Analysis of Research Exercise responses

Committee	Charities SORP Committee
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Subject	Analysis of responses to the Research Exercise on Charities SORP (FRS 102)

SECTION 1: Overview of research and analysis undertaken

1 Purpose

1.1 To report on the responses to the Research Exercise on the Charities SORP (FRS 102).

2 Overview of the responses to the consultation

2.1 The responses to the research exercise took two forms, firstly the feedback from interactive workshops, seminars and similar events organised by the SORP making body's partner, umbrella and professional bodies and by members of the SORP Committee. Secondly, 172 written responses were received to the consultation. The profile of the written responses is given in the table below:

Respondent category	No.	As a %
Auditors & audit firms	18	10%
Professional bodies	5	3%
Sector umbrella bodies	14	8%
Charity finance directors	60	35%
Charity finance staff	38	22%
Charity Chief Executive or equivalent	6	3%
Trustees	10	6%
Honorary treasurers	5	3%
Other preparer/ practitioner	2	1%
Independent examiners	2	1%
Academic	1	1%
Funder, funding or commissioning body	1	1%
General user of accounts	5	3%
Charity Fundraiser or fundraising consultant	4	2%
Think Tank	1	1%
Total	**172**	**100%**

2.2 This analysis considers the written responses in a number of broad categories. The notes and feedback from the consultation events are also given to provide another perspective. The consultation events varied in format and consequently not every question was debated. Similarly respondents were not required to answer all questions, with many choosing to answer only one. As a result, the number of responses to any given question does not necessarily match the total of submissions received.

2.3 The broad categories of users in the following analysis are:

- Overall total responses
- Audit firms, auditors and professional bodies
- Sector umbrella bodies
- Individual charity finance directors, staff, trustees and honorary treasurers
- Funders, users of accounts, academics and think tanks
- Independent examiners
- Charity fundraisers or fundraising consultants

2.4 The detailed analysis that follows considers the total of responses received for each question and the percentage in agreement with the propositions made and also the themes, areas and issues suggested within the consultation.

2.5 Quotations from confidential responses are not used, as these are unavailable for public view although they are included in numbers and analysis of responses.

3 Interpreting responses to questions

3.1 Most respondents answered yes or no and then elaborated with an explanation in support of their view. Where an unequivocal statement was not made then the response was interpreted based on any comments made. In a number of instances the respondent in answering the question said they had no view in which case their answer was not counted but any comment was noted.

3.2 Several questions asked respondents whether they agreed with the themes, areas or issues suggested by the charity regulators or SORP Committee members. The design of these questions mean the overall answer was less relevant. The analysis focused on the respondents view on whether they agreed with each individual themes, areas or issues that should be considered in the next SORP.

3.3 The analysis of the open-ended questions which asked respondents for suggestions about the SORP focused on the topics which were most commonly raised.

3.4 Where the approach in 3.1 and 3.2 differed, it is noted within the analysis of the relevant question.

3.5 Problems with the question design, terminology used, or layout of the consultation document which resulted in difficulties in the interpretation of responses are also acknowledged within the analysis of the relevant questions.

3.6 In the tables that follow the total number who answered each questions is given, followed by the percentage of that number who agreed or supported the issue or area.

4 Presentation of analysis

4.1 Where the question or issue generated a large level or range of responses, findings have been separated between 'main findings', and 'other comments'. Those findings included within 'other comments' represent the views of a smaller number of respondents, or views which are contradictory to the overall view expressed by respondents.

SECTION 2: Detailed analysis

Index of questions (Hyperlinked index)

Your ideas for items to remove, change or add to improve the SORP

SECTION 2: Detailed analysis

Question 1	*Answered*	Agree	Disagree	No Comment
Do you agree that 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?*	47 (27% of total)	41	3	3
		87%	6%	6%

This question attracted an average level of interest within the written feedback and was well debated at consultation events.

MAIN FINDINGS

The majority of responses across all categories were positive; indicating the new modular format of the SORP was welcomed. Despite only a minority of respondents disagreeing over the new format, 20 respondents offered suggestions for improvements. Three respondents offered suggestions for improvements that could be made to format of the SORP, but gave no opinion on the current format. This was echoed at consultation events, where there was broad support for the new format as well as a number of suggestions offered on how it could be improved.

Those respondents who disagreed over the new format cited the continued length of the SORP and its focus on larger charities.

Those respondents which agreed with the new format welcomed the 'think small first' approach taken, where modules applicable to all charities where included as the initial 'core modules' of the SORP. Others considered the new format to have contributed to a more accessible framework for smaller charities:

… I believe that the new format has genuinely been effective, and has allow Charities to tell their story in a logical and easy to follow way. (Devon Air Ambulance Trust, No.31)

IMPROVEMENTS TO THE FORMAT

Enhanced customisation function

The ability to create a bespoke SORP was also cited by nine respondents in support of the new format. Of these respondents, the majority who commented on this feature also offered suggestions on how it could be better utilised by charities and functionality improved. Typical responses were:

We support the modular format of SORP 2015, especially with regards to charities being able to create a bespoke SORP to suit their organisation. However, many charities do not use the bespoke option for fear of failing foul of the SORP by accidentally not realising something should be disclosed. (Charity Finance Group, No.151)

In the longer term we hope that it would be possible for the SORP making bodies to consider creating a more flexible on-line version of SORP to enable a charity to download a version tailored to its key circumstances… (The Institute of Chartered Accountants in England and Wales, No. 162)

The common barriers which prevent charities from using this function can be summarised as:

- Fear over excluding modules which then become relevant as new transactions occur/circumstances change
- Confusion over the terms used by the tool (in reference to the definition of 'small'/'large')
- Lack of awareness of the function

The most common suggestion for improving the function focused on having a tailoring function which allowed users to customise their SORP using a greater number of factors. Suggestions for the factors which should be included in the 'advanced' version of the online tool were:

- Size (income level, net assets, number of employees)
- Applicable legislation
- Jurisdiction/country of registration
- Legal entity/form

Greater signposting of requirements between large and small

Making a clearer distinction where requirements are different for charities dependent on their size and legal form was also suggested as an improvement.

Another suggestion in terms of the format is for the SORP modules to clearly distinguish the requirement which are applicable to all charities, separating those which are mandatory for larger charities and the exemptions available to smaller charities. (Grant Thornton UK LLP, No.52)

There were a number of methods by which these requirements could be better emphasised, including changes to the appearance of the SORP, the utilisation of different colours and fonts, inclusion of tables and changes to the layout, as well as the creation of separate modules, appendixes and checklists.

Better utilisation of technology to improve user navigation

Five auditors, audit firms and professional bodies commented on the usability of the online version of the SORP, including the search function. Two respondent also called for the document's index to be restored. A number of improvements were also suggested which would employ more advance online features.

Some additional guidance such as pop-ups explaining terms would be helpful. e.g. when hovering a mouse over terms to show a glossary definition, or brining up a pop-up linked page to FRS102 to obtain full technical guidance. Re-instating the index would be helpful for those who prefer to have a printed document. (Scottish Charity Finance Group, No.155)

Question 1: ***Breakdown of respondents***

Respondent	Total responses	Percentage agreement
Total responses	47	87%
Audit firms, auditors and professional bodies	22	95%
Sector umbrella bodies	5	80%
Individual charity finance directors, staff, trustees and honorary treasurers	17	76%
Funders, users of accounts, academics and think tanks	1	100%
Independent examiners	2	100%

Question 2	*Answered*	Yes	No	No Comment
Is more assistance required to help smaller charities? *If so, please explain what is needed and why?*	47 (27% of total)	42	5	-
		89%	11%	0%

This question was well debated at consultation events and attracted an average level of interest within the written feedback. The question was not answered by several charity finance directors and staff within the written feedback, who felt they were unable to offer any view on this particular topic due to their size. This partly contributes towards the low response rate.

MAIN FINDINGS

The majority of respondents believed more assistance is needed to help smaller charities. Of these respondents, the vast majority offered suggestions of what assistance is required.

Of the minority which considered no more assistance is needed, many still offered explanations and suggestions of possible assistance.

ASSISTANCE NEEDED

Identification of smaller SORP requirements

The most common suggestion to assist smaller charities focused on the creation of a document which sets out requirements for smaller charities more clearly. This was suggested by over a third of respondents. This idea was also raised at several of consultation event.

The majority of respondents considered the 'must' requirements as denoting the minimum requirement for small charities and suggested these could be distinguished more clearly either through:

- A summary/module/appendix/checklist specific to small charities; or
- A separate version of the SORP for small charities.

It would be preferable to have a minimum SOPR [sic] *level to work from, which was understood to be the minimum requirement – which accounted for 85% of the sector having an income under £100k.* (Small Charities Coalition, No.172)

Producing a version of the SORP which contains only those requirements which are relevant to the very smallest charities would be helpful. This could be done through colour coding or implementing an online tool which identifies the requirements which are applicable for the smallest charities. (MHA, No.49)

Other suggestions centred on the need for the 'must' requirements for smaller charities to be clearly signposted in the SORP. Respondents gave a number of methods which could be used to do this, including developing a colour coded/interactive version of the framework or through the layout and design of the modules.

Thresholds for charity reporting

Second to the suggestion for the creation of a small charities SORP was a change to the current reporting thresholds.

Confusion at existing threshold regime
The majority of respondents who made suggestions in this area commented on the number of different thresholds which existed for charities, which made it confusing for smaller charities to identify which reporting requirements and exemptions appropriate to them. One respondent summarised the different meanings used for the term 'small charity' to illustrate the complexity of the current regime:

At present the term 'smaller charity' as used in publications such as SORP 2015 and guidance form charity regulators can mean <u>any</u> of the following:

- *a) charities under £25,000 income (which in England and Wales do not require an independent examination)*
- *b) charities eligible to prepare receipts and payments accounts (non-company charities not over £250,000 income in the UK jurisdictions)*
- *c) charities not over £500,000 income – the current SORP definition and the upper limit for independently examined accounts in Scotland and Northern Ireland*
- *d) charities not over £1M income*
- *e) charities not required to have an audit in the jurisdiction concerned (note that in England, Wales and Scotland this is determined by assets as well as income)*
- *f) charities which fall within the 'small company' bands in company law.*

(The Institute of Chartered Accountants in England and Wales, No. 162)

Three respondents suggested that this confusion could be overcome through the creation of a flowchart, or an online tool which allowed the SORP to be tailored to a charity on the basis of these multiple thresholds.

Change thresholds
Four respondents suggested the current SORP thresholds for large charities should be increased along with the threshold for charities eligible to prepare receipts and payments accounts. However, comments in this area were limited given that Questions 6 and 7 of the consultation asked specifically about the current thresholds.

Exemptions for smaller charities

The suggestions in this area came mainly from audit firms, auditors and professional bodies. They focused on the greater level of simplification in charity reporting which could be created by exemptions for smaller charities. The suggestions covered:

- Providing greater clarification around the exemptions for smaller entities under Section 1A of FRS 102
- Extending the exemptions for the very smallest charities
- Including details of all those exemptions available to smaller charities in one section of the SORP

Of those who suggested including the exemptions in one section, the following was typical:

While we acknowledge that each section of the SORP sets out the requirements of all charities before those of larger charities, smaller charities could benefit if there was a section to consolidate all the exemptions available to smaller charities in one place i.e. simplifications in the trustees' report, activity basis not required on the SOFA and exemption from a statement of cash flows. (Sayer Vincent LLP, No. 153)

Improvement to the SORP and associated guidance
There were a range of practical changes suggested to the SORP at consultation events as well as in written submissions. The most common of these was for a greater range of example accounts. A number of the suggestions offered similar improvements to those in Question 1.

- Examples of trustees' annual reports and accounts
  Greater range; More examples specific to small charities; Examples which deal with specific areas of complexity encountered by smaller charities (e.g. investments, pension and revaluation reserves).

- Language used
  Respondents saw the SORP as 'wordy' and 'too technical' in areas. There were a number of specific terms which were suggested as being able to be better defined in the glossary. One respondent suggested those terms which are included in the Glossary could be hyperlinked to their definition.

- Disclosure checklists
  Respondents considered checklists as being needed as part of the guidance issued by the SORP-making body. Suggestions included checklists which contain only 'must' requirements and those requirements applicable for only small charities.

- Flowcharts and tables
  Use of flowcharts and tables for setting out reporting thresholds and exemptions for smaller charities.

- Supplementary guidance
  Respondents considered there to be scope for the SORP to link to the regulator's existing guidance to offer greater assistance to smaller charities on specific areas, such as reserves, going concern and related parties

- Receipts and Payments (R&P) accounts guidance
  The SORP could better signpost the guidance available to charities preparing R&P accounts, and make applicable thresholds more explicit.

- Index to the SORP
  Introduce an index so the framework can be more easily navigated.

Required of the Regulator
There were seven respondents who offered suggestions of the actions needed by the charity regulators to provide assistance for smaller charities. For the most part these were offered by sector umbrella bodies.

Training
The most common suggestion was for the provision for general training on requirements of the SORP, however, suggestions were made for training for charity trustees in the areas of financial management and compliance matters.

There is a capacity issue in terms of affordable access to help and advice for many small charities. Regulators and agencies across sections are demanding more and more *information, and increasingly charging (or proposing to charge) cash-strapped charities for the privilege. The Charity Commission, and Government should invest funds to help train and develop trustee skills in financial management, but also in how to write effective annual reports that demonstrate the charity's impact and effectiveness for the reader.* (Directory of Social Change, No.158)

Awareness of the SORP
Greater communication was called for to improve charities awareness of the SORP and its applicability for charities. Two respondents provided anecdotal evidence of situations where those preparing charity accounts were unaware of the SORP, or overlooking the framework as they considered it to be only applicable to the largest charities.

As part of our SORP review process, this consultation was sent to our volunteer Treasures. There are around 800 of these, who have a range of accounting knowledge, but the vast majority are unqualified volunteers tying to help the charity in the best way they can, much like a volunteer treasurer in any small charity. The comments we received back were mainly around the fact that they did not know what the SORP is; did not see it is as relevant to them; did not understand the consultation; and did not feel qualified to respond. (The Royal National Lifeboat Institution, No.51)

Some small charities do not consider the SORP applicable to them due to its complicated nature, sometimes overlooking that it is compulsory for charities with an income above £250,000 and for any sized organisation that is incorporated. (Charity Finance Group, No.151)

Scrutiny of accounts to ensure compliance
Four respondents saw a need for greater scrutiny of charity accounts to improve the quality of reporting by smaller charities. These respondents referred to the number of small charity accounts which are known to be compliant with the SORP.

CRITICISMS OF SORP (FRS 102) FOR SMALLER CHARITIES

Complexity of the current framework

A minority of respondents took this question as an opportunity to detail their dissatisfaction with the current framework for smaller charities and the implications it is having on charities.

The framework was cited as being complicated, onerous or overly burdensome by 12 respondents. This was viewpoint was explained from the perspective of user and preparers of charity accounts, as well as trustees.

There is no doubt that full compliance with FRS102 is challenging for many smaller charities. This has resulted in a considerable increase in the number of our congregations opting to prepare Receipts and Payments Accounts. (Church of Scotland, No.27)

…there is a great danger that as the requirements to report grows, trustees will become less able to engage in writing the statement of accounts as the process becomes more complex due to additional requirements. A lack of trustee engagement will have an impact on financial governance in the sector, and the SORP making-bodies must try to avoid this. (Charity Finance Group, No.151)

Pace of change

The pace of change in the reporting regime for smaller charities was also noted as adding further complexity to the ability of preparers to keep up-to-date with reporting requirements. Three respondents urged the Charities SORP-body against making any further major changed to the SORP in its next iteration in order to allow the current SORP time to 'bed in'. They also did not welcome the SORP being reviewed on a triennial basis, as prompted by the changing requirements of FRS 102.

One honorary treasurer considered the wider impact of the pace of change for small charities.

I question the merit of repeatedly change the rules for such small-ish charities; I consider that this is actually to the detriment of the annual accounts as every year a treasurer has to contend with something new. It appears that changes are being continually introduced with no thought given to the mounting complexity of the total requirement; I am concerned that the SORP Committee are on a three year cycle of amendments which will perpetuate frequent change – some might even say change for change's safe. It must be recognised that the vast majority of treasurers of small charities are volunteers who frankly struggle to get their heads around one fixed set of rules. I would suggest that people are deterred from doing the job just by the quantity of rules that exist, as well as the continual change to them. (Matthew Clements, No.4)

Question 2: *Breakdown of respondents*

Respondent	Total responses	As a percentage
Total responses	48	100%
Audit firms, auditors and professional bodies	22	46%
Sector umbrella bodies	10	21%
Individual charity finance directors, staff, trustees and honorary treasurers	14	29%
Independent examiners	2	4%

Question 3	*Answered*	Agree	Disagree
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 standards 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?	53 (31% of total)	32	21
		60%	40%

This question attracted a strong level of interest within the written responses. The greatest level of interest was seen from audit firms and professional bodies, where the questions was answered by all that responded to the research exercise. The question was also well discussed at consultation events.

MAIN FINDINGS

The use of the terms was considered as being successful by the majority of attendees at the consultation events. However, there was some criticism of the appropriateness of the term 'should', which was considered less useful.

This was reflected in the written feedback where the majority of respondents believed the terms were successful. Whilst these respondents considered the distinction offered by the language as helpful, nearly half offered suggestions on how the format could be improved. Of these, the majority focused on the confusion over the use of the term 'should'. This was echoed in the suggestions for improvement given by those that did not believe the format to be successful.

Confusion over the term 'should'

Of those who expressed confusion over the term 'should' the following was typical:

The intention is good but the words "must" and "should" are too similar in everyday language. The definitions in paragraphs 32-35 are clear and will be familiar to a scholar of the SORP, but for a preparer of accounts who is less familiar with the SORP, they may misunderstand and confuse the meaning of "must" and "should". (Sayer Vincent LLP, No.153)

The reasons given for the confusion over the term should varied and are summarised below:

- When these requirements are not met, the charities are seen as not complying with good practice.
- Both charities and auditors are not interpreting these requirements as optional and in practice interpret 'should' as 'must'.
- Charities are unable to determine if these requirements are needed or not. This uncertainty has resulted in preparers relying on their auditors to help them make these choices.
- The inclusion of best practice in the SORP means the document is cluttered and overly long.

- The distinction between 'must' and 'should' is too subtle and relies on a strong understanding of the English language

However, the majority of these respondents were consistent in suggesting an alternative format of only two terms. This could be done by making all 'should' requirements either 'must' or 'may'. Typical suggestion were:

The distinction between the must and should are blurred and therefore these 'should's' are better reclassified as either 'must's' or become 'may's'. (Price Bailey LLP, No.147)

Simplifying to the wording to 'must' and then 'best practice' will provide clarity to small charities about what they are legally require to provide, and what is best practice and useful for benchmarking. (Small Charities Coalition, No.172)

Other alternatives included replacing 'should' with '*this SORP requires*', '*expected to*' or '*best practice to*' or having only 'must' requirements in the SORP (therefore removing all best practice suggestions and choice).

Clearer signposting between requirements

Both respondents who agreed and those who disagreed with the use of terms offered improvements on how the terms could be better distinguished and their definitions more prominent. Suggestions included:

- Definitions of the terms in bold font
- All 'must' requirements in bold or different font
- Changing the layout of each modules to list all 'must' requirements separately from best practice.
- Colour coding

Greater consistency with regulators guidance

Four respondents noted that the terms were similar to those used in other guidance produced by the charity regulators. However of these respondents, three called for greater consistency between the use of the terms. One respondent detailed perceived differences between the meanings of 'should' used in the SORP compared to current Charity Commission guidance.

Two meanings for 'should' have slightly reduced the overall success of this approach. For English and Welsh charities, there are two versions of 'should' in force for financial issues:

> ***CC3:*** *trustees are generally expected to follow good practice, and be ready to justify not doing so. However, trustees are warned that they will be in breach of their legal duties if they do not follow good practice on financial controls and risk management.*
> ***SORP:*** *Encouraged to follow the particular SORP recommendations, but not doing so is not regarded as a departure from the SORP.*

The demarcation is that CC3 is applied to ongoing financial aspects, whereas the SORP covers 'after the event' statutory reporting. (Frank Learner, No.129)

Areas of perceived inconsistency within the SORP

Seven respondents gave details of sections of the SORP where they thought the use of the terms were inconsistent or unclear. These suggestions came from audit firms, professional bodies and sector umbrella bodies. They fell into the following three broad categories:

- Instances where the SORP uses an expression other than the three terms ('requires', 'recommends');
- Instances where the term is perceived as being inconsistent with the underlying legal requirement or accounting standard; and
- Perceived errors.

These are detailed in Table A to C of Appendix 1.

OTHER COMMENTS

Reference to the source of the requirement

Two responses suggested that a more comprehensive approach is adopted in the SORP, whereby the underlying source of each 'must' requirement is noted. This was considered helpful to the preparers of the accounts.

It would be helpful if each of the 'musts' could be annotated – perhaps through a footnote – with the source of the requirement i.e. charity law, company law, FRS 102 etc. (PricewaterhouseCoopers LLP, No.56)

I suggest that the language of the SORP should make it clear, in each use of the word 'must', whether it derives from a statutory requirement (clearly identifying that authority) or whether it is a requirement of good practice deriving from the opinion of the authors of the SORP. (Arthur Weir, No.154)

Consequences of departure

Two respondents suggested the SORP should be more explicit in stating the implications of non-adherence with the requirements. It was considered important given the weight which the SORP attributes to these terms.

