary findings previously reported

3.1 At the SORP Committee meeting of 17 October 2008, the initial feedback provided related to only two events. The main themes were:

- Broad support for the annual report format but scepticism about the value of a number of the policy and governance disclosures and their usefulness to users of reports and accounts.
- Corporate governance reporting needs to be structured more coherently.
- Support for the retention of the SoFA format but the terminology used to describe categories of income and expenditure was considered confusing.
- SoFA format was considered too cluttered with simplification needed (perhaps by reordering categories).
- Overall the SORP was viewed as a force for good enhancing the quality of reporting.
- Stewardship reporting is seen as the key focus of reporting.
- The key message was that the SORP was on the right track - but the opportunity to simplify disclosures should be taken where possible.

3.2 At almost all roundtable events the discussion is closed with a general question on whether on balance SORP has enhanced the quality of charity reporting. At every event, where a vote was taken, to the end of February 2009 the overwhelming conclusion has been that it has, albeit with occasional delegates abstaining. These early indications appear to indicate that as the ASB develops its thinking on the future of UK GAAP, all stakeholders in charity reporting desire the retention of a sector specific SORP.

### 4 Further interim findings: questionnaire analysis

4.1 The research phase is gathering 4 forms of evidence:

- notes of a structured discussion;
- written comments provided at the roundtable events;
- e-mail comments received through the SORP mail-box, and
- the responses to the structured questionnaire.

The questionnaire data is in a common format and has also been used at other events in addition to the roundtables to gauge views on key issues.

4.2 The questionnaire is standardised with 7 questions addressing the annual report and 13 questions relating to the accounts. It is completed by a 'forced choice' where the delegates either agree, disagree, or are neutral to the proposition or statement made in the questionnaire.

## Roundtable feedback: update on the debate and emerging themes

- 4.3 A detailed analysis of the responses from auditors, preparers and funders to each question is set out in the annex to this paper. Caution must be exercised as the research phase is not yet complete and several funders' roundtables are still scheduled to take place. In particular, the number of responses available from funders is very low and will be added to as the series of roundtables is completed.
- 4.4 The initial findings indicate an emerging consensus between funders, and preparers and auditors on the questions about the **annual report**. The summaries below set out the dominant view within each stakeholder group (see annex for explanation of the methodology used).
- Explaining how a charity has spent its money is the most important information. Auditors agreed strongly and funders less strongly with this statement.
  - Charities should explain clearly what they actually achieve. All stakeholder groups strongly agree with this statement.
  - All stakeholder groups agreed that more emphasis on explaining outcomes and impacts would be the most valuable improvement to charity reporting.
  - All stakeholder groups disagreed strongly with the proposition that smaller charities should be free to tell their own story without any rules on what must be included in their annual report.
  - All stakeholder groups agreed strongly with the proposition that rules on what must be include in the annual report helps donors and financial supporters to make informed decisions.
  - All stakeholder groups disagreed strongly with the proposition that stewardship reporting about past events is no longer important and that reports should look mainly to what the future holds.
  - All stakeholder groups agreed strongly that trustees should be more balanced in their reporting and tell of both successes and failures.
- 4.5 The emerging findings are more mixed concerning the accounts. In the following areas a degree of consensus about the **accounts** exists between funders, preparers and auditors.
- All stakeholder groups agreed with the statement that reporting activities in the SoFA is the best way of explaining in numbers what a charity did.
  - All stakeholder groups agreed strongly that the consistent use of categories and headings in the SoFA helps donors and financial supporters make informed decisions.
  - All stakeholder groups disagreed, and funders and preparers disagree strongly, with the proposition that smaller charities should be free to show their income and expenditure in any way they choose without any rules being set by SORP.

## Roundtable feedback: update on the debate and emerging themes

- All stakeholder groups disagreed with the proposition that reporting designated funds in the balance sheet is wrong and designated funds should only be explained as part of a charity's reserves policy in the annual report. The retention of the disclosure of designated funds on the balance sheet appears to be supported.
- All stakeholder groups disagreed with the statement that knowing whether income is restricted or not is irrelevant to most users and that sort of detail is best kept in the notes rather than presented as additional column(s) in the SoFA. This appears to support the continued use of a columnar SoFA.
- All stakeholder groups agreed that when two or more charities agree to combine, this is better shown as a merger of the two rather than as one acquiring the other.
- All stakeholder groups agreed that when a charity is in financial distress and combines with another, the rescuer is best understood as acquiring the charity in difficulty. There appears to be recognition that both merger and acquisition accounting can be relevant to charity combinations.
- All stakeholder groups agreed, and funders strongly agreed, with the statement that where a charity awards multi-year grants to another charity this is best accounted by matching the grant to the period over which it is paid. This could be viewed as support for a departure from FRS12 and support for a more performance or time based approach akin to the accounting practice of 'matching'.
- All stakeholder groups agreed and funders strongly agreed that only legally enforceable liabilities should ever be accrued and so 'constructive obligations' which cannot be legally enforced are best excluded from liabilities. Again this supports a more narrowly defined approach to the recognition of constructive liabilities in particular how an 'unavoidable' commitment is construed.
- All stakeholder groups agreed strongly with the statement that volunteers should not be valued in the accounts and their contribution is best addressed in the annual report.
- All stakeholder groups agreed that where possible the general structure the SoFA and balance sheet should remain unchanged. This indicates that possible changes to the SoFA should be kept to the necessary minimum. Some funders' discussion comments on this question appeared to support a 'company style' format for the performance statement. This appears inconsistent with their strong support for the layout of the SoFA. It may well be that a full analysis of the comments will show a desired for a return to an Income and Expenditure Account but with 'other gains' continuing to be presented as part of a single statement as opposed to the commercial model of two statements: an Income and expenditure account and a Statement of Recognised Gains and Losses.

