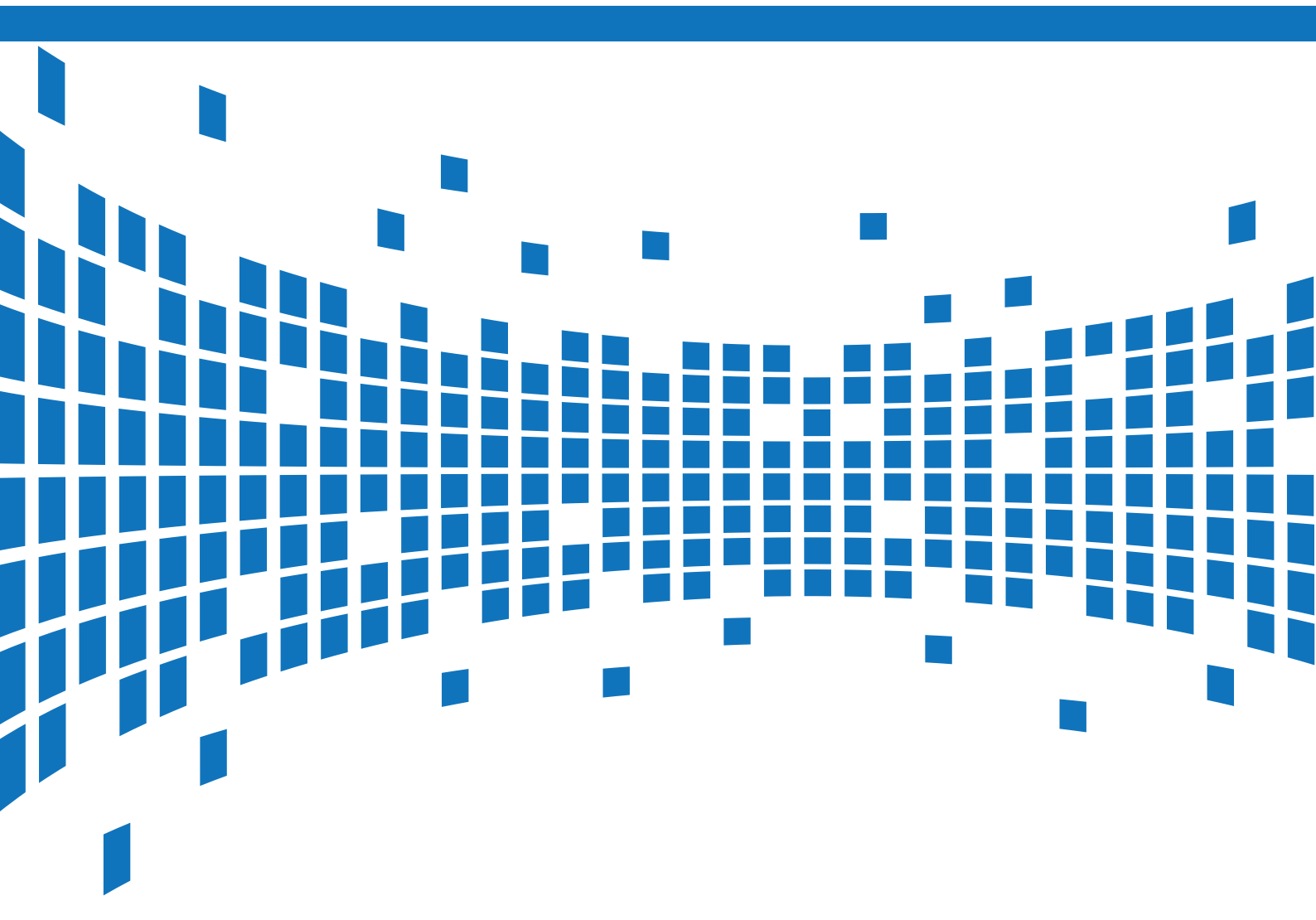


# Charities SORP committee working groups – an overview of conclusions

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## 1. Introduction

In late 2017, four working groups were convened within the SORP Committee to explore key topics that had emerged as key areas for change from the [SORP research exercise](#) undertaken in 2016.

Throughout the 2018 meetings of the SORP Committee, each group presented the issues that they had explored and their conclusions as to how the topics could be addressed. The minutes of each committee meeting have been published and provide an outline of the discussion held on each topic.

This paper provides an overview of each group's work and suggestions for change that would seek to tackle some of the problems experienced within the topic areas.

The four working groups looked at the following topics:

- Smaller charities
- Tiered reporting
- Governance
- Transparency

Each topic area was explored individually albeit there was some overlap in the ideas for change.

## 2. Topic areas – working group conclusions

### 2.1 Smaller charities

Within this area, the working group explored how the reporting burden on smaller charities could be eased and how preparers of smaller charity accounts could be better supported. The focus of the group was on looking at the requirements for the financial statements (accounts) and not the annual report; the group considered that the content of the annual report would be influenced by a broader range of factors other than just size judged on income alone.

This group comprised committee members who had a great deal of experience in working with smaller charities preparing accounts on both a receipts and payments basis and also using the SORP.

Some of the recommendations made by the group were based on seeking a fundamental shift in the basis on which the accounting requirements are set for small charitable companies where it was suggested that they should be permitted to prepare receipts and payments accounts as the requirement to prepare accruals accounts is currently a disproportionate reporting burden on these charities compared to those of the same size which are not companies. It was acknowledged

that this would require further work to consider how receipts and payments accounts could be adapted to show a true and fair view but that the work that had been carried out in developing FRS105 for micro-entities was relevant and potentially useful in this area.