The SORP describes the implications of non-adherence to a 'must' saying that it would be 'a departure from the SORP', which again seems meaningless to must charity professionals using the SORP who are not expert accountants. It says nothing of the implications a charity should expect should they not obey a 'must'. (Directory of Social Change, No.158)

Guidance over materiality

Two respondents called for greater clarification around the concept of materiality when applied to disclosures which are 'musts'. The stringent application of the term 'must' was seen as contributing to an increasing amount of disclosures and contributing too overly long accounts.

We would welcome further clarity in the guidance section on materiality as to items that 'must' be disclosed. Whilst the Charity SORP states that these terms are to be 'applied to material transactions' (paragraph 33) we fear that without clearer guidance auditors will tend to err on the side of caution. This is likely to lead to unhelpful cutter in the accounts. A practical example for us is the disclosure of redundancy costs set out in 9.27 where a charity 'must state' the total amount for the reporting period and the nature of the payment. (Cancer Research UK, No.142)

Question 3: ***Breakdown of respondents***

Respondent	Total responses	Percentage agreement
Total responses	53	60%
Audit firms, auditors and professional bodies	23	57%
Sector umbrella bodies	10	60%
Individual charity finance directors, staff, trustees and honorary treasurers	17	71%
Funders, users of accounts, academics and think tanks	1	100%
Independent examiners	2	0%

Question 4	*Answered*	Agree	Disagree
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.*	54 (31% of total)	54	-
		100%	0%

This question was well discussed at consultation events and drew a lot of comment in the written feedback. As with the previous question, the question was answered by all audit firms and professional bodies that responded to the research exercise.

MAIN FINDINGS

Respondents were unanimous in their support for the SORP. This support was echoed in in the discussion of this questions at consultation events, where an unequivocal response was common. This was seen across all respondent categories, with clear support amongst those working in both large and small charities as well as those using charity accounts.

Interprets FRS 102 for a unique sector

Thirteen respondents also viewed the SORP as being necessary to interpret FRS 102/UK GAAP for the sector. Respondents commented on the lack of guidance which is specific for charities contained in the FRS 102, emphasising the need for the SORP to supplement and explain the standard. This was often linked to the charity sectors 'unique characteristics', which included the range of entities within the sector and the audience and focus of the accounts.

Four audit firms made observations about FRS 102, which linked to the need for the SORP to interpret the standard and provide additional guidance applicable to charities. Of these, the following responses were typical:

FRS 102 is a principles based accounting standard with a lack of comprehensive prescriptive treatment in many different situations and contexts. The Charities SORP therefore has a fundamental role in providing guidance in relation to accounting for, presenting and disclosing particular activities or transactions specific to the charity sector… (Chiene + Tait LLP, No.81)

FRS102's PBE sections are applicable to a broader range of reporting entities than charities whose declared purposes must, under English law, be exclusively charitable as well as for the public benefit, FRS102 therefore cannot be sufficient to enable charities to show good stewardship compliant with trust law in order to meet their public accountability obligations as charities. (Crowe Clark Whitehill LLP, No.159)

Addresses sector specific requirements

In commenting on the sectors 'unique characteristics', 13 respondents described specific elements of charity accounts which are covered by the SORP. The disclosures and accounting treatments specified in the SORP were considered necessary to cover the suite of reporting and legal requirements applicable to charities and particular transactions encountered. The most common example given included:

- The Trustees Report - *narrative reporting*

- Statement of Financial Activities – as a *primary statement which accommodates fund accounting*
- Accounting for grants
- Accounting for donated goods

Promotes consistency and comparability

Eleven respondents considered the SORP to be necessary to reduce the variations and divergence in accounting and reporting practices by charities. Respondents linked this to a greater level of compliance amongst charities in meeting their legal reporting responsibilities, as well as helping ensuring greater transparency and confidence in the sector. Other respondents linked greater consistency with improved comparability between charity accounts. These themes were seen across all respondent categories.

The SORP is an important tool for enabling a good degree of consistency and comparability of reporting given the wide variety of organisations within the sector. (Association of Accounting Technicians, No.17)

Crucially, the SORP helps to ensure that the high level of transparency expected of the charity sector is achieved. (RSM UK Audit LLP, No.100)

… *SORP is extremely useful for the public, those looking for funding and those looking to give (legacies etc.). The charities SORP is also very useful to research organisations such as DSC, where researchers examine charity accountings on a daily basis and play a key role in making charity information more transparent and accessible.* (Directory of Social Change, No.158)

OTHER COMMENTS

Source of accessible guidance

Five respondents commended the SORP for being accessible to those unfamiliar with accounting concepts and principles. This was considered from the perspective of those preparing accounts in smaller charities, who are likely to have limited experience of financial reporting standards. It was considered to be unreasonable to expect these individuals to use only FRS 102 to prepare a set of charity accounts.

One respondent also felt the accessible nature of the SORP contributed to more accessible reporting:

The SORP's specific guidance translates to more user friendly accounts which best fits a sector where many charities staff, volunteers and trustees have limited knowledge of financial accounting. (Progress Housing Group, No.44)

'One-stop shop' for charity reporting

The phrase 'one-stop shop' was used by seven respondents to describe the SORP's interaction with the other relevant accounting standards and legal and regulatory requirements applicable to charities. This was also reflected in the feedback at consultation events, where the phrase was used to describe the framework by a number of attendees. The term focuses on the SORP enabling users to avoid looking at other sources of guidance to determine their reporting requirements and accounting treatments. The SORP's role and development as either a source of supplementary or comprehensive guidance for charity reporting was also discussed by a further six respondents.

Eight respondents advocated the SORP as 'one-stop shop' for charity reporting and included respondents from across all categories. Typical comments from respondents were:

Despite the requirements for financial reporting now explained in FRS102 the SORP still has a place in charity accounting as it enables preparers of charity accounts, particularly those from smaller charities, to have a "one stop shop" tailored specifically for charities without the need to wade through complex reporting standards may of which may not be relevant. (Goodman Jones LLP, No.136)

The SORP is important for charities and essential for smaller charities with limited resources, as it distils the essential elements of the accounting standards, charity law and company law into one guidance document. (Association of Accounting Technicians, No.17)

It is useful if, as much as is possible, the SORP is a one stop shop for charities. This helps make reporting requirements straight-forward and easy to find. (British Red Cross, No.118)

However, five respondents cautioned against the development of the SORP as a 'one-stop shop'. Their concerns centred on those instances where the SORP repeats the requirements of FRS 102. Other critics of this approach noted occasions where the SORP has created ambiguity by paraphrasing matters addressed in FRS 102, and also contradicted the intention of FRS 102. Typical comments from respondents were:

We understand that those preparing charity accounts value having one document that covers the vast majority of the accounting and financial reporting requirements, coupled with additional guidance for sector specific issues. However, we wish to add that where FRS 102 already addresses an accounting matter and its application is relevant to the charity sector, the wording should be repeated and not paraphrased. (Grant Thornton UK LLP, No.52)

It is likely that many charity users of the Charity SORP will seek to use it as a 'one stop shop' when it should be used in conjunction with a sound understanding of FRS 102. It might help if the Charity SORP was to further signpost those key areas where references to FRS102 is essential; for example with regards to leasing.
(Cancer Research UK, No.142)

One respondent offered a suggestion for the development of the SORP which could overcome the tension between the document providing guidance on the nuances of charity reporting and avoiding replacing FRS 102 for charities.

We consider there to be a strong case for removal of the SORP in its current form and/or the SORP to evolve into a document that guides charities in the application of FRS 102 and law without holding such an authoritative position within the charities financial reporting regime. The SORP could helpfully underpin FRS 102 through the provision of guidance assisting with interpretation of the standard in the areas of particular relevance to charities rather than through the replication and additional of other requirements. (BDO LLP, No.164)

Question 4: ***Breakdown of respondents***

Respondent	Total responses	Percentage agreement
Total responses	54	100%
Audit firms, auditors and professional bodies	23	100%
Sector umbrella bodies	11	100%
Individual charity finance directors, staff, trustees and honorary treasurers	17	100%
Funders, users of accounts, academics and think tanks	1	100%
Independent examiners	2	100%

Question 5	*Answered*
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.	43 (25% of total)

This questions was answered by a minority of respondents. Nearly half of the respondents were audit firms or professional bodies. The number of respondents who answered this question is similar to the number of respondents for Questions 12 to 15, which also asked for suggestions for changes to the SORP.

There was limited discussion of this question at the consultation events.

Interpretation of responses

Given the crossover in the suggestions offered by respondents in response to Question 13, the answers for both questions are presented together. Appendix 2 contains a list of the suggestions made for additional guidance or changes to the framework.

It is acknowledged that both questions asked for changes to the SORP from different perspectives, however, there were similar suggestions made in each. It was common for respondents to make no distinction between whether the change suggested was to resolve potential implementation issues, meet the SORPs requirements or improve the information provided to the users of the report and accounts.

It was common for respondents to make no distinction between issues encountered in meeting the requirements of the SORP, FRS 102 or other legal and regulatory requirements. As the SORP offers application guidance to FRS 102 and supplements other legal and regulatory requirements, these issues have been included in the analysis.

MAIN FINDINGS

There was a substantial number of suggestions which were received in response to this question. These ranged from general suggestions about what could be done to help charities implement the SORP, to specific practical difficulties which are being encountered by preparers of accounts in meeting the SORP requirements. A small minority of respondents focused on the experience of small charities in their response, making similar recommendations to those suggested in Questions 1 and 2.

There were fifteen respondents who included detailed recommendation on how the SORP should be changed where it is was perceived to be technically deficient in interpreting the requirements of FRS 102 or relevant legal requirements. These recommendations were offered mainly from audit firms and professional bodies.

Appendix 2 contains a summary of the most common suggestions. Suggestions have been included in the appendix where they have been noted by more than one respondent, or by a professional body or sector umbrella body.

The following general comments were received in relation to the implementation of the new SORP by a minority of respondents.

Publicity of changes and resources

Three respondents felt there was a good level of forewarning about the new SORP which meant charities were better prepared. However, one audit firm felt that there was poor awareness of the useful help sheets produced when the new SORP was first released. One professional body believed Update Bulletin 1 was poorly communicated, as many preparers of charity accounts are not aware of the changes contained within it. They felt it should be signposted in the current SORP, either when the full SORP downloaded or within it.

Demand for more example accounts

Four respondents suggested that there should be a greater number of example accounts made available. Respondents felt these should cover the more difficult areas of accounting and the requirements which apply to charitable companies more thoroughly. One audit firm also suggested that this could be done through worked examples in the SORP itself.

Difficulties with first-time adoption requirements

Three respondents considered the requirement to restate the prior year figures as burdensome and 'a hassle'. Two respondents felt that the reconciliation as required under Section 35 of FRS 102 was difficult and as a result many charities had relied on guidance from their auditors. They both believed a pro-forma could have been provided, given the consideration of how best to present changes in reserves is specific to the charity sector.

Question 5: ***Breakdown of respondents***

Respondent	Total responses
Total responses	43
Audit firms, auditors and professional bodies	21
Sector umbrella bodies	9
Individual charity finance directors, staff, trustees and honorary treasurers	10
Funders, users of accounts, academics and think tanks	1
Independent examiners	2

Question 6	*Answered*	Agree	Disagree	No Comment
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?	51 (30% of total)	22	25	4
		43%	49%	8%

This questions attracted a strong level of interest within the written feedback, and also at consultation events.

MAIN FINDINGS

There was general support at consultation events for the creation of a third tier of reporting for the largest charities. This was seen across the different respondent categories who were in attendance. This contrasts with the written feedback, where a slim majority disagreed with the proposal. Views varied between respondent groups. This is shown most significantly in the level of agreement between audit firms and professional bodies (39% agreement) compared to individual charity finance directors, staff, trustees and treasurers (58% agreement).

Threshold for a third tier

Half of those respondents who agreed with the creation of a third tier offered a suggestion for the level of income that the reporting requirement should apply. The majority of these concurred with the example given in the consultation and suggested a threshold of income above £10.2 million (or referenced the current small company accounting threshold in the UK). This was echoed in the findings from the consultation events, where a threshold of £10.2 million or higher was generally supported.

Creation of additional tier to reduce reporting by smaller charities

There was a high level of support for reducing the disclosure requirements for both small and large charities by the creation of a third tier. This was the most common reason given by both respondents who agreed and disagreed with the additional tier. The aim of reducing the reporting burden for smaller charities was prevalent, as seen in the responses to Question 2. Amongst those respondents who agreed, the following response was typical:

If such a tier reduced the general disclosure requirements of the Charity SORP as it stands, it would be welcomed by the sector as a whole. (Price Bailey LLP, No.147)

Three respondents who disagreed with the creation of a third tier for the largest charities proposed the creation of a new tier which would decrease the number of 'large' charities under the Charity SORP threshold of £500,000. The suggestions on how to do so varied, and included; increasing the current threshold for large charities, increasing the threshold for accrual accounts, or creating a new 'bottom tier' for the smallest charities. The latter suggestion was also noted at several consultation events, where the creation of a new tier for the very smaller charities was recommended.

Justification for the creation of a third tier

As noted, the most common reason given for the creation of a third tier was to reduce the reporting requirements for smaller charities. However four respondents attributed greater disclosures for larger charities as being linked to increased responsibility, which demanded higher levels of accountability and transparency from organisations. This view was expressed by auditors, professional bodies, as well as from charities themselves.

The largest charities have a level of scrutiny and responsibility that merits greater disclosure and rigour. (The Royal National Lifeboat Institution, No.51)

Considerations for determining the threshold

Respondents who agreed and those who disagreed with the third tier both highlighted considerations which should be taken into account which determining its threshold. Most commonly, respondents believed the threshold should not be based solely on income and doing so is crude. Six respondents suggested the threshold should incorporate a greater number of factors and adopt the approach of the Companies Act by incorporating the value of assets and number of employees.

Any cut off point of reporting based on income is likely to be arbitrary, as income does not necessarily denote the complexity and capability of a charity. (Charity Finance Group, No.151)

Two respondents highlighted the need for an allowance for those charities who meet the threshold for only one year. It was considered an exemption should be introduced to allow for those situations where a charity's income fluctuates unexpectedly or as a result of a one-off transaction.

One audit firm noted the difficultly that would be encountered where the threshold aimed to capture specific charities which were deemed to be of greater public interest:

If the threshold is set too high, there is a risk that some intermediate charities, including many 'household names' are not caught by the highest tier of reporting, thereby potentially reducing transparency where users may require it. (Grant Thornton UK LLP, No.52)

Call for additional research and consultation

Two sector umbrella bodies felt unable to offer a view on the proposal without further information about the specific disclosures which would be required. Similarly, five respondents felt greater work was necessary before an additional threshold was created. This included research to identify the users of the largest charities' reports and their information needs, as well as a further consultation to determine the tier threshold and disclosures which would be required.

Concern was also raised about the need for any thresholds to consider the accounting framework, company and charity law requirements and also the differences between jurisdictions.

Large charities already report additional information

The second most common reason given by respondents who were against a third tier focused on the high level of reporting which already exists amongst the largest charities.

Respondents believed many of these charities are going beyond the requirements of the SORP for a range of reasons. These included:

- Voluntary adherence to international reporting standards (IFRS)
- Corporate reporting requirements for charitable companies
- Sector specific reporting requirements as imposed by regulators
- Additional reporting to meet the needs of the charity's supporters and other users of the accounts.

Three respondents described how the current requirements of the SORP meant large charities report a sufficient amount of information already, as a result of the framework's extensive and comprehensive requirements. One audit firm noted that the design of the SORP meant the level disclosure requirements reflected a charity's complexity:

We do not support adding to the SORP's very extensive disclosure requirements for the largest charities – however defined. In practice the disclosure requirements are "automatically" tapered for charities because more of them are applicable where the structures and activities are more complex. (Crowe Clark Whitehill LLP, No.159)

OTHER COMMENTS

Greater complexity created

Six respondents warned against the additional complexity and potential confusion which could be created by the additional tier. This was noted both by respondents which agreed and those who disagreed with the third tier. Many expressed their concern over the number of thresholds which currently exist within the charity reporting regime. Typical comments from respondents were:

An issue has already been seen in relation to the audit threshold for charities in England & Wales set at £1 million, with the small charity threshold in the SORP set at £500,000. This is likely to lead to confusion in relation to which requirements to apply. (Scottish Charity Finance Group, No.155)

There is a risk that any advantage in adding another tier would be outweighed by further complicating an already complex regulatory environment. (The Institute of Chartered Accountants in England and Wales, No. 162)

One sector umbrella body commented on the limited number of charities which would be impacted by the additional tier, which it viewed as not outweighing the potential benefits of greater disclosure.

According to the latest data in NCVO's 'UK Civil Society Almanac', there are only just over 1,000 organisations that would fit within this category [charities with income above £10m]*. In our view, the complexity of creating a further tier is not proportionate to the impact it would achieve* (National Council for Voluntary Organisations, No.171)

Reduced comparability

Two respondents believed the comparability between charities would be impacted by requiring additional disclosures of only the largest charities. By reducing the consistency of the information disclosed, users would find it more difficult to made effective comparisons.

Two of the stated aims of the SORP are simplification and comparability however by introducing yet another tier of reporting this will only complicate and confuse preparers of accounts and inter charity comparisons will become even more difficult for the layman to make. (Goodman Jones LLP, No.136)

Question 6: ***Breakdown of respondents***

Respondent	Total responses	Percentage agreement
Total responses	51	43%
Audit firms, auditors and professional bodies	23	39%
Sector umbrella bodies	13	38%
Individual charity finance directors, staff, trustees and honorary treasurers	12	58%
Funders, users of accounts, academics and think tanks	1	0%
Independent examiners	2	50%

Question 7	*Answered*
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?	22 (13% of total) (43% of total respondents of Qu.6)

Question 7 followed on from Question 6 by asking those that agreed that there should be a third tier for the largest charities to offer suggestions of those specific requirements which should be restricted for these charities.

Of those respondents who agreed with the creation of a third tier (22 respondents), 82% answered the question. There were also three respondents who offered suggestions despite disagreeing with the creation of third tier in the previous question.

MAIN FINDINGS

The majority of suggestions for items that should be restricted to the largest charities were either those which apply to all charities, or new items. There were fewer items suggested by respondents which currently only apply to larger charities, as requested in the consultation document.

ITEMS RESTRICTED TO THE THIRD TIER:

Items currently restricted to large charities

There were three main items identified which currently only apply to large charities in the SORP. These items are detailed in the following table, together with those respondents that specified them.

Item	SORP Reference	Respondents
Statement of cash flows	14.1	ICAS (No.122) ACIE (No. 101) Michael Brougham (No.156)
Income and expenditure analysis by activity	4.27	Association of Accounting Technicians (No.17) Scott-Moncrieff (No.161)
Trustees' annual report - additional content	1.34 – 1.53	Association of Accounting Technicians (No.17) Price Bailey LLP (No.147)

There was also support amongst attendees at consultation events for the requirement for a cash flow statement to be restricted to only the very largest charities.

Items not currently restricted to large charities

There was also a range of disclosures requirements and accounting treatments that respondents specific for the third tier and which are currently required by both large and small charities in the SORP. These are listed below together with the applicable SORP module were relevant. All items were specified by only one or two respondents.

- Remuneration and benefits received by key management personnel – *Module 9*

- Accounting for heritage assets – *Module 18*
- Accounting for financial instruments – *Module 11*
- Aggregate disclosure of the total amount of donations received without conditions – *Module 9*
- Parent-only cash flow statement – *Scope and application*
- Simplified accounting for recording assets and liabilities at fair value
- Disclosure of comparative figures for prior year
- Fund accounting – *Module 2*
- Analysis of current asset investments - *Module 10*

New items suggested

Many suggestions came from respondents and attendees at consultation events of new items which are not included in the current SORP. A number of these items are similar to those changes suggested by the regulators and committee in Sections 3.3 and 3.4 of the consultation document. All items were specified by only one or two respondents and summarised below:

- More detailed expenditure analysis
- NCVO-style remuneration disclosures
- KPI disclosure/reporting
- Key facts summary
- "Executive summary" style report pitched at the person on the street
- A five year summary of results
- More detailed SoFA headings – including division reporting, explicit disclosure of governance costs etc.
- Explanation of fundraising activity within the trustees' annual report

OTHER COMMENTS

Rationale of selection

The selection of items by three respondents' was based on a desire to simplify the reporting requirements for smaller charities and avoid placing additional burdens through the introduction of new requirements. This theme was also evident in the responses to Question 6.

One audit firm noted that items should be selected where '*the current complexities outweigh the benefits*' for charities (Scott-Moncrieff, No.161). Another believed any additional requirements which are introduced for the largest tier should remain optional, as 'should' or 'may' recommendations (Sayer Vincent LLP, No.153).

In commenting on the items which should be included in a third tier, one charity considered it as an opportunity to both reduce the costs and improve the understanding of the accounts for smaller charities.

These [items] *should be technical elements that rely on accounting expertise and additional expense, or those that complicate the understanding of the accounts for the lay reader. This would include fund accounting or investment analysis.* (The Royal National Lifeboat Institution, No.51)

Restriction of items derived from accounting and legal requirements

One audit firm expressed doubts over whether many items which are currently included in the SORP would be able to be restricted to the third tier. The respondent commented on the interplay between the framework and the underlying accounting standards and other legal and regulatory requirements.