## Roundtable feedback: update on the debate and emerging themes

4.6 The following issues highlighted some differences in views about the **accounts** between funders and preparers and auditors:

- Whilst preparers and auditors disagree with the statement that where possible the information given and layout of charity accounts should be the same as that of small commercial companies, the funders so far surveyed agree with this statement. Funders appear to prefer the income and expenditure account approach to the performance statement.
- Auditors and preparers were neutral, neither agreeing nor disagreeing with the proposition that where a charity gets a capital grant (for example to buy a building) matching the grant to the life of the capital asset acquired distorts the charity's income. Funders however agreed with this statement which indicates support from funders of the current SORP position and no overall demand for change from preparers and auditors.

## 5 Preliminary findings: funders' comments

5.1 Two funders' events have been analysed, the Scottish Funders' event hosted by OSCR, Scottish Funders Forum, and the Grant Making Trust Group, and an event for funders and intermediaries chaired by NPC. At both events the SORP was seen as have raised reporting standards and to have been a positive influence on reporting by charities.

5.2 At the Scottish Funders' event the emerging themes were:

- Broad support for the current content of the trustees' annual report which was seen as good at bringing a lot of information together and nothing should be removed. However, charities could use the report to promote their charity and its activities more.
- Details of the capital and revenue should definitely remain separately analysed.
- Funding commitments should be noted only.
- The SoFA needs reform with disclosure of where funding as come from including a clear disclosure of statutory and non-statutory income.
- Regarding the lighter burden for small charities, grants are given to large and small charities and so both should provide the same basic financial information as both are accountable.

5.3 At the NPC event the emerging themes were:

- Key issue is where does the money come from and where is it being spent. Separate details of both statutory and non-statutory income needs to be disclosed so that the reader knows who funds the charity – the current SoFA does not allow for this analysis.

## Roundtable feedback: update on the debate and emerging themes

- Beneficiaries should be viewed as the key stakeholder as funders give money so that a purpose is progressed. Both the charity and the funder want to see a difference made to the beneficiary.
- Outcome and impact reporting was debated with the conclusion that charities still struggled to get beyond inputs and outputs and that the focus of SORP still needs to be on outcomes.
- Governance disclosures are valuable because if handled poorly they are an indicator to the funder of problems with the applicant charity.
- The activity basis alone in the SoFA is not enough and that a natural classification of cost is also needed for transparency.
- Although they might be the wrong questions, the public still want to know fundraising income: cost ratio and the overhead ratio (management and administration).
- Reserves are not well explained. A separate high profile note is needed with a clear calculation of what the reserves are. Given its flexibility should expendable endowment also be included in the reserves calculation?

### 6 Conclusions

- 6.1 The series of roundtables and interviews are now well underway with the roundtable series to be completed by 30 June 2009.
- 6.2 With the agreement of OSCAR, the Commission will pay for a rigorous and independent academic review of all the data gathered from the Forum and roundtables, e-mails and questionnaires. The Commission has contracted with Queen's University, Belfast to arrange for this review and Queen's university will provide a full analysis of the data for the September SORP Committee meeting and prepare a short research paper to be published in the late autumn.
- 6.3 The SORP Committee is asked to note further interim findings from the roundtables that have taken place and to note that full analysis is to be provided in the autumn.

#### Questions:

1. **Has the SORP Committee any initial views or comments on the interim findings so far reported?**
2. **Does the SORP Committee agree that the series of roundtables has been comprehensive, or are there remaining stakeholder groups to be addressed?**
3. **Is the SORP Committee still in agreement that the key findings should be referred to a Technical Sub-committee to develop proposals for consideration by the full SORP Committee?**



## Roundtable feedback: update on the debate and emerging themes

### Annex: Detailed Review of the questionnaire results analysed to 28 February 2009

#### Questionnaire methodology

At each SORP roundtable event, and also at other events where the questionnaire is used, there is a brief presentation putting the research in context. This presentation enables delegates to understand what is required and why the questions are being posed.