For charities with income above £250,000 but below £10.2 million, it was suggested that further consideration be given of how the principles of FRS102 Section 1A could be applied, again to ease the reporting burden currently being experienced by this size of charity with a view to reducing the number of required notes to the accounts and therefore the work of the preparer.

The group also considered critically the information that it is necessary to include in small charity accounts, advocating a firm 'think small first' approach that would involve consideration of whether currently mandated disclosures are really necessary. The group noted that more than 50 disclosure requirements currently contained in the SORP do not derive from accounting standards meaning they are additional requirements which have been developed by the SORP-making body with advice from the SORP Committee.

The group also considered how making greater use of technology could assist smaller charities by making it easier to navigate and tailor the SORP, recognising that there is a great deal of material in the SORP that is irrelevant for charities with straightforward operations and financial transactions. However, it was recognised that the resources of the regulators as the SORP-making body are constrained and that this could potentially be the barrier to progress in this area.

It was also recognised that minimising the content of statutory accounts prepared by smaller charities could have the disadvantage of requiring such charities to produce more in the way of additional materials to satisfy the needs of funders and other relevant stakeholders.

A further recommendation of the working group was that the charity regulators should devote more resources to checking charity accounts so that the quality of information being provided by charities improves.

## 2.2 Tiered reporting

There was some crossover in the considerations of this working group in comparison with the group looking at smaller charities – much of the focus was similar in terms of thinking critically about the information that needs to be contained within the accounts for smaller charities and how the burden of reporting could be eased for smaller charities. Some of the members of the tiered reporting group also served on the smaller charities group too which was considered advantageous in exploring the relevant issues.

The group recommended that an approach involving four tiers should be considered to facilitate identification of the appropriate content for the respective sizes of the charities. The tiers were described as applying to very small, small, standard and large charities with some alignment in how the thresholds are set in charity law for the preparation of receipts and payments accounts and in company law for small

companies. For the thresholds at the top end, the group thought that it may be more appropriate to consider criteria in addition to the income received by the charity, for example net assets and number of employees in order to provide more meaningful differentiation between charities where more detail may be more helpful to a user of the accounts.

On a practical level, the group were aware that there may be concerns that a four tier model could be perceived as bringing more complexity for smaller charities to grapple with in trying to navigate through the requirements to understand what they specifically need to do. However, the group focussed on the fact that there is a clear desire from smaller charities for a proportionate and appropriate framework suited to their needs and were of the view that having a tiered model could provide an excellent opportunity to deliver this. The tiered model would also potentially facilitate the development of an online tool to allow a charity to understand the very basic requirements that apply to all charities and then how these are added to or built upon to develop an appropriate framework and set of requirements for each (size) category of charity.

In terms of the requirements for smaller charities, the group concluded in similar fashion to the small charities working group that the application of the receipts and payments framework should be explored for the smallest charitable companies to remove an undue reporting burden and that the finding a way to exploit the principles of FRS 102 Section 1A should again be explored for smaller charities to reduce the required disclosures that need to be considered and done. There was also a recommendation that the needs and views of users of annual reports and accounts should be more strongly sought and taken into account in order to ensure that the resulting requirements are of relevance and interest to users, particularly at the very small charity and very large charity ends of the scale.

### 2.3 Governance

Good governance is a critical underpin to the public trust and confidence that charities enjoy and rely upon. This working group examined the current governance reporting requirements for the trustees' annual report and the role of the SORP in engendering good governance behaviours.

The group looked specifically at the disclosures required in modules 1 (Trustees' annual report) and 9 (Disclosure of trustee and staff remuneration, related party and other transactions) to begin with in order to consider whether these were still relevant or required improvement. In order to critically appraise the current requirements and consider how these might be improved, the group prepared a re-drafted version of module 1, taking into account governance developments and sector issues since the SORP was last updated.

Good reporting requirements should apply to all charities regardless of size in the view of the group with the only difference being the level of detail based on the size or complexity of the charity.

The group considered that a greater emphasis was needed on performance reporting so that readers of the annual report and accounts could better understand

what the charity is doing – this information is critically what influences the decisions that donors and funders use the accounts to make. There were also improvements suggested in terms of more information made available about future plans of the charity and linking this to the information included in the accounts about the reserves of the charity and its sustainability. New fundraising requirements were included (applicable in England and Wales only as a result of regulatory changes in that jurisdiction) and safeguarding was addressed by the inclusion of additional text.

Little change was proposed to module 9 by the group although it was thought that improvements could be made to how requirements were explained and the terminology used so that preparers found it easier to understand and comply with.

## 2.4 Transparency

This was the last of the working groups to report back on their findings and recommendations and it was unsurprising that there was some overlap with the findings of the other working groups. The transparency group felt that the key principle that they were dealing with was best served by increasing the emphasis on measures within the annual report and accounts that aim to show the full picture of the charity.

Key issues identified by the group were those of consistency to support comparability and public interest reporting.

In terms of narrative reporting, the group considered the concept of a key facts summary within the trustees' annual report. They concluded that if handled carefully this could aid understanding of the accounts and positively contribute to public interest. In order to avoid any undue reporting burden, the key facts would be drawn from information requirements already in place; however the group did not definitively conclude whether the key facts should be prescribed or whether charities should have the flexibility to select the most appropriate key facts for their charity and their stakeholders – instead the group thought that some research in this area may be of assistance.

In relation to specific requirements for the financial statements, the group identified two key issues that impact on transparency:

- Lack of consistency as to how costs are apportioned across support activities
- Fundraising costs

The group noted that while flexibility for charities in these areas was good it impacts on consistency.

Finally the group made recommendations about how the SORP could be improved with greater use of technology to help improve the user experience and therefore the quality of accounts prepared.