It is worth highlighting that even were a third tier to be introduced, we do not consider that there would be a significant number of requirements in the current SORP that could be legitimately be restricted to a larger tier charity only given that most requirement derive from law or FRS 102. (BDO LLP, No.164)

Question 7: *Breakdown of respondents*

Respondent	Total responses
Total responses	22
Audit firms, auditors and professional bodies	11
Sector umbrella bodies	5
Individual charity finance directors, staff, trustees and honorary treasurers	5
Independent examiners	1

Question 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?*

The analysis focuses on the four specific areas which respondents were asked to consider:

A. Better integration of the report with the accounts

B. Detail of reporting

C. Key facts summary

D. Reserves definition and guidance

Interpretation of responses

Only respondents who offered their support to the specific areas detailed in the consultation document were included in the analysis (i.e. answered the second question). This was done to accommodate those respondents who answered 'yes' or 'no' to the first question without specifying which of the areas they were in favour of.

Suggested Area 8.A	Answered	Agree	Disagree	No Comment
Better integration of the report with the accounts	50 (29% of total)	35	15	-
		70%	30%	0%

After the key facts summary, this area attracted the second highest level of interest of the four suggested areas for review.

MAIN FINDINGS

The majority of respondents were in favour of this area, with the greatest level of support seen amongst charity finance directors and staff. This was also seen amongst attendees at consultation events, where the area was supported.

More guidance needed

More than half of those respondents who agreed that the area should be reviewed specified that guidance was needed to improve the integration between the trustees' annual report and accounts. The majority of respondents used the term 'guidance' in their response without making a distinction between different forms of guidance. Of those who did, example accounts were most commonly specified. One respondent noted an absence of example accounts for the current SORP compared to earlier versions.

Better integration and detail could be achieved by having a wider set of example accounts that illustration good practice. There was a suite of ten example accounts for SORP 2005; so far there are only two for the FRS102 SORP. (Frank Learner, No.129)

No additional requirements needed

Seven respondents specified that in this area greater guidance is needed, as opposed to any new requirements. It was felt that the current approach taken by the SORP is adequate, and any additional requirements would not be beneficial to charities. Of these responses, the following was typical:

In our view, the needs to be in the form of additional guidance material, prompts and other best practice examples rather than introducing new requirements into the SORP given that the existing requirements already encourage integration of information. (BDO LLP, No.164)

These concerns found an echo in the responses from those who disagreed with this area being reviewed. The majority of these respondents considered current requirements in this area as appropriate. Most considered the current SORP guidance to encourage greater integration between narrative and financial reporting and that no changes, clarification or additional information was necessary.

Better integration of the Trustees' report with the accounts is clearly desirable but surely difficult to see what changes to current requirements would assist in this objective. Surely if current requirements are met in full then both documents will be already integrated with each other? (Church of Scotland, No.27)

Five respondents also believed reporting in this area should remain flexible and changes should avoid enforcing prescriptive disclosures. This was seen as important given the variety of the sector.

We are not convinced that more prescribe disclosure will necessary improve the quality of the Trustees' Report as a charity attempts to tell its story. In fact, 'more can be less'. (Cancer Research UK, No.142).

OTHER COMMENTS

Suggested focus of the guidance

Eight respondents offered suggestions for the content of guidance. This was predominantly from sector umbrella bodies. These respondents considered the guidance in the wider context of the trustees' report. Two umbrella bodies believed that any guidance should cover:

- The purpose of the trustees' annual report (Association of Charitable Foundations, No.104)
- The audience of the trustees' annual report (Charity Finance Group, No.151)
- The expertise that the users of the trustees' annual report may have (Charity Finance Group, No.151)

This was necessary given the disparity in quality and type of reporting currently being seen within reports. It was also considered important to take into account the different forms of communication being used by charities to report on their performance. Two respondents highlighted that guidance should acknowledge that this was now being done by charities in different ways with different audiences.

Charities are no longer solely using their annual reports to communicate impact and efficacy (Charity Finance Group, No.151)

…your guidance should take account of how charities already communicate with the public. It should complement how charities are already reporting to their funders. (Evaluation Support Scotland, No.16)

Impact of guidance

Three respondents expressed concerns over the impact of issuing guidance or examples in this area. They believed the publication of examples or guidance could result in boilerplate disclosures which would detract from the overall purpose of the report.

Whilst guidance or best practice in this area could be included in the SORP, in practice preparers interpret such 'prompts' very prescriptively. Given the variety of activities and operating models used within the sector, strongly specifying the format and content of narrative reporting is unsuitable (MHA, No.48)

One professional body warned against the impact of greater guidance creating an unintended 'burden' which would prevent charities being able to reporting clearly on their performance.

We suggest that the review should focus on how to minimise any unnecessary burdens imposed on charities so as to help charities to 'tell their story'. There is a risk that even well intentioned further 'guidance' or requirements should be counterproductive in this respect. (The Institute of Chartered Accountants in England and Wales, No.162)

Questioning the scope of integration

Two respondents saw the purpose of the trustees' report and accounts as distinctly separate. As both had different roles, they believed that there was limited scope for the financial information to be linked with a broader account of the organisation's performance.

We also recognise that the trustees' annual report and the accounts both offer there reader a different insight into the charity from a qualitative and quantitative perspective respectively. Therefore it is inevitable that they both tell a different story, or at least a different aspect to the same story. (Charity Practitioners Forum, No.58)

For most charities the financial numbers reflect the costs of running the charity. What charities want to talk about and what stakeholder want to read about is the charity's activities and impact. This means using words, pictures and diagrams. So the two sections of the report should look different. It may be appropriate to the TAR specifically to reference a restricted grant, but we oppose any guidance that requires a charity to say how much it took them to achieve a specific outcome for a specific beneficiary. (Evaluation Support Scotland, No.16)

Suggested Area 8.A: ***Breakdown of respondents***

Respondent	Total responses	Percentage agreement
Total responses	50	70%
Audit firms, auditors and professional bodies	22	50%
Sector umbrella bodies	8	100%
Individual charity finance directors, staff, trustees and honorary treasurers	17	76%
Funders, users of accounts, academics and think tanks	1	100%
Independent examiners	2	100%

Suggested Area 8.B	*Answered*	Agree	Disagree	No Comment
Detail of reporting	42 (24% of total)	24	18	-
		57%	43%	0%

Of the four suggested areas for review of the trustees' annual report recommended by the Committee, this area attracted the lowest level of interest. Many respondents chose to address this question as part of their response to the previous area (A. *Better integration of the report with the accounts*). As a result there were a number of common themes raised in both. Discussion of this area was also limited at the consultation events.

MAIN FINDINGS

A small majority agreed with this area being reviewed as part of the next version of the SORP; but support was varied across the respondent categories. This contrasts somewhat to the feedback from consultation events, where there was support for the area across all categories.

Suggestions to improve the detail of reporting

There were a range of suggestions from respondents on what was needed to address this area.

Review of the content of the trustees' annual report
A common view amongst audit firms and professional bodies was that a review of the content of the trustees' annual report was needed. Greater information about the type of information which is sought by the readers of trustees' annual reports would allow charities to tailor their reporting accordingly.

Information being reported in other documents and platforms
Four respondents suggested that some of the content within the trustees' annual report could be reported elsewhere. These respondents made suggestions of the content which could be moved to the charity's annual review, annual return or website. This was considered beneficial as it would allow the length of the report to be reduced. Two respondents also believed it was desirable given the limited audience of the trustees' report and its primary purpose as a statutory document. Of these, one audit firm considered the annual report's limited audience as being a contributing factor for the poor level of reporting in this area.

The difficulty we hear is that many charities produce annual reviews where they provide much more information about projects/programmes and activities with visuals and case studies. Statutory accounts are prepared as a compliance document for filing purposes and are not always used as 'the' communication tool of the charity. (haysmacintyre, No.148)

Guidance rather than additional requirements
There was a resistance against introducing any further requirements around the content of the trustees' annual report as a way to improve the level of reporting. Ten respondents either considered the current recommendations to be adequate, or warned against the impact of being too prescriptive in narrative reporting. The following response was typical:

Strict rules… are likely to result in stock answers which simply meet the rules, as opposed to providing useful information. (British Red Cross, No.118)

Of those respondents that advocated greater guidance, a five gave suggestions on what this should include. The suggestions covered:

- Encouraging charities to consider the quality and relevance of information, not just quantity (Association of Chartered Certified Accountants, No.141)
- Emphasising the benefits of reporting in sufficient detail (British Red Cross, No.118)
- An explanation how to achieve a balance in reporting on successes and failures (Nick Kavanagh, No.6)
- Encouraging '*trustees to write reports which provide the best 'story"* (Stewardship, No.144)
- Discouraging '*trustees from using last year's report as a template and simply changing a few numbers and the relevant dates*' (Stewardship, No.144)
- Encouraging clear and concise reporting (in line with the FRC's drive forward in 'Cutting Clutter' in the annual reports) (Grant Thornton UK LLP, No.52)

Trustee's discretion and retention of flexibility

Of those respondents who disagreed with the area, four believed the content and level of detail reported should remain a matter for trustee judgement. By allowing flexibility in this area, charities could report in a way that is appropriate to their own circumstances.

This will always be down to the judgement of the Trustees and the advice of the auditors. (The Wellcome Trust, no.87)

… it is important that flexibility and a certain amount autonomy is retained to allow charities to be individual and tell their own story. (Saffery Champness, No.140)

OTHER COMMENTS

Volume of information being reported

Of those respondents who were in agreement that the areas should be reviewed, three respondents commented on the current levels of information being disclosed by charities. Views on this topic were mixed.

Two respondents considered too much information is being disclosed by charities in their trustees' annual report, rather than too little as suggested in the consultation document. One audit firm noted that levels vary between charities, and guidance is needed to aid consistency and bring comparability (Goodman Jones LLP, No.136).

Increase in reporting contributing to an audit fees

Two respondents commented on the potential impact on charity audit fees of having more detail and additional requirements included in the trustees' annual report. These comments were included as part of their general responses to the proposed changes in the consultation. In both cases, the respondents warned of an increase in fees as a results of the scope of the audit.

… following recent regulatory changes, the audit opinion will need to say whether or not any material misstatements in the trustees' and other relevant reports report have been identified. The more information that is included in these reports, the more difficult and

costly this exercise may be. In general we believe that a financial impact assessment should be carried out on the costs of possible additional disclosure requirement before they are made. (The Institute of Chartered Accountants in England and Wales, No.162)

Currently the auditors do not report on the detail of the trustees' report, however the auditors do confirm they have read the report for material inconsistencies. Any requirement for charities to include more information potentially results in a more onerous (and therefore more expensive) audit…. (Saffery Champness, No.140)

Compliance issue

Three respondents saw this area as a compliance issue and not something that could be necessarily addressed by the SORP. One audit firm outlined a lack of compliance by trustees as contributing factor to a poor level of reporting. They also noted the role of auditors in enforcing compliance.

Trustees do not always fully comply with the existing requirements of the SORP either through a lack of understanding of the current SORP requirements or a desire not to disclose the required information. Some auditors do not take a sufficiently robust line with their charity clients. (UHY Hacker Young LLP, No.142)

Two respondents considered that where a charity does not report at the level recommended by the SORP, it was commonly a result of their choice to devote their energies elsewhere.

This represents a compliance issue rather than a failure of the framework. Even if greater guidance or examples of best practice are made available, unless charities devote the necessary time and resources to this area the standard of reporting in this area will not improve. This should not be considered as a failure of the SORP, but rather as an indication of charities and trustees having different priorities and understandings of performance reporting. (MHA, No.49)

Suggested Area 8.B: ***Breakdown of respondents***

Respondent	Total responses	Percentage agreement
Total responses	42	57%
Audit firms, auditors and professional bodies	22	45%
Sector umbrella bodies	5	80%
Individual charity finance directors, staff, trustees and honorary treasurers	13	62%
Funders, users of accounts, academics and think tanks	1	100%
Independent examiners	1	100%

Suggested Area 8.C: *Key Facts Summary*

The analysis of this area is incorporated within the analysis of Question 10 and 11.

Suggested Area 8.D	Answered	Agree	Disagree	No Comment
Reserves definition and guidance	44 (26% of total)	25	19	-
		57%	43%	0%

This area attracted the second lowest level of interest of the four suggested areas for review of the trustees' annual report recommended by the Committee. Reporting on reserves was also included in Section 3.4, within the theme of risk management, and attracted a similar level of interest to the area considered here.

MAIN FINDINGS

A small majority agreed with the area being reviewed as part of the next version of the SORP; however support was varied across the respondent categories. This was in contrast to the feedback from consultation events, where there was support for the area across all categories.

Current definition and SORP requirements are adequate

Both respondents who agreed and those who disagreed with this area being reviewed believed the requirements and guidance offered in the SORP to be adequate. Of those respondents who disagreed with the area being reviewed, more than half felt the current requirement were comprehensive, clear and encouraged charities to report in sufficient detail. Respondents also expressed concerns against any additional requirements being mandated. Five respondents considered maintaining a flexible approach around reporting on reserves to be necessary, given the variety of the sector and the importance of maintaining trustee discretion in this area. Of these, the following response was typical:

Some additional guidance and requirements on reserves would be welcome, but it should contain some flexibility to reflect the fact that charities will approach reserves in different ways. (British Red Cross, No.118)

Demand for additional guidance

Whilst the majority of respondents did not wish for the SORP to add to the current requirements, a quarter felt additional guidance in this area was needed. This was mainly viewed as being provided outside of the SORP and taking the form of best practice examples and example accounts.

Suggested areas for additional guidance and disclosure

Despite the number of respondents who indicated additional guidance in this area would be welcome, very few respondents offered suggestions of what this should cover. Of the four areas suggested in the consultation document, all but one was mentioned by respondents ('*possible reasons for using reserves*').

Suggestions offered outside of these three area were:

- The disclosures of the basis of the calculation of free reserves (Chiene + Tait LLP, No.81) (The Chartered Institute of Public Finance & Accountancy, No.32)

- Disclosures of the breakdown of net assets between different funds (Chiene + Tait LLP, No.81)
- The inclusion or exclusion of particular capital items within reserves (Association of Charitable Foundations, No.104)

One sector umbrella body believed guidance which improved the disclosures made by charities on why reserves are held would assist grant-makers '*making independent and informed decisions regarding who to fund*' (Association of Charitable Foundations, No.104).

Four respondents considered the reporting of charity reserves should be linked with risk, and also integrated with the disclosures around the charity's ability to continue as a going concern. This was noted as being an area where current reporting is weak and greater disclosure should be encouraged.

I would like to see the approach to and policy on reserves linked to the risk section of the Report. In this way, the residual risk facing the charity would be integrated with the reserves held and the link between the two explained. (Paul Gibson, No.152)

Greater guidance should be aimed at linked the reporting around reserves, going concern and risk more closely together. (The Chartered Institute of Public Finance & Accountancy, No.32)

This was also reflected in feedback from funders gathered at consultation events. They identified a need for more clarity around the risk that a charity may face from it's reserves policy. They also highlighted that where charities do have significant unrestricted reserves, it is not clear for what purpose these are being held. In these instances, it was considered helpful to have greater information about the charities futures plans and projections.

Interaction with Charity Commission guidance on reserves

Of those respondents who expanded on the contents of additional guidance, five commented on the current guide *Charity reserves: building resilience* (CC19) produced by the Charity Commission for England and Wales.

There was little consensus between these respondents on how any guidance produced by the SORP-making body should interact between this publication. Some respondents considered CC19 to be adequate in providing charity trustees with guidance on reserves, and suggested that the SORP should cross-reference or integrate this guidance.

One audit firm suggested CC19 could be made into a more practical source of guidance by the addition of examples of the required SORP disclosures.

It would be far better if the guidance provided, such as CC19, actually gave practical examples of how to disclose reserve policies in the accounts, and perhaps highlighted examples in the charity sectors which have good reserves policies. (Price Bailey LLP, No.147)

Another firm thought differences between the requirements of the SORP and CC19 were causing charities difficulties, and believed a review of this area of the SORP was needed.

There is currently tension between the SORP disclosures requirement in this area and the additional guidance published by the Charity Commission in CC19. Any content not explicitly also included as a SORP requirement will often be overlooked by preparers or considered best practice only (and hence not necessarily adopted), whereas the pronouncements of the Charity Commission suggest that it considers the context of CC19 *to be akin to a SORP requirement We therefore do not considered the existence of CC19 to be helpful.* (UHY Hacker Young LLP, No.14)

Suggested Area 8.D: ***Breakdown of respondents***

Respondent	Total responses	Percentage agreement
Total responses	48	54%
Audit firms, auditors and professional bodies	23	48%
Sector umbrella bodies	8	63%
Individual charity finance directors, staff, trustees and honorary treasurers	14	57%
Funders, users of accounts, academics and think tanks	1	100%
Independent examiners	2	50%

Question 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?

The analysis focuses on the two specific areas which respondents were asked to consider:

- **A.** SoFA – more specific definitions of support costs and fundraising costs
- **B.** The mixture in the SoFA between 'revenue' and 'capital' items needs to be considered

Interpretation of responses

Respondents who answered yes to Question 9 were considered to be in favour of both areas recommended by the SORP committee, unless otherwise stated in their response. This approach was also taken with those respondents who negatively answered the question.

Suggested Area/Issue	*Answered*	Agree	Disagree	No Comment
COLLECTIVELY ANALYSED ***9.A*** *SoFA – more specific definitions of support costs and fundraising costs.* ***10/11*** *the SORP might be more explicit in defining administrative and fundraising costs*	140 (81% of total)	29	111	-
		21%	79%	0%

Although discussion of this area was limited at consultation events, it attracted significant written feedback. The large level of interest from charity finance directors and finance staff can be attributed to points 3 and 4 of the conclusion of the response of the Charity Finance Group (No. 151) being included in the majority of responses.

Interpretation of responses

Given their similarity, responses for both areas were collectively analysed. In all cases, respondents who agreed with the suggested area proposed in Section 3.3 (Question 9) also agreed with that proposed in Section 3.4 (Questions 10/11).

To allow the analysis of results, agreement with the following propositions was taken as in 'agreement' with the suggested area:

- More specific definitions of support, fundraising and administration costs
- Separating support, fundraising and administration costs
- Greater guidance on support, fundraising and administration costs

Respondents who answered negatively about the above propositions or suggested dropping these categories of costs were taken to be in 'disagreement'.

Terminology used

SORP (FRS 102) includes 'Expenditure on raising funds' as a separate heading within the Statement of Financial Activities (SoFA), rather than 'Fundraising costs'. Similarly, 'Fundraising Costs' was not included as a heading in the SoFA under SORP 2005, and the following three headings were used:

- Costs of generating donations;
- Fundraising trading costs: cost of goods sold and other costs; and
- Investment management costs.

Therefore, the consultation document used a term which is not consistent with existing SORP terminology.

The disclosure of 'Expenditure on raising funds' is mandatory. Unlike administration and support costs, it is a distinct category of expenditure which cannot be allocated between the different activities undertaken by the charity.

It is acknowledged that the terminology and design of the questions has resulted in respondents offering comments and suggestions which are not directly applicable to this category of expenditure.

MAIN FINDINGS

The majority of respondents did not support more specific definitions or greater guidance on support, fundraising and administration costs and called for the separate accounting of support costs to be dropped. However, support varied across respondent categories.

Separate accounting of support costs

The following text was included in 86 responses:

Abolish the separate accounting of support costs - These add a burden on charities and do not add any value for the reader of the accounts. Support costs are necessary for all operations and separating out support costs feeds an incorrect impression that support costs are a 'bad' piece of expenditure. The SORP making-bodies need to take action.

Outside of this group of respondents, there were four other respondents who called for support costs to be dropped. Of these respondents, two specified that support costs should only be dropped for small charities.

The response of the Charity Finance Group (No. 151) elaborated on the impact that support costs are having on the wider sector.

Ultimately, 'support' is critical to the delivery of charitable activities and should be considered a part of those costs. We recognised that there needs to be a continued focus on improving efficient within the sector, however, this disclosure does not advance that cause – if anything, it undermines the ability of the sector to invest in cross organisational functions which are critical to the sustainability and effectiveness of the charity. As a consequence, it has a negative impact on the charity sector's ability to delivery public benefit and is not in the public interest.

Focus on 'bad expenditure' leading to unfair comparisons

There was resistance over changes that would create an increased focus on 'bad expenditure'. This was noted by 12 respondents who both agreed and disagreed with the proposition. Typical responses were:

…separate disclosures panders to the misunderstanding about "admin" costs being unnecessary and somehow "bad". (World Horse Welfare, No.55)

Support functions are an important part of charities' operations and support costs should not be seen as a negative or a sign of inefficiency. Removing the categorisation may be the only way to address this issue. (British Red Cross, No.118)

Five respondents also warned against the impact of these categories of expenditure being used as a way to compare charities. Any comparisons using these costs were considered unfair and simplistic, and had the potentially to confuse users given the diversity of the sector.

The charity sector is so vast, with organisations providing the same type of services being funded in different ways, so that comparisons between charities are meaningless without explanation. (Price Bailey LLP, No.147)

Some respondents went on to make detailed recommendations as to how this should be addressed. These commonly cited an increased focus on narrative reporting, but also included recommendations for more to be done to educate the public about the role of support costs in charities and to challenge the media portrayal of charities.

Specification and disclosure of fundraising and administrative costs

The following text was included in 68 responses:

Reject calls further details on administration and fundraising costs - Financial disclosures are not the way to improve understanding of charities operations, encouraging and supporting charities to talk about their operations and approach to fundraising through narrative reporting would be better.

Outside of these respondents, differing views were presented across all categories.

The majority against greater specification were charity finance directors and finance staff. They rejected greater specification on the basis of it being too difficult to achieve. Six respondents where doubtful that additional guidance or greater prescription would result in greater consistency in what charities include in these costs. The following response was typical:

It is unlikely that support and fundraising costs could ever be sufficient well defined as to apply in all cases. Any attempt to provide more stringent definitions is likely to lead to increased confusion. (Scottish Churches Committee, No.76)

These concerns found an echo in those respondents who were in agreement and who were calling for 'tighter' definitions.