When completing the questionnaire, some delegates choose to leave one or more questions unanswered. To ensure a full dataset where no response is given it is deemed that the delegate neither agreed nor disagreed with that particular statement.

To score the questions the numbers replying to each question are multiplied by a factor 2 for agreement, 1 for neither agree nor disagree, and 0 for disagree. The weighted score is then divided by the number of responses to give an average score. An average of 2.0 means all agreed, 1.0 mean on balance neither agreement nor disagreement and 0 all disagreed.

For example at the Bristol CFDG event to question 1 on the annual report 4 agreed, 3 were neutral and 4 disagreed. The average score is  $(4*2 \text{ plus } 3*1 \text{ plus } 4*0)$  divided by 11 = 1.0 average score. A score of 1.1 or more indicates agreement and 1.5 or more strong agreement. A score of less than 1.0 indicates disagreement and of 0.5 or less indicates strong disagreement.

The overall average is based on the total for all questionnaires rather than an average of the individual scores for each event because the events varied considerably in size and an average of event scores would weight each event equally and might therefore bias the result. The pattern across the events is interesting and so the individual scores are given in the analysis.

The overall average is compiled of 221 preparers' questionnaires, 209 auditor questionnaires and 17 funder questionnaires.

## Roundtable feedback: update on the debate and emerging themes

### Analysis question by question

1. Explaining how a charity has spent its money is the most important information.

	Av	Individual scores for each event								
Funders	1.3	1.3	1.3							
Auditors	1.6	1.6	1.6	1.8	1.5	1.6	1.9	1.9	1.7	1.5
Preparers	1.4	1.1	1.6	1.6	1.0	1.8	1.3	1.4	1.6	

2. Charities should explain clearly what they actually achieve.

	Av	Individual scores for each event								
Funders	1.9	1.9	1.9							
Auditors	1.9	2.0	2.0	1.8	1.9	2.0	2.0	2.0	1.9	1.5
Preparers	1.9	2.0	1.9	1.7	2.0	1.9	1.8	1.9	1.6	

3. More emphasis on explaining outcomes and impacts would be the most valuable improvement to charity reporting.

	Av	Individual scores for each event								
Funders	1.4	1.5	1.1							
Auditors	1.4	1.4	1.3	1.2	1.3	1.4	1.4	1.4	1.3	1.8
Preparers	1.4	1.7	1.5	1.3	1.5	1.4	1.4	1.4	1.0	

4. Smaller charities should be free to tell their own story without any rules on what must be included in their annual report. (DSC and Scottish Churches roundtable results in **bold**.)

	Av	Individual scores for each event								
Funders	0.4	0.4	0.4							
Auditors	0.7	0.5	0.8	0.9	0.5	0.6	1.2	0.8	0.6	0.6
Preparers	0.5	0.9	0.6	<b>0.7</b>	0.3	1.0	0.5	0.5	<b>0.5</b>	

5. Rules on what must be included in the report help donors and financial supporters to make informed decisions.

	Av	Individual scores for each event								
Funders	2.0	2.0	2.0							
Auditors	1.6	1.8	1.5	1.3	1.4	1.8	1.6	1.7	1.7	1.3
Preparers	1.6	1.5	1.8	1.4	1.8	1.6	1.5	1.6	1.6	

6. Stewardship reporting about past events is no longer important and reports should look mainly to what the future holds.

	Av	Individual scores for each event								
Funders	0.1	0.1	0.1							
Auditors	0.4	0.5	0.1	0.6	0.1	0.5	0.4	0.3	0.1	0.4
Preparers	0.4	0.2	0.5	0.4	0.5	0.8	0.3	0.4	0.4	

**Roundtable feedback: update on the debate and emerging themes**

7. Trustees should be more balanced in their reporting and tell of both successes and failures.

	Av	Individual scores for each event								
Funders	1.8	1.7	2.0							
Auditors	1.8	1.8	1.8	1.8	1.8	1.8	1.5	1.8	1.8	1.6
Preparers	1.6	1.7	1.7	1.5	1.6	1.5	1.5	1.6	1.8	

1. Reporting activities in the SoFA is the best way of explaining in numbers what a charity did.

	Av	Individual scores for each event								
Funders	1.2	1.0	1.6							
Auditors	1.3	1.1	1.0	1.0	1.5	1.5	1.5	1.2	0.9	1.5
Preparers	1.1	1.2	1.3	1.3	1.5	0.8	1.3	1.1	0.8	

2. Where possible the information given and layout of charity accounts should be the same as that of small commercial companies.