Both these cost categories could be better defined by the SORP. However, whilst tighter definitions would be welcomed, doing so is unlikely to lead to consistent practice between charities… Even if greater clear is offered by the framework, disparities between the costs included in these categories will remain. (MHA, No.49)

The devil is in the detail here. I write this when the new Fundraising Regulator has just admitted defeat in being able to define a fundraising communication. I don't see how we can expect individual charities to try and decide which of their costs are support and which fundraising if the Regulator can't. In practice this suggestion would cause severe administrative/financial difficulties. (CharityComms, No.133)

Greater specification was also rejected by seven respondents who saw the current definitions in the SORP as adequate and providing sufficient guidance. Of these, one professional body felt any greater specification could contribute to an increased regulatory burden for charities.

…providing greater specification would add to the regulatory burden and we do not see that concerns in this areas would justify this, particularly for smaller charities. (The Institute of Chartered Accountants in England and Wales, No.162)

Greater focus on narrative reporting

Using narrative reporting to provide context to the administrative and fundraising costs incurred by the charity was advocated by the majority of respondents. As previously noted, this was included in the text of 69 responses. However, outside of this group, it was noted by nine other respondents who both agreed and disagreed with this area.

It was believed more could be done to encourage charities to explain their spending within the trustees' annual report. Narrative reporting could give greater context and clarity to a charity's expenditure, linking it to the organisation's overall activities and aims.

One audit firm outlined how this could also be achieved for support costs through an expenditure note which '*shows how costs are incurred and how they support the activities of the charity*' (Sayer Vincent LLP, No.153). An example of this note was given as an appendix to their response.

Guidance on the allocation of support costs

The need for greater guidance and disclosures around how a charity allocates support costs was highlighted in eight responses. Of these, half were audit firms. Respondents saw the methods and bases being used by charities to allocate and apportion support costs across other categories as inconsistent given that they were subject to a large level of judgement. Many saw this as a more significant issue than the areas identified in the consultation document

Most of our charities are required to do some sort of subjective allocation of these costs which are then given key prominence in the financial statements – but are essentially someone's view rather than objective reality. Our view is that this decreases the quality of reporting. (Scott-Moncrieff, No.161)

The result [of allocation] *is often arbitrary and the basis used is not well explained or evidenced. We would support the issuance of guidance on how support costs should be allocated and apportioned and how appropriate approaches can be developed.* (BDO LLP, No.164)

OTHER COMMENTS

Fundraising costs

Despite fundraising costs being included in both areas of the consultation document, there were only seven respondents who offered specific comments on this category of expenditure. The majority of responses focused on support and administration costs, or included fundraising costs in the context of these other cost categories.

Of those respondents who offered specific comments, two respondents felt that charities were experiencing no difficulties in identifying fundraising costs. However, three respondents called for more specification around the definition of fundraising costs. These included two respondents who noted the importance of this cost category in light of the introduction of the voluntary levy to be collected from charities in England and Wales by the Fundraising Regulator.

Diverse practices preventing comparison

The main reason cited by respondents calling for greater guidance and specification of support, fundraising and administration costs was to reduce diverse practices which exist amongst charities. Six respondents believed that the current lack of consistency is preventing meaning comparisons between charities. This reason was most common amongst audit firms in agreement with the area.

"Support costs" are to some degree subjective, and we agree that this in turn leads to inconsistency and difficulty interpreting and comparing different sets of accounts for charities that may be very similar. (Chiene + Tait LLP, No.81)

Greater breakdown and disclosures of costs

Whilst the consultation text did not propose greater disclosures of support, administration or fundraising costs in the accounts, this was noted by four respondents.

Overall, any detailed breakdown or additional notes detailing the costs including these expenditure categories was rejected. Many of respondents acknowledged that despite the public interest in the level and type of costs being incurred by charities, increased disclosures were not needed. There was scepticism over whether this information would be looked at by users, and fears over the potential commercial disadvantage created by providing this level of detail. Others noted the increased cost and length of charity accounts if charities are required to provide this information.

Requiring more and more information simply increases the burden of producing it at the expense of beneficiaries…Charites already include greater detail in their annual reports and accounts about the public benefit they provide and how they spend their money. Having enhanced reporting requirements will make little to no different for the public who are by and large unfamiliar and unlikely to access information from regulators who most people don't know exist. (Directory of Social Change, No.158)

While we understand public interest in this issue we do not believe that administrative and fundraising costs should be itemised in the financial statements… It is difficult to see how more detailed requirements in this area would result in meaning insight for users of the accounts. (The Institute of Chartered Accountants in England and Wales, No.162)

Suggested Area 9.A: ***Breakdown of respondents***

Respondent	Total responses	Percentage agreement
Total responses	140	21%
Audit firms, auditors and professional bodies	23	48%
Sector umbrella bodies	11	36%
Individual charity finance directors, staff, trustees and honorary treasurers	102	12%
Funders, users of accounts, academics and think tanks	2	100%
Independent examiners	2	0%

Suggested Area 9.B	*Answered*	Agree	Disagree	No Comment
The mixture in the SoFA between 'revenue' and 'capital' items needs to be considered	52 (30% of total)	22	30	-
		42%	58%	0%

As with the pervious area, this topic attracted limited discussion at consultation events. However, there was a strong level of interest in the area within the written feedback, especially from audit firms and professional bodies.

MAIN FINDINGS

The majority of respondents did not support this area being reviewed in the next version of the SORP, however, this varied between categories. There was strong support amongst sector umbrella bodies (70%). This compares to only a third of audit firms, professional bodies and individual charity finance directors, staff, trustees and honorary treasurers.

REASONS FOR AND AGAINST

Confusing and complex for users

Those that supported the area being reviewed considered current practice as confusing and problematic. Respondents saw the fluctuations in the surplus/deficit of the charity as distorting and not clear to the users of accounts.

Adequately addressed in the SORP

Around half of those respondents who did not support this area felt the current SORP and accounting standards allow charities to adequately report on capital funding. Of those happy with the current framework, the following were typical:

We do not support any change in the treatment or disclosure of capital funding on the SOFA. The already exists the ability to explain apparent anomalies in the TAR and the notes to the accounts. (World Horse Welfare, No.55)

As the issue was considered to be resolved within the existing framework, significant changes in this areas were not supported. (MHA, No.49)

The following provides a summary of the methods given by respondents on how they currently report on capital funding:

- Statement of cash flows
- Creation of designated funds
- Additional rows in the SOFA
- Explanation in the notes to the accounts, by linking the accounting treatment to the reserves/fund disclosures
- Explanation in the Financial Review

Changes will cause greater confusion

There was some concern from audit firms that attempts to provide more clarity around capital reporting would achieve the opposite. Respondents saw the solutions offered in the consultation document as potentially adding greater clutter to the accounts.

Bringing in an extra layer of capital funding versus income could become unduly complication and provide less clarity for users of the accounts. (Saffery Champness, No.140)

… we are not convinced that additional SoFA disclosure and/or SORP guidance will rectify the issue. (HUY Hacker Young LLP, No.14)

Understood by funders

Two respondents questioned the extent to which the current accounting treatment for capital funding was confusing from a funder's perspective, as stated in consultation document.

We find the suggestion in the document that 'funders find it difficult to assess the ongoing surplus/deficit of the charity' quite bizarre. Charitable foundations, as charities themselves, should be intimately familiar with charity balance sheets and accounting practices – particularly where revenue or capital grants are concerned. (Directory of Social Change, No.158)

… for many charities, the key users of the accounts will be funders who have a better understanding of the charity accounting principles, and hence will usually be unaffected by the impact on the SoFA resulting from current accounting principles. (HUY Hacker Young LLP, No.14)

This was not explicitly discussed within feedback from funders gathered at consultation events. However, funders did acknowledge that time does have to be spent 'drilling down' into the detail of accounts to interpret a charity's financial position.

PROPOSED SOLUTIONS

There was a range of solutions proposed by respondents on how the issues around reporting on capital funding could be addressed. These were offered by both those who agreed and disagreed with the area.

Respondents who did support the area

The most common solution given by these respondents was the creation of a designated fund equal to the net book value of the unrestricted assets to highlight how much is tied up in capital items. This was followed by having an additional column in the SoFA for capital items. Both of these solutions were offered in the consultation document.

Two respondents suggested recognising capital funding over the life of the asset (matching) or showing capital funding and the associated expenditure 'below the line'.

Respondents who did not support the area

Over a third of those respondents who did not support the area detailed potential ways in which the issue could be overcome. The most common suggestion was for greater guidance for preparers to on how to report on capital funding more clearly within the SoFA, trustees' annual report and notes to the accounts.

Another common suggestion was the creation of a new descriptor for income on the face of the SoFA for income received for the purchase of fixed assets. One audit firm observed separately disclosing material capital funding was allowed under the underlying accounting framework and should be emphasised within the SORP.

The SORP could also highlight the fact that FRS 102.5.9A allows an entity to disclose an item which is material, separately on the face of the statement of comprehensive income or the notes. This may aid those charities which have significant fluctuations arising due to material capital funding. (Grant Thornton UK LLP, No.52)

Other solutions from respondents which did not feature in the consultation document included:

- Creation of a separate reserve category for capital funding: '*funding received for expenditure in future years'* (British Council, No.126)
- A five year summary showing ongoing results (Cancer Research UK, No.142)
- Creation of two primary statements which separate unrestricted and restricted activities to help funders understand the operating performance of the charity's funds (haysmacintyre, No.148)
- Charities being able to develop their own additional financial statement (Cancer Research UK, No.142)

There was little appetite amongst this group of respondents for an additional column in the SoFA. Over a third of respondents believed this proposed solution would increase the complexity of the statement and/or confuse readers.

Suggested Area 9.B: ***Breakdown of respondents***

Respondent	Total responses	Percentage agreement
Total responses	52	42%
Audit firms, auditors and professional bodies	22	27%
Sector umbrella bodies	10	70%
Individual charity finance directors, staff, trustees and honorary treasurers	16	31%
Funders, users of accounts, academics and think tanks	2	100%
Independent examiners	2	100%

Question	
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, or if you do not support any of these suggested themes, please give your reasons as to why not?*
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 do not support any of these suggested issues, please identify the issues that need to be addressed and explain your reasons why?*

The analysis focuses on the six specific themes which respondents were asked to consider:

- **A.** Making a difference for the public benefit
- **B.** Risk management
- **C.** Going concern
- **D.** Enhanced analysis of expenditure
- **E.** Disclosure of who funds a charity
- **F.** Disclosure of key facts

Interpretation of responses

The approach to interpreting the responses for each themes differs, and is explained in more detail within the analysis. The approach was tailored dependent on the number and variety of suggested issues within the theme, and the level of responses generated.

Theme 10.A: making a difference for the public benefit

<table>
<tr><th>Theme 10.A</th><th>Answered</th><th>Agree</th><th>Disagree</th><th>No Comment</th></tr>
<tr><td rowspan="2">Making a different for the public benefit</td><td rowspan="2">49 (28% of total)</td><td>30</td><td>19</td><td>-</td></tr>
<tr><td>61%</td><td>39%</td><td>0%</td></tr>
</table>

This theme attracted a low level of interest compared with the other five areas suggested by the charity regulators for review. This was also the case at consultation events where discussion of this theme was limited.

Within the written feedback, respondents offered few comments on the two specific issues identified in the consultation document for attention in the next SORP. This is reflected in the analysis of each issues which is given below.

Interpretation of responses

Only respondents who offered comments specific to these issues were included in the analysis. This was done to accommodate the large number of general comments on the theme compared to small number of specific comments on the suggested issues.

<table>
<tr><th>Specific issue</th><th>Answered</th><th>Agree</th><th>Disagree</th><th>No Comment</th></tr>
<tr><td rowspan="3">A greater emphasis on reporting public benefit reflected in a requirement that the report explains who the charity helps. All charities could be explicitly asked to explain who the beneficiaries are that the charity seeks to serve.</td><td rowspan="2">12 (40% of total in agreement)</td><td>12</td><td>-</td><td>-</td></tr>
<tr><td>100%</td><td>0%</td><td>0%</td></tr>
<tr><td colspan="4">Of those that did not support the theme, an addition 3 specifically stated their disagreement with this issue.</td></tr>
<tr><td rowspan="3">Whether the beneficiaries are involved in service design. Charities could explain how the charity’s beneficiaries were involved in identifying the significant activities to be undertaken and the nature of those activities.</td><td rowspan="2">9 (30% of total in agreement)</td><td>3</td><td>6</td><td>-</td></tr>
<tr><td>33%</td><td>67%</td><td>0%</td></tr>
<tr><td colspan="4">Of those that did not support the theme, an additional 5 specifically stated their disagreement with this issue</td></tr>
</table>

MAIN FINDINGS

The majority of respondents supported greater consideration of this theme in the next SORP. However, there was mixed support for this theme amongst attendees at consultation events.

Support for a common approach across jurisdictions

Of those in support of the theme, four respondents welcomed a uniform approach being established for public benefit statements across jurisdictions, as was suggested in the consultation document. However, a contrary viewpoint was provided by one audit firm who saw this being outside the remit of the SORP.

Where there are different reporting requirement in different jurisdictions, charities should make reference to those requirements rather than the SORP being perceived as covering all charity reporting requirements (RSM UK Audit LLP, No.100)

Support for greater transparency and clarity around public benefit

The majority of respondents in support of the theme considered having greater guidance in the SORP on public benefit reporting as necessary to bring up the standard of disclosure in this area. Four respondents felt current reporting in this area was poor, varied and too general to be of any use to the users of accounts. Respondents believed that greater transparency and context around charities' public benefit could be achieved by having a clearer definition of public benefit and more specific requirements. Of these respondents, the following was typical:

We agree that the SORP would benefit from clarification of the approach that charities can report on how they have achieved public benefit. Research by the Charity Commission and our experience with charities indicate that charities are still not reporting on public benefit as well as they should. (Charity Finance Group, No.151)

Integration with other narrative reporting

Another common theme amongst those in support of the area was the greater integration between public benefit reporting and other areas of the trustees' report. Respondents from across the categories saw benefits in linking public benefit reporting to the organisation's charitable activities, objectives and impact. This would help provide context to the charity's public benefit, and prompt charities to consider this aspect of reporting from a wider perspective.

We would rather see encouragement to report public benefit as part of the TAR by linking together the charity's purpose, activities, and achievements to actually show how the charity spends funds for the public benefit. A good TAR should be able to show public benefit without needing a statement from the trustees that they have regard to guidance. (Scottish Charity Finance Group, No.155)

This idea was also considered by one audit firm which was against any additional disclosures in this area. They advocated this requirement being incorporated in existing disclosures to avoid repetition within the trustees' annual report.

Public benefit statements often result in duplication and repetition of the other narrative reporting disclosures as there is a requirement to separately identify and disclose information under this heading. We feel that it should just be a requirement that the *purpose, activities and plans for the future encompass the need to reflect that they are for the public benefit and that there should be no need separate additional disclosures.* (Price Bailey LLP, No.147)

This was also reflected in the feedback from funders at consultation events. There was a consensus that greater reporting in this area would be useful to have. It was hoped that charities would cover this area in sufficient detail in the trustees' annual report to avoid additional information having to be requested by funders.

Disclosure beyond those suggested by the regulators

Three respondents made suggestions for specific public benefits disclosures which were different to those offered in the consultation document. Two respondents felt reporting on public benefit should be mandatory for all charities, given how inherent the concept is for all charitable organisations. Two of the proposed disclosures aimed to link reporting in this area more closely to the charity's activities and impact, as suggested by three other respondents:

…the current boiler plate statements that are often used to explain that the trustees have considered public benefit be replaced with a description and explanation of how the charity delivered public benefit and how the charity knows it has an impact in delivering this. (Sayer Vincent LLP, No.153)

Current public benefit reporting requirements should be enhanced and our suggestion would be for the Trustees report, if they require a narrative reporting that mirrors the SOFA activity headings, to include this information in the performance section of the TAR to express how delivering that activity has led to public benefit. (haysmacintyre, No.148)

Reasons against further consideration of the theme

Current requirements are sufficient
There was a range of reasons given by respondents who did not agree with the theme. Three respondents believed the current SORP requirements are adequate and provided sufficient detail. Three other respondents believed that public benefit reporting was covered already in other areas of the SORP, and through other reporting requirements.

Additional prescriptive disclosures are unsuitable
Four respondents acknowledged that public benefit reporting was important, but disagreed against any additional requirements. Taking a prescriptive approach to public benefit reporting was seen as unsuitable. Two respondents advocated against any mandatory disclosures, and believed the SORP should only encourage greater reporting in this area.

Impractical for certain charities
Three respondents explained the difficulties encountered by certain charities in specifying their beneficiaries, and the cost implications of doing so. This was also viewed as a potential barrier for any greater disclosures in this area by attendees at consultation events.

Often these respondents linked reporting on public benefit to proving the charity's impact. Charities specified included charities involved in grant making, foundations and religious charities.

Small grant givers often fall within the definition of larger charities… forcing them to provide the public benefit of their grant giving could be difficult. (UNW LLP, No.146)

… a church whose aims are generally broader would see potential beneficiaries everywhere that it serves and therefore would be unable to provide a focussed and meaningful group of beneficiaries. (Stewardship, No. 144)

Concerns over the impact of additional disclosure on users and charities
Three respondents saw additional reporting around public benefit as providing little value to the users of accounts. Of these respondents, two sector umbrella bodies highlighted concerns about the disclosures being inconsistently interpreted by user which may contribute to unfair comparisons of charities with different beneficiaries.

Disclosure of whether beneficiaries are involved in service design

The majority of respondents who offered comments on the involvement of beneficiaries in service design where not in favour of this disclosure. Of the three respondents who supported the suggested disclosures, two specified that it should not be mandatory.

There was extensive criticism of the disclosure only being applicable to those charities involved in service delivery. Three respondents also felt the suggested issue presumes involving beneficiaries is feasible, valuable, appropriate and best practice in all cases. Of those against the disclosure, the following responses were typical:

…the statement makes a number of assumptions about the nature of charities, such as a) they all provide services b) there always can be a clear connection between the impact of a service and a specific beneficiary c) beneficiaries are human d) beneficiaries are for whatever reason able to contribute to service design. (Directory of Social Change, No.158)

… commenting specifically on the inclusion of beneficiaries in service design may give rise to the assumption that a lack of involvement represents a deviation from best practice, whereas in some circumstances it may be wholly inappropriate for beneficiaries to have such a level of involvement. (UHY Hacker Young LLP, No.14)

Two sector umbrella bodies saw the suggestion as an attempt to prescribe the involvement of beneficiaries in service design by charity regulators. They questioned the appropriateness of the SORP being used to influence how charities develop and deliver their services.

Theme 10.A: ***Breakdown of respondents***

Respondent	Total responses	Percentage agreement
Total responses	49	61%
Audit firms, auditors and professional bodies	22	64%
Sector umbrella bodies	12	50%
Individual charity finance directors, staff, trustees and honorary treasurers	12	58%
Independent examiners	2	100%

Theme 10.B: Risk management

Theme 10.B	*Answered*	Agree	Disagree	No Comment
Risk management	48 (28% of total)	24	23	1
		50%	48%	2%

This theme attracted the lowest level of interest compared with other five suggested by the charity regulators for review. This was also the case at consultation events where discussion of this theme was limited.

Interpretation of responses

The analysis of those general comments given by respondents on this theme is included below.

Within the written feedback, respondents commonly offered specific comments on each of the four specific issues suggested in the consultation document (Page 12). Subsequent analysis is structured around each of these issues, given the dissimilarities between each. Only respondents who offered comments specific to these issues is included in the analysis of the four issues.

MAIN FINDINGS

Support for greater consideration of this theme in the next SORP was split. There was also mixed support for this theme among the three main respondent categories. The majority of charity finance directors and staff supported the theme, whereas audit firms and sectors umbrella bodies did not.

Current requirements are sufficient

Respondents who did not support the theme commonly noted the adequacy of the existing requirement. The requirements and guidance around risk management were seen as clear and succinct by 12 respondents. It was felt that introducing any additional reporting duties in this area would be burdensome for charities, leading to additional costs, and result in boilerplate disclosures.

Two audit firms did not feel that the issues suggested were appropriate for inclusion in the trustees' annual report. They believed the additional information would be better placed in a different document, with one firm suggesting the annual return. The content of the annual return was also noted by another respondent who saw the requirements in this document currently being at odds with the approach taken in the SORP (Association of Church Accountants and Treasurers, No.38).

Two respondents commented on the impact that the current requirements are having on charity boards since introduced in the SORP. However, in both cases these respondents did not advocate any additional disclosures above what was already required.

The increased focus and disclosures around risk in SORP (FRS 102) were recognised as being positive and the current requirements appropriate. It was acknowledged the requirement for risk management statements to be prepared by the largest charities had *raised the profile of risk within board. As a consequence of requirement greater disclosures around risk, trustees were devoting more time to discussing this area.* (MHA, No.49)

Demand for guidance and examples

Both respondents who agreed and disagreed with this area expressed a need for greater guidance. Guidance which helps preparers understand expectations and how the existing requirements could be met was considered of greater benefit than greater prescription around the disclosures of risk. This was most commonly suggested as being through example or best practice accounts and guidance notes.

Three respondents noted that general guidance in this area does already exist, and the extent to which this should be provided by the SORP making body. This was echoed in the response of one sector umbrella body who specified guidance from the regulator in their response.

Guidance from the regulator should be used to improve risk management rather than asking for further declaration from the SORP. (Charity Finance Group, No.151)

OTHER COMMENTS

Extending requirements around risk to all

Two respondents believed the current SORP requirements should be extended and made mandatory for all charities. The disclosures were considered to be valuable for smaller charities, where the management of risk is crucial but practice remains varied.

However, other respondents were wary of any further requirements being placed on small charities. Four respondents believed additional requirements in this area should be only for large charities. One sector umbrella body considered any additional requirements could be potentially counterproductive for smaller charities, given their limited resources.

On risk management, we are concerned about any further reporting duties being overwhelming for small charities and not supporting their intended outcome of strengthening financial controls. (Small Charities Coalition, No.172)

Linkage between risk, reserves and going concern

Four respondents noted the interaction between risk, reserves and going concern – which exist as separate areas within the SORP. It was suggested that the link between these areas should be made clearer in the recommendations of the SORP and in any guidance produced. This would encourage charities to report on risk in the context of their current resources and financial sustainability. One charity believed doing so would '*give a more holistic picture that would enable users to better understand a charity's position*' (British Council, No.126).

One respondent also warned that the crossover between these three areas meant that care would have to be taken to avoid any duplication in the content of the suggested disclosures (Association of Accounting Technicians, No.17).

Theme 10.B: *Breakdown of respondents*

Respondent	Total responses	Percentage agreement
Total responses	48	50%
Audit firms, auditors and professional bodies	23	43%
Sector umbrella bodies	11	36%
Individual charity finance directors, staff, trustees and honorary treasurers	12	67%
Independent examiners	2	100%

Suggested Issue 10.B.1	*Answered*	Agree	Disagree	No Comment
Whether all charities be required to advise if the reserves are sufficient to avoid service disruption to the charity's beneficiaries.	8 (33% of total in agreement)	3	4	1
		38%	50%	13%
	Of those that did not support the theme, an addition 5 specifically stated their disagreement with this issue.			

MAIN FINDINGS

The majority of respondents were not in favour of this issue being reviewed in the next SORP. This was seen across all three main respondent categories.

Not applicable to all charities

Three respondents who disagreed with the issue considered it to be only applicable to those charities directly involved in service delivery. One audit firm used the example of a grant making charity, which funds different project on an annual basis. They believed the notion of 'disruption' to this charity's beneficiaries was 'irrelevant' (Lieberman and Co, No.2).

Doubts over the benefit of increased disclosure

Respondent across the categories expressed concerns over the value of the disclosure. It was believed that requiring all charities to provide assurance over the continuation of their service would prompt very few negative responses and result in a 'boiler-plate' statement. Of these respondents, the following was typical:

We do not see how asking trustees to advice if reserves are sufficient in anyway alters their existing responsibilities or provides readers with any additional level of assurance. We consider responses provided would be formulaic and broadly meaningless. (Stewardship, No.144)

Service disruption as characteristic of the sector

Four respondents were doubtful of the suitability of the disclosure given the unpredictable nature of funding in the charity sector. It was acknowledged that it is common for there to be a risk of service disruption within many charities depending on their business model. One respondent considered the impact of this uncertainty being brought to the reader's attention:

Furthermore, for smaller charities, there may be a natural level of "service disruption" as funding fluctuates and therefore disclosure of this may create a needlessly negative or alarming response. (Stewardship, No.144)

Another respondent was critical of the SORP requiring trustees to provide assurance over the charity's ability to continue given that reserves policy differ between charities depending on their circumstances. They noted that some charities reserves are based on the amount required to 'wind-up'. For these charities, the number of months which service delivery could be maintained is inappropriate.

It simply isn't reasonable or possible to legislate for a charity's continuing existence with a reserves policy (unless that policy includes a map for buried treasure or a packet of seeds for a money tree). (Directory of Social Change, No.158).

One respondent acknowledged both the difficulty of providing assurance and the degree uncertainty which exists in the sector. As a result, they believe the requirement should aim to identify more significant situations where there is the possibility of failure.

…the matter of 'advising if reserves are sufficient to avoid service disruption' may be a very high bar to achieve for all but the largest charities. Given it is likely that the majority of charities have experiences some service disruption due to reserves, the focus should be more on identifying the likelihood of more catastrophic outcomes. (Association of Accounting Technicians, No.17)

Suggested Issue 10.B.2	*Answered*	Agree	Disagree	No Comment
Whether all charities be required to explain what assurance they have that the charity's internal financial controls are operating effectively and state when they last carried out a review of the effectiveness of internal financial controls.	8 (33% of total in agreement)	5	3	-
		63%	38%	0%
	Of those that did not support the theme, an addition 5 specifically stated their disagreement with this issue.			

MAIN FINDINGS

The majority of respondents that offered specific comments on this issue were not in favour of the suggested disclosure.

Of those respondents who supported the theme and offered specific comments on the issue, the majority supported it being reviewed in the next SORP. However, of those who did not support the theme, 5 respondents specifically stated that the suggestion should not be included in the next SORP.

Reasons against additional disclosures

As with other issues included within the theme, respondents were concerned that any additional disclosures would result in a meaningless, 'boiler plate' statement about the charity's internal financial controls. Those against the issue believed this would be of minimum benefit to the reader of the accounts and offer little insight or understanding into the level of assurance obtained and strength of the charity's controls.

Three respondents suggested the disclosure should be limited to only larger charities, rather than all charities. Another saw the issue as more suitable for inclusion in the charity's annual return, given the regulators interest in this area.

Role of auditors in providing assurance

Both respondents who agreed and those who disagreed with the issue mentioned the role of the charity's external auditor or independent examiner. Two respondents considered the disclosure as unnecessary, given that assurance over this area will be provided by the charity's auditor.

Any charity other than a small charity which does not need even an internal examination will automatically have some sort of overview form the external reviewer or auditors of these controls and just adding an extra layer of reporting does not seem to be correct. (Lieberman and Co, No.2)

In the case of charities above the audit threshold (such as Kids Company) is that not the auditors' job? In the case of those below, whose job should it be? (Directory of Social Change, No.158)

Two respondents believed the requirement could result in additional costs for some charities that would have to pay for independent assurance over the organisation's financial controls.

…consideration needs to be given to the cost implication of these for smaller charities if there is going to be requirement for periodic reviews of financial controls. (Progress Housing Group, No.44)

Reflecting on the impact of the requirement for smaller charities, one respondent warned of the potential difficulties which will be encountered by independent examiners who will have to consider the trustees' level of assurance in examining the trustees' annual report and accounts.

If independent examiners are being asked to further consider the trustees' level of assurance, the additional work (meaning additional cost) will be required of the independent examiner over and above that required to date, particularly in instances where the independent examiner does not readily share the level of assurance held by the trustees. Furthermore, many independent examiners are unlikely to have sufficient experience to make consistent judgement calls of this nature. (Stewardship, No.144)

Useful prompt

Three respondents believed the disclosure would be a valuable reminder for charities and their trustees regarding their responsibilities and encourage good practice in this area. Of these, one audit firm thought the suggested requirement would confirm the practice that should already exist within the charity.

We think the processes that charities go through to identify, monitor and manage risks would be a helpful addition and merely confirms what they are actually doing (Or not doing!). (haysmacintyre, No.148)

Suggested content of disclosure

The following suggestions for the form and content of the disclosure were given by respondents:

- Require a 'statement of internal control' of the very large charities (Grant Thornton UK LLP, No.52).
- Stating which areas have been covered/reviewed each year (Nick Kavanagh, No.6)

Suggested Issue 10.B.3	*Answered*	Agree	Disagree	No Comment
Larger charities be required to explain how the charity manages the risk of fraud and whether fraud is an item on the corporate risk register.	6 (25% of total in agreement)	5	1	-
		83%	17%	0%
	Of those that did not support the theme, an addition 2 specifically stated their disagreement with this issue.			

This issue received the lowest level of interest compared with the other issues within this theme.

MAIN FINDINGS

Of those respondents who supported the theme and offered specific comments on the issue, the majority supported it being reviewed in the next SORP.

Recognition of the risk of fraud

The risk of fraud in the charity sector was recognised as being important by both respondents who agreed and disagreed with the issue. However, contrasting views where presented on whether additional disclosures would help alert charities to the issue, and if this could be achieved by the regulator in a different way.

… fraud is generally an under-recognised and under-reported issue and this would help to raise the profile of fraud risk and prompt charities to put adequate consideration and resources into tackling fraud. (British Council, No.126)

The contrary viewpoint:
While CFG recognised the importance of countering fraud within the sector, we are concerned that this method could be ineffective and again provide boilerplate responses. We recommend that regulators do more to engage with the sector, and representative bodes, to raise the issue of fraud up the agenda within charities and provide charities with the support that they need to combat fraud – with guidance on how to report publically on their efforts to combat it. (Charity Finance Group, No.151)

Doubts over the benefit of increased disclosure

Two audit firms questioned the value of the suggested disclosure, and warned against it becoming a boiler-plate statement provided by all charities.

…the benefits of larger charities stating whether fraud is an item on their risk register are unclear. In fact, this may just become to be seen as a necessary accounts disclosure. (Goodman Jones LLP, No.136).

One firm believed it would be unlikely that any charity would provide a statement that the risk of fraud was not on their risk register.

Irrelevant as all charities have the risk of fraud on their register. If there did not there is something wrong. Again no-one would answer this in the negative. (haysmacintyre, No.148)

Concerns of adverse impact of disclosure

Two charities considered there to be a potential danger that charities could become targets of fraud if required to disclose how the risk of fraud is managed.

…the inclusion of additional detail could actually increase the risk of a charity being the target of fraudsters. (Church of Scotland, No.27)

… it is important that good guidance is provided so that in meeting this requirement charities are not inadvertently aiding potential fraudsters by providing information which may provide useful to them. (Stewardship, No.144)

Suggested Issue 10.B.4	*Answered*	Agree	Disagree	No Comment
Larger charities be required to explain how the charity ensures effective governance arrangements are in place to identify and manage conflicts of interest, ensure sound decision-making, and ensure adequate oversight of decisions delegated to staff.	9 (38% of total in agreement)	8	-	1
		89%	0%	11%
	Of those that did not support the theme, an addition 2 specifically stated their disagreement with this issue.			

As with other issues within this theme, there were relatively few comments offered by respondents specific to the issue.

MAIN FINDINGS

Of those respondents who supported the theme and offered specific comments on the issue, the majority supported it being reviewed in the next SORP.

Key area of interest

Of those respondents who agreed with the issue, half considered governance arrangements to be of great interest and importance to the users of the accounts. This was also reflected in feedback from funders gathered at consultation events, calling for the SORP to focus on governance, rather than look at reporting from a purely financial perspective.

Four respondents made suggestions about how the disclosures around governance arrangements could be taken further. Two audit firms believed the suggested disclosures should be required of all charities, not just larger charities. The other respondents felt there should be greater requirements for large charities in relation to their compliance with a code of governance and offered suggestions of appropriate codes.

Whilst this would be an additional burden for charities, the largest already look to the best practice on governance, for example The UK Corporate Governance Code as far as it is applicable to a charitable entity. (Grant Thornton UK LLP, No.52)

The charity's adherence to the recommendations of the revised Code of Governance would be an important indicator that effective governance arrangements are in place. (National Council for Voluntary Organisations, No. 171)

Current requirements are sufficient, greater guidance needed

Those who disagreed with the issue saw the current requirements as satisfactory. One sector umbrella body questioned the benefit of having additional disclosures and warned against any mandatory disclosures only lengthening the trustees' report. Another considered the suggested disclosures as being only suitable for the largest charities and called for additional guidance for charities rather than additional disclosures

Perhaps rather than reporting on these there could be additional guidance and a list of policies that charities should have – with some additional pointers to best practice for different sizes of charities. (Scottish Charity Finance Group, No.155)

Theme C: going concern

Theme 10.C	*Answered*	Agree	Disagree	No Comment
Going concern	48 (28% of total)	23	23	2
		48%	48%	2%

This theme attracted a similar level of interest from respondents compared to the first two themes suggested by the charity regulators. The theme was well debated at consultation events, where it attracted strong levels of feedback from a range of attendees.

Interpretation of responses

The analysis of those general comments given by respondents on this theme is included below.

Within the written feedback, respondents commonly offered specific comments on each of the four specific issues suggested in the consultation document (Page 13). Subsequent analysis is structured around each of these issues, given the dissimilarities between each. Only respondents who offered comments specific to these issues is included in the analysis of the four issues. This was done to accommodate the large number of general comments on the theme compared to small number of specific comments on the suggested issues.

MAIN FINDINGS

Consideration of this theme in the next SORP was broadly supported by attendees at consultation events. This contrasts with the support for the theme amongst written responses, where the results were divided. However, within the individual respondent categories, audit firms and professional bodies expressed stronger levels of support for the theme compared to sector umbrella bodies and charities.

Of those respondents who did support the theme, there was support for all four of the specific issues identified. More general comments were provided by respondents who did not support the theme being considered in the next SORP compared to those that did.

Reasons for further consideration of the theme

Three respondents acknowledged that current reporting by charities in this area was poor and saw benefits from more information being provided and greater consistency in disclosures. Of those in support of the theme, the following was typical:

We do, however, accept that going concern is a real issue and would accept more prescription in this area. (Charity Practitioners Forum, No.58)

However, four respondents who supported the theme noted that guidance rather than greater prescription in this area was needed. It was felt that increased requirements could lead to 'boilerplate' statements which contain little specific information. One respondent suggested that reporting on specific issues should be required on a '*by exception only'* basis (British Red Cross, No.118).

Current requirements are sufficient

The most common reason cited by those who were not in support of the theme was the adequacy of the current requirements. These requirements were considered to be appropriate and required charities to report a sufficient level of detail. One audit firm also noted satisfaction with current levels of adherence in this area of reporting:

We do not believe that this area requires significant change as charities are already following these requirements. (Grant Thornton UK LLP, No.52)

One professional body believed that the current requirements are sufficient, but the disclosures contained within FRS 102 could be better highlighted and links made to the '*existing disclosures about risk, uncertainties and reserves'* (The Institute of Chartered Accountants in England and Wales, No.162).

Reasons against additional disclosure requirements

Respondents offered a number of explanations on why greater disclosures in this area would not be appropriate. As noted previously, three respondents were concerned that greater reporting requirements would result in 'boilerplate' disclosure which would provide little value to the users of the accounts. Others were concerns that additional requirements would increase the reporting burden and be onerous for charities. One respondent also questioned the practicalities of requiring greater disclosures, and the extent to which charities would provide this information.

I think it's completely impractical to imagine that any charity will ever admit they aren't a going concern. They know it would be the kiss of death. (CharityComms, No.133)

Several other respondents considered the impact of greater disclosures on charity trustees and the wider sector. Two respondents believed that if the SORP placed too much focus on this area it may result in trustees' hoarding reserves. Another respondent warned against directing trustees' attention to this area unnecessarily noting an increased focus in this area was not warranted given the general trends in the sector.

…by continuing to raise its ["going concern"] *profile (perhaps above what is necessary given the very low failure rate in the sector that we serve) trustees and examiners will be inadvertently encouraged to see "going concern" issues where either none exist, or the possibility that they may occur is remote. Any guidance needs to be clear, as a raised concern will often be a self-fulfilling prophecy.* (Stewardship, No.144)

One sector umbrella body was concerned about the impact of charities having to consider a timeframe greater than 12 months in their assessment of going concern, as is now required for UK listed companies. This was viewed as potentially damaging as '*many small charities exist on annual or short term grants and could all be "caught" by this requirement and appear to give to the reader of the accounts the erroneous impression that they are in financial difficulty.'* (Association of Charity Independent Examiners, No.101)

Increased guidance on going concern

Eight respondents saw a need for greater guidance in this area rather than increased mandatory disclosure. Respondents most commonly felt that this should be aimed at charity trustees. The following suggestions were given for what general topics should be covered by guidance:

- An explanation of the fundamental concept of 'going concern'
- An explanation of the board's responsibilities in making an assessment of 'going concern'
- An explanation of the auditor's role in the 'going concern' assessment
- Encouraging trustees to spend more time on making their assessment of 'going concern'
- Guidance on how to discuss 'going concern' in the trustees' annual report

One umbrella body considered greater guidance was needed for auditors not trustees. The issues in this area were considered to fall on the role of the auditors, rather than charities themselves.

…the real challenge resides in the unwillingness of auditors to give qualified accounts. There is a concern that auditors are not being rigorous in their approach then steps should be taken to improve and increase guidance for auditors, not charities. (Charity Finance Group, No.151)

This issue was also highlighted by funders at consultation events, where concerns were raised about how closely auditors look at this area, and the practices which they use to do so.

Theme 10.C: ***Breakdown of respondents***

Respondent	Total responses	Percentage agreement
Total responses	48	48%
Audit firms, auditors and professional bodies	22	55%
Sector umbrella bodies	12	42%
Individual charity finance directors, staff, trustees and honorary treasurers	12	42%
Independent examiners	2	50%

Suggested Issue 10.C.1	*Answered*	Agree	Disagree	No Comment
All charities could be required to explain why the charity is a going concern.	8 (35% of total in agreement)	6	2	-
		75%	25%	0%
	Of those that did not support the theme, an addition 1 specifically stated their disagreement with this issue.			

There were limited comments offered by respondents specific to this issue.

MAIN FINDINGS

Of those respondents who supported the theme and offered specific comments on the issue, the majority supported it being reviewed in the next SORP.

Those who did not support the issue believed that it was unreasonable for charities to go beyond the requirements of companies in this area. One respondent noted the difficulty in assessing longer-term viability of charities which are awarded the majority of their funding on an annual basis. One respondents also believed the requirement was already covered in the SORP under paragraph 3.38.

This issue was supported by funders at consultation events, who thought these statements would be useful.

Suggested Issue 10.C.2	*Answered*	Agree	Disagree	No Comment
Where there are material uncertainties as to going concern, a requirement on all charities explain their plans for addressing these uncertainties.	6 (30% of total in agreement)	5	1	-
		83%	17%	0%
	Of those that did not support the theme, an addition 1 specifically stated their disagreement with this issue			

As with other issues within this theme, there were relatively few comments offered by respondents specific to the issue.

MAIN FINDINGS

Of those respondents who supported the theme and offered specific comments on the issue, the vast majority supported it being reviewed in the next SORP.

Of those respondents who did not support this issue, two questioned the value of the disclosure. They believed it would be clear to the user of the accounts where material uncertainties did exist given that charity's basis of accounting would be different. In such circumstances they would expect that sufficient disclosures would be provided to fully explain these uncertainties.

One audit questioned the value of information which would be reported by charities where material uncertainties did exist:

What do you expect charities to say that would be useful? Many would say that they are reliant on the continuation of funding or the renewal of funding agreements, and the trustees have no reason to believe that these will not be reviewed. How will this add anything to the disclosures? No charity is going to say that they do not know if funding will be renewed, and are not sure what will happen if it isn't. (haysmacintyre, No.148)

<table>
<tr><th>Suggested Issue 10.C.3</th><th>Answered</th><th>Agree</th><th>Disagree</th><th>No Comment</th></tr>
<tr><td rowspan="3">Pensions remain a matter of concern - all charities could be required to provide more discussion of the implications of pension liabilities as part of their going concern disclosures.</td><td rowspan="2">8 (35% of total in agreement)</td><td>7</td><td>1</td><td>-</td></tr>
<tr><td>78%</td><td>11%</td><td>0%</td></tr>
<tr><td colspan="4">Of those that did not support the theme, an addition 1 specifically stated their disagreement with this issue.</td></tr>
</table>

There were limited comments offered by respondents specific to this issue.

MAIN FINDINGS

Of those respondents who supported the theme and offered specific comments on the issue, the majority supported it being reviewed in the next SORP.

Two respondents felt this suggestion had the potential to provide readers with more useful information compared to the current disclosures required by charities with defined benefit pension schemes. The existing disclosures required in the notes to the accounts were described as complicated, incomprehensible and torturous. Both respondents also offered suggestions about what information should be included within the '*discussion of the implications of pension liabilities*':

- *Trustees should explain any financial implications in plain English* (Paul Gibson, No.152)
- *…disclose the annual payments that the charity are due to make in the next 5 years, akin to the operating lease disclosures, that will then inform the users of the accounts as to the true cash impact of the liability.* (haysmacintyre, No.148)

This view was also shared by several attendees at consultation events, including funders who called for clearer explanations around pension deficits given the variation in how this information is presented in charity accounts.

Two respondents who supported the issue felt that this should be only required for charities with pension liabilities associated with defined benefit schemes.

One audit firm questioned the ability of trustees being able to provide this information given the uncertainty around the future of many defined benefit schemes.

The full implications are still not understood in the market place so difficult for charity trustees to adequately address this. (Kreston Reeves LLP, No.149)

Suggested Issue 10.C.4	*Answered*	Agree	Disagree	No Comment
Where there are uncertainties about going concern all charities could be required to provide disclosure in the report as a 'must' not a 'should' (paragraph 1.23).	5 (22% of total in agreement)	3	2	-
		60%	40%	0%

This issue received the lowest level of interest compared with the other issues within this theme.

MAIN FINDINGS

Of those respondents who supported the theme and offered specific comments on the issue, the majority supported it being reviewed in the next SORP.

There were limited comments specific to this issue. Two audit firms believed the disclosures should only be limited to only significant or material uncertainties.

Theme D: enhanced analysis of expenditure

The analysis focuses on the four suggested issues which respondents were asked to consider within the theme:

1. The SORP might be more explicit in defining administrative and fundraising costs
2. Identifying charitable expenditure outside of jurisdiction of main registration
3. Executive pay disclosures
4. Staff pay disclosures

Interpretation of responses

Only those respondents who offered specific comments on the above issues or expressed a view on whether they should be considered in the next version of the SORP were considered in the analysis.