	Av	Individual scores for each event								
Funders	1.1	1.6	0.3							
Auditors	0.8	0.6	1.0	1.2	0.6	0.9	0.8	0.8	1.1	0.8
Preparers	0.8	0.9	0.6	1.1	0.5	0.8	1.2	0.7	0.6	

3. Consistent use of categories and headings in the SoFA helps donors and financial supporters to make informed decisions.

	Av	Individual scores for each event								
Funders	1.9	1.9	2.0							
Auditors	1.5	1.6	1.3	1.8	1.6	1.7	1.5	1.7	1.6	1.0
Preparers	1.6	1.4	1.7	1.6	1.9	1.5	1.6	1.7	1.6	

4. Smaller charities should be free to show their income and expenditure any way they choose without any rules being set by SORP. (DSC and Scottish Churches roundtable results in **bold**.)

	Av	Individual scores for each event								
Funders	0.0	0.0	0.0							
Auditors	0.7	0.4	1.0	0.8	0.5	0.6	0.5	0.9	0.5	0.8
Preparers	0.4	0.3	0.5	<b>1.1</b>	0.3	0.3	0.4	0.4	<b>0.0</b>	

**Roundtable feedback: update on the debate and emerging themes**

5. Where a charity gets a capital grant (for example to buy a building) matching the grant to the life of the capital asset acquired distorts the charity's income.

	Av	Individual scores for each event								
Funders	1.4	1.7	1.0							
Auditors	1.0	1.3	1.1	1.0	1.5	1.1	0.8	1.1	0.9	0.6
Preparers	0.8	1.1	1.0	0.5	1.0	1.0	0.6	1.0	1.3	

6. Reporting designated funds in the balance sheet is wrong and designated funds should only be explained as part of a charity's reserves policy in the annual report.

	Av	Individual scores for each event								
Funders	0.8	1.1	0.4							
Auditors	0.8	0.9	1.1	0.8	1.1	0.8	1.1	0.6	0.7	0.6
Preparers	0.8	1.1	1.0	0.5	1.0	0.8	1.0	0.8	0.1	

7. Knowing whether income is restricted or not is irrelevant to most users and that sort of detail is best kept in the notes rather than presented as additional column(s) in the SoFA.

	Av	Individual scores for each event								
Funders	0.3	0.4	0.1							
Auditors	0.6	0.4	1.1	0.9	0.3	0.5	0.7	0.8	0.6	0.4
Preparers	0.6	0.6	0.7	0.8	0.3	0.9	0.8	0.6	0.3	

8. When two or more charities agree to combine, this is better shown as a merger of the two rather than as one acquiring the other.

	Av	Individual scores for each event								
Funders	1.4	1.3	1.6							
Auditors	1.4	1.4	1.7	1.6	1.4	1.6	1.5	1.0	1.7	1.1
Preparers	1.3	1.4	1.4	1.4	1.3	1.3	1.3	1.3	1.5	

9. When a charity is in financial distress and combines with another, the rescuer is best understood as acquiring the charity in difficulty.

	Av	Individual scores for each event								
Funders	1.3	1.4	1.1							
Auditors	1.4	1.4	1.5	1.6	1.4	1.6	1.5	1.0	1.7	1.1
Preparers	1.4	1.4	1.2	1.6	1.4	1.3	1.2	1.4	1.4	

**Roundtable feedback: update on the debate and emerging themes**

10. Where a charity awards multi-year grants to another charity this is best shown by matching the grant to the period over which it is paid.

	Av	Individual scores for each event								
Funders	1.8	1.9	1.7							
Auditors	1.5	1.5	1.7	1.7	1.2	1.8	1.7	1.8	1.4	1.1
Preparers	1.5	1.8	1.7	1.6	1.4	1.6	1.6	1.4	1.7	

11. Only legally enforceable liabilities should ever be accrued and so 'constructive obligations' which cannot be legally enforced are just promises which are best excluded from liabilities.

	Av	Individual scores for each event								
Funders	1.6	1.7	1.6							
Auditors	1.2	1.3	1.4	1.3	1.0	1.4	1.4	1.3	1.1	1.1
Preparers	1.1	1.5	1.0	1.4	1.5	1.5	1.0	1.0	1.4	

12. Volunteers should not be valued in the accounts and their contribution is best shown by a mention in the annual report.

	Av	Individual scores for each event								
Funders	1.6	1.7	1.6							
Auditors	1.7	1.9	1.9	1.4	1.9	1.4	2.0	1.8	1.8	1.9
Preparers	1.7	1.8	1.3	1.5	1.9	1.5	1.8	1.8	2.0	

13. Where possible things are best left as they are in the SoFA and balance sheet.

	Av	Individual scores for each event								
Funders	1.4	1.7	0.9							
Auditors	1.2	1.4	0.6	1.0	1.1	1.3	1.5	1.3	1.0	1.1
Preparers	1.2	0.9	1.1	0.9	1.4	1.0	1.1	1.3	1.3	