The approach to interpreting the responses for each issue differs and is explained in more detail within the analysis. The approach was tailored dependent on the correlation between the issue and others within the consultation, and also the level of responses generated.

Suggested Issue 10.D.1. *The SORP might be more explicit in defining administrative and fundraising costs*

The analysis of this issue is incorporated within the analysis of Suggested Area 9.B.

Suggested Issue 10.D.2.	*Answered*	Agree	Disagree	No Comment
Identifying charitable expenditure outside of jurisdiction of main registration	95 (55% of total)	5	87	3
		5%	92%	3%

This issue was debated at consultation events and attracted the highest level of interest within the written feedback. There was a large level of interest from charity finance directors and finance staff. This can be attributed to the fifth point within the conclusion of the response of the Charity Finance Group (No. 151) being included in 67 responses. This is noted below:

Reject calls for charities to break down their spending by jurisdictions - This will not add value as most charities that work overseas will already be explaining their operations through the narrative reporting. This will add significant bureaucracy, however, and further lengthen the SORP.

MAIN FINDINGS

There was little support of this issue at consultation events. This was echoed within the written feedback, where there was limited support for this issue across the main respondent categories.

Covered within the narrative reporting

The majority of respondents believed the issue should not be considered as charities will already provide information on their spending in other jurisdiction within the trustees' report. Information on overseas operations and the associated charitable spending should be clear in this report where important and applicable to the charity.

One sector umbrella body noted that those charities which do operate internationally often choose categorise their spending by activity or project, rather than geography. Therefore requiring expenditure is categorised in this way was considered inappropriate.

Another approach taken by charities is to break down all the funds by project, rather than the time-consuming method of geography. However, a mandated universal application does not appear to have usefulness to such a varied sector. (Charity Finance Group, No. 151).

Practical difficulties of disclosure

A range of difficulties were identified by respondents which would be encountered by charities identifying expenditure outside of jurisdiction of main registration. The most common difficulty identified was around the allocation and analysis of salary costs of staff based in the UK who support overseas activities. It was questioned whether these costs would be defined as 'expenditure outside of jurisdiction of main registration' given they were costs which enable overseas activities to take place.

The difficulties which would be encountered by grant-giving charities which fund UK-based charities who work overseas were noted by five respondents. This was described in detail by one charity:

For example, my charity makes grants to educational institutions in the UK, but these fund scholarships for students form the Middle East. This would be reported as UK-based expenditure, but in actual fact the main areas of benefit is actually overseas… we also make grant to overseas-based international NGOs which are then used to fund projects in countries other than the country where the organisations is based. For example, we make grant to the UNHCR which is based in Switzerland, However, these funds are then used to run projects in Jordan, Lebanon and Syria. (The Saïd Foundation, No.83)

The following situations were also suggested by respondents where there would be complications around identifying the appropriate jurisdiction:

- Aid supplies purchased in the UK for disbursement overseas (Crowe Clark Whitehill LLP, No.159)
- Expenditure spent on cross-border projects (Crowe Clark Whitehill LLP, No.159)
- Grants made to large international institutions where the final destination of the grant cannot be reasonably traced to their final destination (Association of Charitable Foundations, No.104)

OTHER COMMENTS

Reporting burden

Four respondents expressed concerns about the additional burden which would be placed on charities in proving information for the suggested disclosure. The time and resources involved in tracking, calculating, analysing and preparing the disclosures were viewed as considerable, especially for smaller charities which operate internationally. Attendees at consultation events also felt the existing level of expenditure analysis required of charities was comprehensive and therefore any additional disclosures would be burdensome.

Misleading comparisons

Respondents from across the main three categories believed the disclosure of overseas spending could result in users making misleading comparisons between charities. There was a concern that readers would look at the levels and proportion of overseas spending in isolation, and associate this with the effectiveness of the organisations. Readers would not take into account the charities' individual circumstances and their activities and achievements.

Three respondents also felt that spending in the UK would be considered 'bad' by readers. They warned that as a result charities may underinvest in UK support activities, or more donations would be restricted to having to be spent outside of the UK. These respondents included an international charity:

Disclosures on such basic terms is going to distort activity when such should be determined by need and resource availability. This seems to be playing into a prejudice that spending in the UK would be "bad". (Raleigh International Trust, No.28)

Unsuitability of disclosures

Respondents highlighted instances where disclosures may result in both the charity and its beneficiaries being put at risk. One sector umbrella body described this from the perspective of grant-giving charities and their recipients if charities were required to disclose spending by jurisdiction.

… listing grants by country may for example put recipients in certain places at risk of persecution of unwanted exposure. Funders would have to tell their grantees of the disclosures required and this would have to be factors into their grantees' risk register. For foundations themselves, it may also attract attention to their work in fragile environments and context where their inconspicuousness is vital … listing grants by country could even act as a deterrent from funding certain places to the very great detriment of vulnerable sets of beneficiaries who may have few sources of charitable income. (Association of Charitable Foundations, No.104)

This concern was echoed in the response of an international charity which believed it would be unable to disclose expenditure categorised by jurisdiction:

… it would be problematic for us to disclose spend in individual countries for a variety of reasons, including political, safety and security reasons… At a minimum, we would need an opt-out for safety and security reasons. (British Red Cross, No.118)

Concerns over overseas spending

Four respondents acknowledged the interest which regulators have in understanding how much money charities are spending overseas each year and in which countries they operate, as explained in the consultation document.

However, two respondents suggested that this information could be more appropriately obtained by the regulator via the annual return. One international charity believed information of this nature is already supplied in this document, and suggested that could be signposted within the accounts as opposed to introducing an additional disclosure requirement (British Council, No.126). The appropriateness of proposed method was criticised by one sector umbrella body, who believed it was against current thinking in this area.

This trend also fails to recognise the approach taken by international standards setters such as the Financial Action Task Force (FATF) which overseas global standards on counter terrorism and money laundering risk. It has stated that only some charities are at risk in specific situations and, as a consequence, a blanket approach would be disproportionate and breach these standards to which the UK and the Republic of Ireland are party. (Charity Finance Group, No. 151).

The interest of the public in this information was also questioned. One audit firm felt there was little benefit of these disclosures as they failed to give readers any assurance over the risks around overseas spending and how these have been managed by the charity.

Recommendations if included within the SORP

Whilst the vast majority of respondents were against the disclosure being considered as part of the SORP, three respondents specified that if included it should be voluntary and included within the notes to the accounts. One respondent also noted that the disclosure could be linked to an underlying accounting standard:

…if introduced, consideration should be given to whether the criteria or reporting requirements of IFRS 8 could be applied (modified where appropriate), both in terms of geographical areas and activities. (British Council, No.126)

Suggested Issue 10.D.2: ***Breakdown of respondents***

Respondent	Total responses	Percentage agreement
Total responses	95	5%
Audit firms, auditors and professional bodies	14	21%
Sector umbrella bodies	6	17%
Individual charity finance directors, staff, trustees and honorary treasurers	72	1%
Funders, users of accounts, academics and think tanks	1	0%
Independent examiners	2	0%

Suggested Issue 10.D.3	*Answered*	Agree	Disagree	No Comment
Executive pay disclosures – increasing the requirements 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.	44 (26% of total)	11	28	5
		25%	64%	11%

This issue was well debated at consultation events but attracted a low level of interest within the written feedback compared to the first two issues within this theme.

MAIN FINDINGS

There was little support for this issue across all three main respondent categories, with the lowest level of support being shown by audit firms and professional bodies. This was also seen amongst attendees at consultation events, where there was limited support of the issue.

Loss of confidentiality for employees

The loss of employee privacy around remuneration levels was the most common reason given by those who did not support the issue. It was considered invasive to publically disclose employees pay levels together with their position and name. Of those against further disclosure requirements, the following was typical:

It seems to be a true double whammy if you are a key member of charity's staff, working at a low rate of pay, to also suffer the loss of privacy which means that you poor salary is public knowledge with two clicks of your employer's home page. (Anonymous, No.8)

Two audit firms also noted that disclosures may potentially result in charities being in breach of employee contracts which will often have confidentiality clauses.

Three respondents highlighted that in some exceptional circumstances it will not be appropriate to disclose staff pay levels, given the sensitivity of this information. There may be specific situations where the disclosure of this information could be detrimental to the employee, for example it may impact on the employee's well-being or result in themselves or their family being put in danger.

Current requirements are sufficient

The current reporting requirements for charities in the SORP were considered sufficient by six respondents who did not support the issue. Whilst these respondents did not believe the SORP should go beyond what is required, they offered suggestions for how the existing requirements could be improved.

Three respondents felt the banding levels used for the disclosure of employee benefits could be revised. Two respondents specified that the starting point and bandings levels should be increased. One audit firm also recommended charities should list those employee included within 'key management personnel' under paragraph 9.32.

One audit firm highlighted that the pay level of the chief executive will often be fully disclosed by smaller charities under the disclosure requirements of paragraph 9.32. This was noted as occurring where the chief executive is the only member of key management.

Impact on the charity

Three respondents believed as a result of requiring charities to disclose the post and pay of senior staff, charity employees would be at a disadvantage compared to those working for corporate entities. This may deter potential staff from working in the charity sector and prevent charities from attracting the most talented and suitable staff. This concern was also highlighted at consultation events, were fears about the impact of the disclosure on the recruitment of management were raised.

The impact of pay levels being known by staff within the organisations and the public was also considered to be negative. One charity was concerned that this information may not be viewed within the wider context of the organisation's operating environment.

These figures can be misinterpreted both internally and externally as they often need to be put in context (for examples the precise level of expertise and experience needed in a role and the associated competition in the employment market). (The Wellcome Trust, No.87)

SORP requirements extending beyond other frameworks

Two audit firms considered it to be unreasonable for the SORP to require charities to go beyond the disclosures within FRS 102 and the Companies Act reporting requirement for director's remuneration.

Further consultation

Three respondents who were in favour of further consideration of the issue, felt further research or consultation was needed in this area. One professional body felt more information about users' information needs was required to determine what additional disclosures should be made by charities, if any at all.

It would be worth researching what users of the accounts of charities are looking for in executive pay disclosures. Many may be interested in a general picture of the pay levels of senior staff and the proportion of income that has been spent in this area. If so the current banding disclosures may be sufficient for their purpose and the specific post and pay details may not be relevant. (Association of Chartered Certified Accountants, No.141)

Caveats and further considerations

Both respondents in favour and against the disclosures around staff pay being increased offered a number of considerations which would have to be taken into account to ensure the disclosure was appropriate.

Remain an option for charities
The most common suggestion was for the disclosure to remain voluntary and left at the discretion of the charity. Six respondents felt charities should have the option to make increased disclosures where it is considered by them as being appropriate to do so. It was also felt charities should be able to adapt the disclosures to their own structures and circumstances.

Of these respondents, four observed that charities have always been given freedom in this area and this option should remain. Of these responses, the following was typical:

It is open to charities to disclose on an individual basis if they see fit and the staff concerned have agreed and if this an important issue for a particular charities it may highlight the point in its annual report. (The Institute of Chartered Accountants in England and Wales, No.162)

However, two respondents warned that if the regulators do wish to see greater disclosure in this area any requirements would need to be made mandatory.

Anecdotal evidence from the group suggests the proposal will not be voluntarily adopted by charities, given the resistance expressed by colleagues and trustees to disclose the individual remuneration of staff members (The Chartered Institute of Public Finance & Accountancy, No.32)

Only for the largest charities
Of the respondents in favour of the recommendation, three specified that this should be required only for the largest charities. This was also proposed by three respondents who did not support further consideration of the issue. A threshold of income greater than £10.2m was suggested by two respondents.

Only for certain staff
Three respondents believed increased disclosures should be limited to specific staff, rather than 'all senior employees' as suggested in the consultation document. The suggested thresholds and methods which could be used varied. The following suggestions were made by respondents:

- Only the CEO and staff that earn more than the CEO
- Only for key staff
- Only for staff that earn more than £60,000

Removal of the salary banding disclosure
One audit firm recommended that if the requirements were to be increased, then the salary banding note would be superseded and should not continue as a separate SORP requirement.

Interpretation of 'NCVO proposals'

There were two instances where respondents looked beyond the issue proposed with the consultation document and considered all five recommendations detailed in the *NCVO Report of the Inquiry into Charity Senior Executive Pay*. One professional body believed the requirement for charities to produce an annual remuneration statements should be taken forward.

AAT's view is that a PLC style remuneration report, as discussed in the NCVO publication, could at least be put into the "should" category for the very large charities. (Association of Accounting Technicians, No.17)

Another respondent believed that individuals who earn more than the chief executive should have their post and pay level disclosed, as recommended within the NCVO Report.

Suggested Issue 10.D.3: ***Breakdown of respondents***

Respondent	Total responses	Percentage agreement
Total responses	44	25%
Audit firms, auditors and professional bodies	20	20%
Sector umbrella bodies	9	22%
Individual charity finance directors, staff, trustees and honorary treasurers	13	31%
Funders, users of accounts, academics and think tanks	1	100%
Independent examiners	1	0%

Suggested Issue 10.D.4	*Answered*	Agree	Disagree	No Comment
Staff pay disclosures – tightening definitions to cover the cost of interim staff or agency or similar staff covering specific senior management roles in the charity. The SORP does not currently cover these arrangements (see module 9 paragraph 9.26 to 9.28).	18 (10% of total)	16	2	-
		89%	11%	0%

This issue received the lowest level of interest within the written feedback compared with the other three suggested issues within this theme. The vast majority of respondents only answered the first three issues, with very few specific comments offered on tightening the definition of staff to cover interim staff or agency staff.

Discussion of this issue was not really raised at the consultation events.

MAIN FINDINGS

The vast majority of respondents were in agreement with the issue being considered as part of the next SORP, and agreed that the staff pay disclosures should be tightened as suggested in the consultation document. It was observed that just under two thirds of those respondents who supported the issue did not support increasing the requirements for executive pay disclosures.

Fuller picture shown

Four respondents believed tightening the definition would mean charities would show a fuller and realistic picture of the staff costs within their organisation. It was considered that the suggestion would enabling more comparable and transparent disclosures by charities in this area. One audit firm noted the current impact of the SORP not covering these arrangements in their response.

The gap in guidance offered by the SORP means current disclosures many not reflected the true costs being incurred by the charities on senior staff. (MHA, No.49)

Extend definition

Three respondents observed that instances of interim and agency staff being used to cover senior management roles is common within the charity sector. Therefore, the inclusion of interim and agency staff which are covering these role in the definition of staff was considered to be sensible. However, it was suggested by two respondents that the definition is extended to include both 'consultants' and 'the self-employed'.

Include in SORP disclosures

Three respondents specified that tightening the definition should also cover the other disclosures around staff and executive pay as required by the SORP. It was suggested that interim and agency staff should be included in the following disclosures:

- Banding disclosure of employee benefits (Paragraph 9.30)
- Remuneration and benefits received by key management personnel (Paragraphs 9.31–9.32)

Interaction with other definitions and frameworks

Already covered in FRS 102
One audit firm believed that it was not necessary for the SORP to offer clarification around the cost of interim or agency staff given that the requirements of FRS 102 were already adequate.

The requirements of FRS102 does cover these areas. It specifically states that Key Management Personnel do not necessarily need to be those employed by the charity, but can be those engaged on contract. (haysmacintyre, No.148)

Remain consistent
One audit firm warned against the SORP diverging from the definition of staff which is used with other frameworks and legislation.

We do think that the SORP should go beyond the commonly accepted definitions of staff, for instance those required for the Companies Act for example. (Association of Chartered Certified Accountants, No.141)

Suggested Issue 10.D.4: *Breakdown of respondents*

Respondent	Total responses	Percentage agreement
Total responses	18	89%
Audit firms, auditors and professional bodies	10	90%
Sector umbrella bodies	3	67%
Individual charity finance directors, staff, trustees and honorary treasurers	4	100%
Independent examiners	1	100%

Theme E: disclosure of who funds a charity

The analysis focuses on the two suggested issues which respondents were asked to consider within the theme:

1. All charities could identify by name and amount any material individual/ corporate/ government/ organisation donations and/or contracts
2. Disclosing for whom is the charity acting

Interpretation of responses

Only those respondents who offered specific comments on the above issues or expressed a view on whether they should be considered in the next version of the SORP were considered in the analysis.

Suggested Issue 10.E.1	Answered	Agree	Disagree	No Comment
All charities could identify by name and amount any material individual/ corporate/ government/ organisation donations and/or contracts	137 (80% of total)	14	121	2
		10%	88%	1%

This issue was well debated at consultation events. It also drew a lot of comment within the written feedback, where it attracted the second highest level of interest of the issues suggested by the Charity Regulators. There was a high level of interest from charity finance directors and finance staff. This can be attributed to the second point within the conclusion of the response of the Charity Finance Group (No. 151) being included in 86 responses. This is noted below:

Reject the proposal for material donors and funds to be declared – I am concerned that this will impact on the donor's right to privacy and could lead to fewer charities receiving charitable donations. I also do not believe that declaring funds, such as local councils, would improve the public's understanding of the effectiveness of a charity.

MAIN FINDINGS

This issue attracted limited support from attendees at consultation events. Of the written responses, a clear majority did not support this issue being considered in the next SORP. This was seen from across the respondent categories.

Loss of donor anonymity

Over 90% of all respondents who did not support the suggested issue believed requiring charities to identifying material donors by name and amount could result in a reduction in donations received. Respondents felt that the disclosure would discourage or inhibit potential donors from giving to charities that wished for their identity to remain anonymous or the amount of donation kept confidential. This concern was also raised by charity staff at consultation events.

Of these respondents, a minority felt the requirement went against the motives of many individuals who give to charity but wish to remain anonymous. Two respondents explained the potential impact of this disclosure in the context of Christian churches.

Attendees tend to know each other well and many would wish to follow the biblical principle of anonymous rather than public giving. Where such giving places no pressure of the church to do things differently and "buys no favours" for the donor, we do not feel that the best interests of the charity are served in revealing major individual donors. (Stewardship, No.144)

Any requirement to disclosure the identity of material individual donors could have a significant and adverse effect on our congregations and particular on our smaller congregations. Such a requirement could ultimately lead to a loss of income for all charities but perhaps for church congregations where there has been an historic practice of giving being confidential. (Church of Scotland, No.27)

Ten respondents believed the requirement overlooked instances where donations are made on the condition of anonymity. This was cited as commonly occurring when charities receive significant donations from individuals. In such instances respondents believed charities would have to sensitive and respect the donor's right to privacy. Disclosing the details of these donations was be seen by many as an invasion of this right. One respondent also queried the legality of these disclosures:

We would also question whether such a requirement is compliant with Article 8 of the ECHR i.e. the right to respect for private and family life subject only to such interference as is necessary in certain limited and prescribed circumstances which do not appear to be in play in this context. (Scottish Churches Committee, No.76)

The loss of anonymity was also considered from the perspective of funders as well as individual donors. One audit firm observed instances where grant-making charities request recipients do not disclose the support they have received.

We are aware of foundations that do not wish to have their names disclosed as it can lead to being inundated for grant requests. (Price Bailey LLP, No.147)

Loss of commercially sensitive information

Three respondents thought the disclosure may result in charities being at a disadvantage when compared to corporates. Charities would be forced to disclose their major 'customers' if they were required to disclose all material contracts. This was believed to put them in an unfavourable position when tendering for contracts against commercial entities.

Practical difficulties of the disclosure

Respondents identified a number of practical difficulties for charities if required to identify all material donors and contracts by name and amount. The most commonly difficulty cited was obtaining the necessary information where anonymous donations are made. The volume of disclosures was also noted as causing potential problems for certain charities. Organisations which are dependent on a small number of key donors or contracts are likely to have to make extensive disclosures.

Three respondents also felt that the disclosure would result in long and meaningless lists which would 'clutter' the notes to the accounts. Similarly, others noted the potential cost to charities in collating this information.

Potential demand and audience

Respondents across the three main categories questioned the demand for this information and the value which it would provide the users of the accounts. Three respondents believed that general users were not interested in this level of information. One audit firm observed that users who do require this information will be in a position to request it from charities individually.

Four respondents did believe users were interested in knowing who funds a charity from the perspective of whether one funder holds significant influence or control. However, one respondent felt that this disclosure would not provide this information, as influence will not always be related to the level of funding given to the charity.

… the level of materiality would not necessarily indicate significant influence and would therefore not be meaningful. (James Emerton, No.26)

Information is already provided

Nine respondents believed the information required by users to determine who funds a charity is already provided by charities within their existing reporting. Of these, two respondents considered any further requirements would risk 'dual reporting'.

Current related party disclosures were viewed as providing details of transactions with those who hold significant influence over the charity. The disclosure required under paragraph 5.58 which cover government grants were also considered sufficient. Respondents also noted that many large charities will list significant donations and major funders in the trustees' annual report by way of acknowledgement. One audit firm also believed the existing income disclosure were adequate for this purpose:

There is already significant disclosure in accounts from where the income sources arise… It is sufficient to understand the nature of the income sources as this in itself gives sufficient information about the risks and sustainability of those sources without any further disclosure. (Price Bailey LLP, No.147)

Information on the source of funds

Two sector umbrella bodies believed the purpose of these disclosures was related to greater information being made available to regulatory bodies. In both cases the respondents warned against the potential impact of such disclosures, and unintended consequences for charities and readers of the accounts.

… while there is a chance that such transparency measure will help in the fight against fraud and tax evasion, the more likely impact is that many individuals donors may be deterred from donating material amounts, and ultimately the charity sector will loose income. (Association of Charitable Foundations, No.104)

We question why identifying by name and amount of material significant donors adds value to readers. If this proposal were done to help counter terrorism, we would refer regulatory bodies to the FTF recommendations on charities and the need to avoid disproportionate regulation.
(Charity Finance Group, No. 151)

Three respondents felt that if information is required for this purpose, it could be obtained through other more direct methods. One charity also believed that that comfort over the source of funds could be obtained from the external assurance process.

I am conscious of the need to be vigilant concerning "tainted" donations that might have undue influences on a charity's activities but this can best be done as part of the audit of independent inspection process. (The Gurkha Welfare Trust, No.99)

OTHER COMMENTS

Those in support of the suggested issue

The majority of those respondents in support of the issue were audit firms. The comments offered by these respondents were mainly focused on the specifics of the requirement if included within the SORP.

The following was recommended:

- The disclosure distinguish between contracts awarded and donations received
- A clear and unambiguous level or definition of materiality.

- The requirement being optional ('should' not 'must') by two respondents
- Provisions made in order for donors to '*give freely without fear of this personal information becoming public knowledge against their will*' (Directory of Social Change, No.158)

Around a third of respondents who agreed with the issue also expressed concerns about the disclosures of material donations and contracts received by the charity. These concerns mirrored those identified by those respondents who did not support the issue and included the potential loss of donations from anonymous donors and increased clutter in charity accounts.

Charity funders were also found to be in support of the issue. Feedback from funders at consultation events noted that any information about the funds of the charity is considered to be useful, including the names and amounts of funding received.

Three respondents agreed with the principal of providing users with more information about who funds a charity, but recommended that this could be achieved by a more succinct analysis of incoming resources by type. The following response summarises the suggested disclosure:

Segmental disclosure would be better, both by organisational type – eg central government/local government/individuals/charitable trusts and foundations etc. and income type – contract/grant/donation. This would also better mirror the 'expenditure by organisation type' disclosure requirement. (British Council, No.126)

Suggested Issue 10.E.1: ***Breakdown of respondents***

Respondent	Total responses	Percentage agreement
Total responses	137	10%
Audit firms, auditors and professional bodies	19	32%
Sector umbrella bodies	12	17%
Individual charity finance directors, staff, trustees and honorary treasurers	102	5%
Funders, users of accounts, academics and think tanks	1	0%
Independent examiners	2	0%
Charity fundraisers or fundraising consultants	1	100%

Suggested Issue 10.E.2	*Answered*	Agree	Disagree	No Comment
Disclosing for whom is the charity acting. *The report/accounts must disclose if the charity has been a party to any agency or consortia arrangements in the year (see module 19, paragraph 19.12 for current disclosures) but in addition a requirement could be added to explain how these arrangements supported the key objectives of the charity and who each party is.*	11 (6% of total)	6	3	2
		55%	27%	18%

This issue attracted a little interest within the written feedback. The vast majority of respondents only answered the first issue within the theme and very few specific comments were offered on the disclosure of agency or consortia arrangements. The majority of respondents were audit firms and professional bodies, with limited interest from the other two main respondent categories.

Discussion of this question was limited at the consultation events.

MAIN FINDINGS

A small majority of respondents agreed that the issue needs attention in the next SORP.

Already being disclosed

Over a third of respondents noted that charities already provide information about agency or consortia arrangements in the trustees' report and the SORP encourages such disclosures (as detailed in the consultation document).

Area of interest

Within written feedback, respondents who supported the issue saw the suggested requirements as helpful and that the SORP should do more to encourage disclosure in this area. However, there were limited comments directed to the proposals to require charities to disclose additional information in this area.

This was highlighted as an area of interest amongst funders at consultation events. Information about whether a charity receives corporate or agency funds was considered to be useful, as well knowing what proportion of the charities activities are dictated by someone else.

Two respondents believed having the details of those parties involved in these arrangements with would be useful. However, one respondent felt this should only be required for arrangements with non-charities and '*needs a high-threshold*' (Royal Blind and Scottish War Blinded, No.3).

One audit firm believed the issue should be considered, but called for greater clarification around the legality and accounting of consortia arrangements before the disclosures requirements were increased.

Consortia bids and their accounting treatment is a key area of governance. Charities that head consortia bids with other charities should only do so if their objects cover the entire project. If they are only able to do a small part of the bid, and others conduct the areas that the lead party cannot, there is a legal issue about whether the lead party can accept the contract at all. If they do, is the money they received conduit funding, or is it their funding that they then distribute to others. Before we report narratively, there is a need to clarify the legality and accounting requirements. (haysmacintyre, No.148)

Remain voluntary

One sector umbrella body who was against the issue being considered felt that the current reporting in this area were sufficient and should not be mandated.

The current level of reporting for this area is already adequate enough for charities and to prevent regulatory burden we would encourage that arrangements that explain how being a part of an agency or consortia benefits the charity remain voluntary. (Charity Finance Group, No.151)

This was echoed in the response from another umbrella body:

…guidance could encourage the agency/consortia arrangement could be highlighted in guidance rather than being mandated. (Scottish Charity Finance Group, No.155)

Suggested Issue 10.E.2: *Breakdown of respondents*

Respondent	Total responses	Percentage agreement
Total responses	11	55%
Audit firms, auditors and professional bodies	7	71%
Sector umbrella bodies	2	0%
Individual charity finance directors, staff, trustees and honorary treasurers	2	50%

Theme F: disclosure of key facts

Suggested Area/Theme	*Answered*	Agree	Disagree	No Comment
COLLECTIVELY ANALYSED	150 (87% of total)	23	126	1
8.C *Key facts summary*				
10.F *Disclosure of key facts*		15%	84%	1%

Interpretation of responses

The summary of key facts was proposed by both the SORP Committee (in Section 3.3) and the charity regulators (in Section 3.4). The regulators offered suggestions of possible mandated items which could be included in the summary.

As the majority of respondents offered one view on both the proposed summary and suggested mandated terms within their response, the responses for both questions were collectively analysed. In all cases, respondents who agreed with the area proposed in Section 3.3 (Question 8) did also with the issues proposed in Section 3.4 (Questions 10/11).

There was a limited response to the specific issues suggested within the theme in Section 3.4 from those who supported the key fact summary. However, a number of respondents who did not support the theme gave responses specific to the third issue (‘*charitable expenditure as a proportion of total income’*). These have been noted separately within the analysis. The comments offered by respondents for the remaining two issues have been incorporated into the overall analysis of the theme.

Question design

It is observed that the design of the questions may have resulted in respondents interpreting the proposal as being for a key facts summary which includes mandated items. However this was not the drafting intention. Section 3.3 introduces the summary content as being ‘*either charity specific items or a mix of mandated items … and charity specific items*’ (Page 10). This may have overshadowed respondents’ consideration of the proposal.

This area of review attracted the highest level of interest within the written feedback, especially from charity finance directors and finance staff. This can be attributed to the first point within the conclusion of the response of the Charity Finance Group (No. 151) being included in 86 responses. This is noted below:

Reject the proposal for a Key Facts Summary – There is no rational for why this summary would improve understanding of charities, and I do not believed that there is financial information which would universally demonstrate the effectiveness of a charity. It is only likely to encourage readers not to engage with the full annual report and accounts.

The area was also well debated at consultation events, by all categories of respondents.

MAIN FINDINGS

There was little support for this area across the three main respondent categories. Outside of these categories, support for the theme was divided amongst by charity funders and users of accounts, and strongly supported by charity fundraisers and fundraising consultants.

However, the area was broadly supported by attendees at consultation events. Respondents from across the categories were supportive of the summary; however there was little appetite for the 'facts' within the summary to be mandated. It was felt that these should be left to charities to determine the content of any disclosure.

Reasons against further consideration of the theme

Diversity of the sector
The most common reason against the introduction of a key facts summary focused on the diversity of charities. Respondents warned that the creation of a summary of key information had the potential to mispresent charities due to the variety of the sector. The different operating models and funding structures which exist between charities were emphasised, as well as the individual circumstances of charities which can change on a frequent basis.

The diversity of the sector was cited as the main reason which made it difficult to get a common set of metrics which would applicable to all charities. What was 'key' to one charity may be irrelevant to another. Respondents believed it would be impossible to find a set of facts which would account for the intricacies and nuances of any individual charity.

Three respondents believed that rather than searching for a collection of uniform metrics, the summary could offer flexibility in what information was included. They advocated the content of the disclosure being left to the discretion of the charity. This was echoed by attendees at consultation events, where it was felt it should be left to the charity to decide what information is included. However, one sector umbrella body noted that without having common facts, the ability of using the summary to compare charities would be lost– one of the main proposed benefits of the disclosure (Charity Finance Group, No. 151).

Information is elsewhere
Nineteen of respondents noted that the information proposed for inclusion in the key facts summary was available from other sources. They believed that a summary within the SORP was not needed.

The most common source cited was the register of charities included on the Charity Commission for England and Wales website. This was noted by nine respondents, two of which suggested extending this source to include more information.

The key facts on the Charity Commission website could perhaps be expended/presented more clearly/published more widely to provide date that is comparable across charities. (British Council, No.126)

The second most common source was the annual accounts, which was noted by eight respondents. One respondent body considered the statement of financial activities (SoFA) as '*already a summary of the key facts from throughout the charity's reporting year'* (Association of Charitable Foundations, No.104).

Three respondents believed this information could also be provided by charities in their annual return if required for statistical or regulatory purposes. One respondent also noted that the trustees' annual report of a smaller charity should be able to provide a '*strong and clear overview*' of the charity's performance which could act as more informative summary than a selection of key facts (Evaluation Support Scotland, No.16).

Unfair comparisons

Seventeen respondents believed that any selection of key facts would lead to unfair comparisons being made between charities. Using simple metrics to compare charities was considered flawed and could result in inappropriate conclusions being drawn about a charity's performance. Of these respondents, five offered explanations of circumstances where charities would be judged unfairly against others on the basis of their fundraising mix, organisational structure and the type of activities they are involved in. Four of these respondents also believed any comparisons made would result in a greater public misunderstanding of charities, and lead to a reduction in public support. One charity considered the impact to be wide ranging:

Any simple dashboard that represented this ratio would give rise to endless controversy and questions from supports, donors, the media and other sector commentators. This would take up enormous amounts of management time, an extremely poor use of charitable resources … and almost certainly result in some lost voluntary income. (Juvenile Diabetes Research Foundation, No.120)

Other respondents expressed concern that users would be given no meaningful insight into the achievements of the charity and their impact by a summary of key facts. This absence of context was noted by seven respondents. By removing certain figures from the accounts and separating these from the trustees' annual report, readers would lose the background and information on the charity's individual circumstances which would give credibility to these 'facts'. The summary was also considered as having the potential to discourage users from reading the trustees' annual report and accounts by four respondents.

A summary would reduce the likelihood of the public from fully engaging in charities accounts. Without this engagement, the public will struggle to understand how charities operate and it would undermine the value of the full Annual Report and Accounts which enables charities to provide a narrative context. (Charity Finance Group, No.151)

Black and white financial metrics do not give the full picture and actually encourage avoiding the real intention behind improved reporting. (Chartered Insurance Institute Group, No.88)

Undue focus on cost

There was extensive criticism of the regulators choice of items to include a key facts section. The suggested facts were considered to focus unduly on cost, at the detriment of other more relevant ways to measure a charity's performance. Nine respondents believed that such a focus would endorse the concept that charitable expenditure can be linked with effectiveness. It was felt this message should not be promoted by the SORP. Four respondent also believed the SORP should be encouraging charities to concentrate on their outputs and outcomes, rather than spending levels or what is 'good' or 'bad' expenditure.

Two respondents also considered the wider impact of users concentrating on charity's spending in an isolated way, on both the public and charities themselves.

The Committee might bear in mind when considering expenditure as a proportion of income that as public benefit institutions, all expenditure by a charity serves the charity's beneficiaries in a direct or indirect way. The Committee might also consider how simple representation of charitable expenditure may lose that message and negatively shape *public perceptions of support costs, which are vital to the running of any charity.* (The Association of Charitable Foundations, No.104)

We feel that there is a danger that charities will take short-sighted resourcing decisions in order to maintain a particular fundraising ration when this may not be in their best long-term interests. (The National Trust, No.115)

Engagement in charity accounts

Three respondents believed the key facts summary was being proposed as a solution to overcome the issue of the public failing to engage in charity accounts. These respondents acknowledge this as an issue, but it was felt the SORP-making body should be looking at different solutions to make charity reporting more user-friendly. The following were proposed by respondents:

…require a better financial review, giving guidance on how to do this well either in the SORP itself or on the SORP microsite. A good financial review would explain the charity's business models and provide user friendly information on the key reporting information. (Sayer Vincent LLP, No.153)

If a charity's Annual Report is not clear and accessible to the general public then it is a bad Annual Report … address the problem of charities preparing reports which are too lengthy or unclear on certain points. (The Saïd Foundation, No.83)

Regulators should focus on educating the public about what they [charities] *do, and how to understand this information,* [accounts] *rather than looking for a 'silver bullet' solution based on an assumption that a few bits of information will educate the public.* (Directory of Social Change, No.158)

Being done already by charities

Six respondents from across the categories observed that many larger charities already produce a key fact summary and saw little benefit in the document being included within the SORP. It was felt that the flexibility of these document could be lost by mandating their contents. Respondents believed the freedom currently allowed in this area meant that charities could tailor any summary to their own audience and to the facts relevant to their own circumstances.

Reasons for further consideration of the theme

There were common themes amongst the comments given by those respondents in support of a key facts summary.

Better communication and focus

Respondents from across the respondent categories believed the disclosures of key facts would encourage more positive behaviour within charities. Three respondents believed the summary would prompt charity to think more about how their performance is reported, and how this is could be communicated in a more effective way. Of these, the following response was typical:

This would encourage charities to focus on communicating the difference they are making – and this links to their finance and activities – in a succinct and accessible way and help to remove the disconnect between what charities do and what the media and general public this they do. (Coalition for Efficiency, No.128)

Funders at SORP consultation events also indicated the summary may encourage charities to more effectively link their accounts and trustees' report. It was felt a summary which contained a mixture of numerical information and narrative could act as an impetus for charities to make both documents better integrated.

Two respondents viewed the summary as a method to encourage charities to monitoring their expenditure more closely. One charity fundraisers believed the disclosure of fundraising ratios would result in charity trustees and staff to better manage these costs.

It would encourage fundraisers and Boards to keep better track of their fundraising expenditure to income ratios, which is not back thing.
(Anonymous, No.160)

Increased users understanding and support
The disclosure of key facts was considered as a positive step to increase users understanding of charities spending and performance. It was believed to be an effective method to increase the openness and transparency of charity's financial statements. One charity fundraiser linked this to increase public support and charitable giving.

Access to information
Four respondents saw the key fact summary as being a way to increase the accessibility of the financial information within charity accounts. One fundraiser believed this would provide readers with the information they want without having to '*wade through the numerous pages of audited accounts*' (Rosie Clyde, No.41).

Caveats and further considerations
Six respondents in support of the key facts summary offered a number of considerations which would have to be taken into account to ensure the disclosure was appropriate. These included:

- The requirement being limited to charities of a certain size or threshold
- The summary being an optional disclosure
- Narrative information being contained with the summary - similar to an executive summary

There was no consensus amongst respondents in support of the summary whether there should be mandated items included within it. However, there was limited support for having mandated items only. This was echoed by attendees at consultation events, where there was broad support for a summary on the basis that charities have the freedom to choose what items are included in it.

The following suggested were offered by respondents in support of the theme:

- Mandated items which are linked to the SoFA, with clear definitions to ensure comparability
- A mix of mandated items to allow flexibility
- No mandated items – require the charity's KPIs as reported to the board
- Suggested guidance on suitable items and information to include

Noted by both those for and against

Introduced only as an optional disclosure
Five respondents felt a summary should only be an option for charities, and should not be mandated. Of these, two respondents suggested it could be included in the SORP as a 'may' recommendation and represent best practice.

Consultation is required
Three respondents believed that if a summary was introduced, it would require collaboration with the sector and a consultation to determine the facts which would be included.

Standard/Summary Information Return
Attendees at consultation events respondents believed lessons could be learn from the 'Standard Information Return'/'Summary Information Return' (SIR) and other similar attempts to present simplified or summarised information about charities. This was also noted in three written responses. Those against the theme noted the lack of success of such initiatives and questioned why it was thought that a similar approach would work for statutory reporting.

…these have all failed due to a lack of consistency in approach, a lack of perceived value by prepares and auditors and the unnecessary burden that was created. (Charity Finance Group, No.151)

However, a contrary viewpoint was provided by one respondent who called for the original objective of the SIR to be revisited (Nick Kavanagh, No.6).

SUPPORT FOR SPECIFIC ISSUES:

Of the specific issues included within this theme, the third issue attracted the greatest number of comments from respondents:

Fundraising materials often quote pence in the pound making it to the end beneficiary/charity so should charitable expenditure as a proportion of total income be expressed as a percentage and the equivalent pence in the pound. To be meaningful the calculation would need to reconcile to the accounts.

However, of the respondents who agreed with the theme, only two offered specific comments on this issue. In both cases the respondents did not support the suggested issue. In addition, six respondents who did not support theme acknowledged the prevalence of the ratio with the sector. However, the vast majority did not agree with ratio being included in the SORP, either as a mandated item in the key fact summary or suggested disclosure. It was consider misleading and would result in unfair comparisons between charities.

Two respondents felt that if the ratio was to be included in the SORP, the method of calculation would have to be clear to the reader of the accounts. The majority of respondents felt this would be unable to be mandated given the diversity of the sector. Instead, the SORP should require charities to clearly disclose the method used within the accounts. The following response was typical:

In particular, any 'pence in the pound' key fact should not, in our view, mandate the method of calculation, but instead should require charities to explain how they have *calculated it, linked to amounts that are visible in the financial statements.* (PricewaterhouseCoopers LLP, No.56)

Theme F: *Breakdown of respondents*

Respondent	Total responses	Percentage agreement
Total responses	150	15%
Audit firms, auditors and professional bodies	23	17%
Sector umbrella bodies	11	36%
Individual charity finance directors, staff, trustees and honorary treasurers	107	8%
Funders, users of accounts, academics and think tanks	4	50%
Independent examiners	1	0%
Charity fundraisers or fundraising consultants	4	100%

Questions	Answered (combined total)
COLLECTIVELY ANALYSED **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?* **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?*	36 (21% of total)

The majority of respondents were from auditor firms and professional bodies and figures for the total number of respondents incorporates respondents to both questions.

The total number of respondents who offered suggestions to Questions 12 and 15 was 30 and 18 respectively. There was a smaller number of respondents who offered suggestions to Question 15. This was partly a result of respondents detailing items from the report or accounts and also from the notes to the accounts within their response to Question 12.

There was limited discussion of this question at the consultation events.

Interpretation of responses

Given the crossover in the suggestions offered by respondents, answers for both questions were analysed collectively.

It is acknowledged that both questions asked for suggestions from different areas. Question 12 focused on areas of the report and accounts, whilst Question 15 focused on disclosures in the notes to the account from the perspective of what is '*not useful to the user of the report and accounts*'.

MAIN FINDINGS

Most common areas for removal
Table A of Appendix 3 shows the four most commonly suggested areas given by respondents for removal:

1. Aggregate disclosure of the total amount of donations donated by trustees or other related parties without conditions (Paragraph 9.18)
2. The requirement for comparative to be provided for all amounts presented in the SoFA (Paragraph 4.2)
3. Disclosures to be made in the notes to the accounts in respect basic financial instruments (Paragraph 11.35)
4. Disclosures in the notes to the accounts of defined benefit plans (Paragraph 17.24)

The most common areas noted within the written responses were also reflected in the feedback from attendees at consultation events.

Reason for removal
Both Question 12 and 15 asked respondents to give a reason for the removal of the items or disclosures suggested. This was provided in the majority of cases. The most common reason given was that the information was not useful the users of the accounts or is of little interest to them, as suggested in the consultation document itself.

The other common reasons given were as follows:

- The information provided is not specific about the charity and will be obvious to the reader
- The requirement results in boilerplate disclosures that never change year-to-year and/or between charities
- The requirement is burdensome for charities to provide
- The information is confusing to the reader and clutters the accounts
- The requirement is interpreted inconsistently by charities and therefore provides little basis for comparison
- The information can be obtained by the user of the accounts (member of public/regulator/funder) elsewhere or by other means

OTHER COMMENTS

Alternatives and adaptions suggested
A third of respondents offered suggestions of alternative disclosures or amendments to the existing disclosures in their response. Respondents felt that the existing requirements could be adapted to either provide the information required by the SORP, meet the relevant accounting or legal requirement in this area or provide more useful information for users.

A summary of the suggestion offered by respondents in respect of the four most commonly suggested areas for removal is included in Table B of Appendix 3.

Approach to reducing disclosure requirements
Respondents also offered general comments on how the removal of disclosures should be undertaken by the SORP–making body.

Four respondents felt changes should focus on the size of the charity, looking at appropriateness of disclosures for the smallest of charities preparing accrual accounts. One of these respondents suggested that this should be done as part of the implementation of a 'three –tier' approach to charity reporting, as proposed in the consultation document.

One sector umbrella body believed changes should focus on the primary purpose of the SORP, and disclosures should be removed on this basis (Association of Charitable Foundations, No.104).

Two audit firms focused on the measure which could be taken to reduce the length of charity reports, rather than the number of disclosures requirements. One firm suggested the FRC 'Clear and Concise' guidance should be signposted in the SORP. It was felt this could should be considered by charities in order to help them reduce the length of their reporting (Crowe Clark Whitehill LLP, No.159).

The other audit firm felt the SORP should introduce a greater level of flexibility in order to overcome the restrictions which prevent certain disclosures requirements being removed.

…it is not a question of blanket removals from the reporting or accounting requirements, but instead to introduce sufficient flexibility in the requirement to ensure that they are scaleable and that charities respond to those requirements in a way that reflect the size and nature of the charity concerned.

The vast majority of the SORP has a reasonable basis in law and regulation and all information we, in virtually all cases, be relevant to some charities. The issue that needs further consideration is how the SORP can and should assist charities in identifying what is relevant and in how to apply the requirements in practice. (BDO LLP, No.164)

Questions 12 and 15: *Breakdown of respondents*

Respondent	Total responses
Total responses	36
Audit firms, auditors and professional bodies	16
Sector umbrella bodies	7
Individual charity finance directors, staff, trustees and honorary treasurers	11
Independent examiners	2

Question 13	Answered
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?*	38 (22% of total)

This questions was answered by a minority of respondents. The majority of respondents were auditor firms and professional bodies, and charity finance directors and finance staff.

There was limited discussion of this question at the consultation events.

Interpretation of responses

Given the crossover in the suggestions offered by respondents in response to Question 5, the answers for both questions are presented together. Appendix 2 contains a list of the suggestions made for additional guidance or changes to the framework.

It is acknowledged that both questions asked for changes to the SORP from different perspectives, however, there were similar suggestions made in each. It was common for respondents to make no distinction between whether the change suggested was to resolve potential implementation issues, meet the SORPs requirements or improve the information provided to the users of the report and accounts.

Suggestions for items which should be removed or added were not included in our response and included in the analysis of Questions 12 and 15, and 13 respectively.

MAIN FINDINGS

Common areas

As noted above, there was a large amount of cross over between the items suggested by respondents in answering this question and Question 5. However, the following areas where the most common areas where suggestions were offered by respondents on how to improve the information for the users of the report and accounts:

Area	No. of respondents who made suggestions
Changes to the layout of the SoFA	14
Changes to the content of the trustees' annual report	5
Recognition and recording of grant income	4
Requirements for disclosures of related party transactions	4

The layout of the SoFA was the most common area, followed by changes to the content of the trustee's annual report. The specific changes to the SoFA are detailed within Appendix 2, and focused predominantly on; changes to the headings used, their order within the statement, and the presentation of specific items. The changes to the trustees' annual report largely focused on making charities to provide information which was considered as being necessary for readers of the report.

The other common areas focused on the recognition and recording of grant income, and the disclosure of related party transactions. Two respondents believed changes to the recognition criteria for grant income had resulted in charities financial performance being distorted, and were difficult to explain to users. Two respondents suggested changes to how this income source is split between the income headings within the SoFA. Respondents who made suggestions about related party transactions offered a variety of changes which aimed to minimise the length and perceived complication of current disclosure requirements.

Reason for changes

The majority of respondents did not offer reasons for why their changes would improve the information provided to the users of the accounts. Respondents typically focused on SORP requirements and disclosures which were seen to be difficult or impractical for charities and preparers of the accounts to provide, or for auditors to gain assurance over.

Of those respondents who did offer a reason for the changes they suggested, the following were typical:

- Reduce the length/clutter within the accounts in order to make them more user-friendly
- Reduce the volume of disclosures for smaller charities in order to ease the reporting burden
- Minimise reporting in areas which are of little importance to users information needs.
- To provide more comprehensive information which is of interest to users
- To make accounts more accessible to those without a developed knowledge of charity accounting
- To reduce the disparity between corporate and charity accounts in order to improve users understanding
- To increase the consistency within the reporting practices of charities in order to make charity account more comparable

Question 13: *Breakdown of respondents*

Respondent	Total responses
Total responses	38
Audit firms, auditors and professional bodies	17
Sector umbrella bodies	4
Individual charity finance directors, staff, trustees and honorary treasurers	12
Funders, users of accounts, academics and think tanks	3
Independent examiners	2

Question 14	*Answered*	Offered suggestion	Answered negatively
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?	38 (22% of total)	14	23
		38%	62%

As with other questions requesting suggestions for changes to the SORP, the majority of respondents were auditor firms and professional bodies, and charity finance directors and finance staff. Of those respondents who offered suggestions for new items, the majority were charity finance directors and finance staff.

Interpretation of responses

Seven respondents focused on existing SORP requirements, rather than suggesting new disclosures. These respondents focused on corrections or clarifications which could be made to improve the information provided to the users of the accounts, or to make the interpretation of these requirements clearer. These responses were included in the analysis of Questions 5 and 13.

Suggestions for new disclosures which had been suggested within the consultation document itself (e.g. increased disclosures around going concern) were not included in our analysis. These responses where included within the analysis of the relevant question.

MAIN FINDINGS

Against any new items being added

The majority of respondents were against any new items being included in the report or accounts.

The most common reason given by respondents was that the SORP was sufficiently detailed and charity reports were already too long for any additional disclosures. Three respondents believed the focus of any changes should be to remove items, rather than to include any more. One umbrella body advocated a ‘one in one out’ approach being adopted if any new requirements were introduced.

One charity also noted the flexibility offered by the SORP in the disclosure additional information in their response.

As the report and accounts are already long, careful consideration should be given to the value of addition new requirements. Charities can already include additional information where they think it useful to stakeholders. (British Council, No.126)

Suggestion of new items

The suggestions for all new items are given in Appendix 4.

There was a wide range suggestion by respondents. Two items focus on greater disclosures around the charity’s governance arrangements. Other suggestions expand on disclosures made by charities in areas where information is already provided in the notes to the account.

Question 14: ***Breakdown of respondents***

Respondent	Total responses
Total responses	37
Audit firms, auditors and professional bodies	12
Sector umbrella bodies	10
Individual charity finance directors, staff, trustees and honorary treasurers	11
Funders, users of accounts, academics and think tanks	2
Independent examiners	1
Charity fundraisers or fundraising consultants	1

Appendix 1: Question 3, Areas of perceived inconsistencies in the SORP

TABLE A: Instances where the SORP uses expression out with the three terms (‘requires’, ‘recommends’)

Section of SORP	Extract	Summary of suggested issue and change [*Extract from respondent*]	Included in response	
			No.	Name
2.28	*This SORP **requires** that the notes to the accounts must provide information on material individual fund balances, movements in the reporting period and the purposes for which the funds are held.*	Use of the term 'requires' - unclear of requirements status.	161	Scott-Moncrieff
3.28	*For a charity to state that its report and accounts are compliant with this SORP, both its trustees’ annual report and its accounts must be prepared fully in accordance with the reporting and accounting **recommendations** of this SORP.*	Refers to 'must' or 'should' requirements as recommendations: *the position is not as clear as it might be*	162	ICAEW
4.57	*This SORP **requires** that the notes to the accounts must provide a relevant analysis of the activities included within each expenditure heading provided on the face of the SoFA. The analysis provided should aggregate the cost of similar activities and provide the user of the accounts with an understanding of the charity’s main activities*	Use of the term 'requires' - unclear of requirements status.	161	Scott-Moncrieff
4.58	*This SORP also **requires** that the analysis must give details of the support costs charged to an activity and the cost of grant funding to third parties that have been included within the cost of charitable activities. The total provided within the analysis must reconcile with the amounts presented within the relevant expenditure headings of the SoFA. This information may, for example, be presented in a tabular format (see Table 3).*	Use of the term 'requires' - unclear of requirements status.	161	Scott-Moncrieff
5.57	*This SORP **requires** that the headings used to analyse income in the SoFA must follow those required by the SORP module ‘Statement of financial activities’.*	The paragraph could use 'must' instead of 'requires': *the use of 'requires' is just another way of denoting 'must'.*	122	ICAS

Appendix 1: Question 3, Areas of perceived inconsistencies in the SORP

TABLE B: Instances where the term is perceived as being inconsistent with the underlying legal requirement or accounting standard

Section of SORP	Extract	Summary of suggested issue and change [*Extract from respondent*]	Included in response	
			No.	**Name**
Para 4	*The preparer **should** refer to the relevant SORP module to determine whether a particular policy is specified by the SORP as being more appropriate in the circumstances of a charity. Preparers **should** refer to FRS 102 as the disclosures listed in this SORP are not exhaustive.*	In this context, 'must' would be more appropriate than 'should'.	153 162	Sayer Vincent LLP ICAEW
1.1	*The primary purpose of the trustees' annual report (the report) is to ensure that the charity is publicly accountable to its stakeholders for the stewardship and management of the funds it holds on trust. The trustees **should** consider the information needs of the primary users of their report.*	'Must' would be more appropriate than 'should' on the basis of the underlying requirements or the principles on which the underlying framework is based.	164	BDO LLP
1.23	*If, at the date of approving the report and accounts, there are uncertainties about the charity's ability to continue as a going concern, the nature of these uncertainties **should** be explained.*	'Must' would be more appropriate than 'should' on the basis of the underlying requirements or the principles on which the underlying framework is based.	100	RSM UK Audit LLP
1.8	*The report provides important accompanying information to the accounts and therefore **should** be provided whenever a full set of accounts is distributed or otherwise made available.*	'Must' would be more appropriate than 'should' on the basis of the underlying requirements or the principles on which the underlying framework is based.	164	BDO LLP
3.14	*Charities normally prepare their accounts on the basis of being a going concern. The trustees must make their own assessment of their charity's ability to continue as a going concern to assure themselves of the validity of this assumption when preparing their accounts. In making this assessment, a charity's trustees **should** take into account all available information about the future for at least, but not limited to, 12 months from the date the accounts are approved.*	'Must' would be more appropriate than 'should' on the basis of the underlying requirements or the principles on which the underlying framework is based.	100	RSM UK Audit LLP
5.23	*Where terms and conditions have not been met or uncertainty exists as to whether the recipient charity can meet the terms or conditions otherwise within its control, the income **should** not be recognised but deferred as a liability until it is probable that the terms or conditions imposed can be met.*	'Must' would be more appropriate than 'should' on the basis of the underlying requirements or the principles on which the underlying framework is based.	164	BDO LLP
5.36	*If the distribution is to be deferred for more than 12 months and an estimate can be made of the likely date of distribution, the legacy, if material, **may** be discounted by the interest rate the charity anticipates it would earn on a comparable deposit over a similar time frame using the effective interest method set out in section 11 of FRS 102.*	'Should' would be more appropriate than 'may' on the basis of the underlying requirements or the principles on which the underlying framework is based.	161	Scott-Moncrieff
5.36	*The unwinding of the discount **should** be reported as an adjustment to legacy income and not as interest receivable.*	'Must' would be more appropriate than 'should' on the basis of the FRS 102 requirement on which the underlying framework is based.	161	Scott-Moncrieff

5.47	*Income is recognised at the fair value of the consideration received or receivable after making an adjustment for any extended credit terms offered. If extended credit terms are offered on exchange transactions (contract income), the amount receivable **should** be discounted by the time value of money at a rate of interest that reflects the financing transaction involved.*	'Must' would be more appropriate than 'should' on the basis of the FRS 102 requirement on which the underlying framework is based.	122	ICAS
7.9	*When a charity accrues a provision in the reporting period that it will settle over several years, the future payments have a reduced value in today's terms (known as its present value). Where this adjustment would be material, the payments required to settle the obligation **should** be discounted to their present value.*	'Must' would be more appropriate than 'should' on the basis of the FRS 102 requirement on which the underlying framework is based.	100	RSM UK Audit LLP

Appendix 1: Question 3, Areas of perceived inconsistencies in the SORP

TABLE C: Perceived errors

Section of SORP	Extract	Summary of suggested issue and change [*Extract from respondent*]	Included in response	
			No.	Name
5.7	*Transactions must be accounted for and presented in accordance with their substance and not simply their legal form… In particular, a charity **should** consider:*	'Must' would be more appropriate than 'should' Perceived by ICAS as a '*straightforward error*' as included in a '*paragraph which is dealing entirely with requirements*'.	122 155	ICAS Scottish Charity Finance Group

Appendix 2: Questions 5 & 13, Suggested changes to the SORP

Please note that this list only includes those areas noted by more than one respondent, or by a professional body or sector umbrella body. All references are to SORP (FRS 102) paragraphs, unless otherwise stated.

Area **Summary of suggested action/change**	**Section of SORP** (Where applicable)
PRIMARY STATEMENTS	
Structure of the statement of financial activities (SoFA)	
Greater clarity over which headings in the SoFA are 'must' requirements, and which headings can be changed	4.8
Should be greater signposting and emphasis on the freedom which charities include additional headings in the SoFA	4.12
Allow charities the option to present the SoFA with expenditure, rather than income first	-
Change the requirement to have 'investment gains and losses' above the line	-
The headings for income and expenditure should be changed so income can be matched more easily with expenditure	-
Change the requirement so investment management costs have to be shown as a separate expenditure line on the SoFA, and not included within 'Expenditure on raising funds'	4.47
The layout should be revisited for foundations using a 'total return' approach.	Module 20
Requirement for comparative information	
Greater clarity around what information is required for the primary statements and notes to the accounts	4.2
Examples accounts should be clearer in what comparative information is required and how best to layout/present this information	-
Statement of cash flow	
Greater clarity around what exemption provided in FRS 102 can be applied and in which jurisdictions	Paragraph 24
Greater consistency between the requirements for this statement between different jurisdictions (referring the requirement in Scottish charity law)	-
Change the requirement so the statement is split between fund type	14.7
Change the structure of the statement, so the order and detail provided in each heading is more appropriate to the charity sector	14.6
Change the requirements for the notes to the statement of cash flow to specify cash movements for charities that hold investments as permanent endowment and adopt a total return approach to the investment of those funds	14.20-14.21
DISCLOSURES WITHIN THE NOTES TO THE ACCOUNTS	
Related party transactions	
Should revisited and streamlined the layout and wording of the requirements in the module for greater clarity	Module 9
Clearer signposting and greater guidance about the definition what constitutes a related party, given it is wider than FRS 102	9.2 and Glossary
Should offer an exemption in respect of intra-group transactions, given this is available in FRS 102	FRS 102, 33.1A
Revisit the inclusion of donor of land as a related party which is indefinite	Glossary
Change the zero-tolerance level for the disclosure of related party transactions to be in line with the policy level for regulatory intervention	9.3
Change the requirements for the disclosure of related party transactions (excluding transactions with trustees and their close personal connections) so only those transactions which are not made at arm's length are disclosed	9.20
Disclosure of staff costs and employee benefits	
Clarification around what should be included within 'employee benefits' and consistency with FRS 102 definition	9.26
Clarification around what should be included within 'employee benefits' for the banding disclosure	9.30
Greater guidance and examples of the staff that should be included within 'key management personnel'	9.31
Greater guidance and clarification of what should be included within 'redundancy or termination payments'	9.27

Greater guidance around how to meet disclosure requirements for redundancy or termination payments where data protection or confidentiality requirements exist	9.27
Change the requirement so the full-time equivalent is disclosed, rather than the average head count (number of staff employed) during the reporting period	9.29
Analysis of support costs	
Change the requirement for the analysis of support costs to separately identify the total governance costs incurred	8.13
The disclosure of grant-making activities	
Greater clarification and guidance around appropriate and proportionate levels of disclosure for the analysis of grants and details of institutional grants	16.8, 16.17 and 16.18
Government grants	
Clarification as to whether government grants not subject to conditions require to be disclosed within the notes to the accounts	5.58
Greater guidance around the status of devolved government grants within the glossary definition of governance grants	Glossary
Notes required by smaller charities	
Restate the SORP 2005 exemption for smaller charities for certain note disclosures which relate to the constituent costs of an activity or where relevant information is provided on the face of the SoFA	SORP 2005, 95
NARRATIVE DISCOSURES	
Trustees Annual Report, content required of larger charities: Plans for future periods	
Information on 'plans for future periods' should be required by all charities	1.49-1.50
Change the information required on 'plans for the future periods' to be more specific, so disclosures focus only on the next 12 months and plans are measurable	1.49-1.50
Fundraising disclosures brought in by the Charities (Protection and Social Investment) Act 2016 (England and Wales)	
Greater guidance on how these new disclosures should be applied and what constitutes a fundraising complaint	-
GROUP ACCOUNTS	
Mergers	
Clearer signposting of Company Law requirements in this area	-
Clearer signposting of the amendments in Update Bulletin 1	27.4
Change the disclosure requirement for information about merged charity to be provided indefinitely	27.15
Branch accounting	
Change the requirements so that charities which have corporate status are excluded from the 'charity branch' status	25.7
INTERACTION WITH FRS 102 AND OTHER LEGAL AND REGULATORY REQUIREMENTS	
Interaction with legislation	
The Charities Act 2011 requires to be updated to reference the current SORP (England and Wales)	-
Greater guidance around the disclosures which have to be made for charities during this period when the Charities Act 2011 still refers to the SORP 2005	-
The differences between the requirements for charitable companies results in inconsistent reporting and is problematic on consolidation for group accounts.	Module 15
Greater guidance on where the exemptions in Companies Act 2006 (s408) can be taken by charitable companies to prepare a parent only SoFA where this is presented in the group accounts.	-
Expand the requirements of the trustees' annual report so they incorporate all matters to be covered by a strategic report to avoid both having to be prepared by UK charitable companies that qualify as medium or large companies	15.7-15.9
Exemptions under Section 1A of FRS 102	

Greater signposting in the SORP of which exemptions under Section 1A can be applied – with relevant exemptions being highlighted and explained for smaller charities	-
Greater clarification around which charities qualify for the exemptions in this section, and within which jurisdiction.	-
Interaction with other applicable SORPs	
Include guidance which explains that where entities are covered by another SORP but also exist as registered or exempt charities, the Charities SORP can be apply to charity specific matters when accounting for these (e.g. donated assets or legacy income)	Paragraph 15
EVENTS AFTER THE END OF THE REPORTING PERIOD	
Donation of Gift Aid to parent charity	
Greater guidance on the presentation and accounting for the donation of Gift Aid from a trading subsidiary to parent charity	13.5
INCOME	
Recognition of income: Grants	
Clearer definition of 'performance-related conditions' within grants funding agreements	5.16
Greater guidance, examples and methodologies for the recognition of grant funding agreements with performance-related conditions'	5.11
Greater examples and additional guidance on when it is appropriate to accrue and defer grant income	5.20-5.22
Greater and clearer guidance for the following situations: • Multiyear grants • Unexpended gran repayment options • Grants on a reimbursement basis	-
Change the requirements which prevent grants which do not have performance-related conditions being included in the 'income from charitable activities' SoFA heading	5.6
Recognition of income: Legacies	
Greater guidance and clarification needed as there is divergence in practice	-
Practical problems are being encountered in obtaining the information required for the requirements in this area	-
Accounting for donations received at fundraising events	
Clearer guidance on where donations received at fundraising events should be included in the accounts. Suggested it should be included under 'Income from donations and legacies' rather than 'Income from other trading activities'	-
Accounting for donated goods	
Greater guidance and clarification needed on the valuation of donated goods as practice is inconsistent amongst charities	Module 6
Accounting for donated facilities and services: Gifts-in-Kind	
Change the requirement for this to be valuated and including in the charity's accounts. This should only be included as a narrative disclosure, and not part of the charity's results.	6.13
Accounting for donated facilities and services: Volunteers	
Change the requirement so the value of the volunteers' time is required to be shown in the accounts	6.18
EXPENDITURE	
Measurement of liabilities: discounting obligations to their present value	
Change the requirement so charities are exempt against having to discount obligations to their present value	7.8
Expenditure on raising funds: Definition	
Greater guidance is needed on how to calculate this costs and what can be included within it, as the FR Regulator levy is to be based on this accounting figure.	-
Accounting for donated goods for resale	
Revisit the wording of paragraph 6.30, as the current requirement on how to account for the costs of sale of donated goods results in charities double counting these costs.	6.30

Activities partly undertaken through grant-making	
Greater specification of the different forms of 'direct service provision' which can be provided to beneficiaries by grant-making charities	16.10
FINANCIAL ASSETS AND FINANCIAL LIABILITIES	
Disclosure of revaluation and fair value reserves (UK Charitable companies)	
Greater clarity on the requirements for charitable companies are in relation to showing revaluation/fair value reserves on the face of the balance sheet, and examples of those situation where a reserve is required and how this should be presented.	15.21-15.24
Change the requirement in respect of fair value reserves, as company reporting requirements do not require disclosures as is stated in paragraph 15.23	15.23
Measurement of investments in shares at fair value: bid price	
Change the requirement to allow charities to use mid-market values of investments rather than the bid-value. This is the information which is typically provided by investment managers, and is considered more reliable than the bid-value - which many managers only provide at a charge	11.17
Accounting treatment for financial instruments and hedging transactions	
Simplification of the reporting of financial instruments and hedging transactions	Module 11
ACCOUNTING FOR SOCIAL INVESTMENTS	
Classification and valuation of investment properties	
Greater clarity on the methods and frequency of valuation of investment properties held	10.48
Greater clarity on the level of rental income which must be generated by a property for it to be classed as an investment property	21.16
Greater guidance of how to value the investment property portion of a mixed use property	21.17
Greater clarity on the appropriate rental rate which would result in a mixed use property being apportioned between tangible fixed assets and investment property	21.17
Greater guidance on situations where properties are leased to group members, how these should be treated on consolidation	-
Concessionary loans	
Change the requirements for concessionary loans to reflect the definition and accounting for concessionary loans in FRS 102	21.26
Presentation of social investments	
Greater clarification on the requirement to presentation of social investments as a separate class of investment assets on the face of the charity's balance sheet	21.13 and 21.22
USABILITY OF SORP	
These were grouped into the following broad headings: • Changes to the **layout** of the SORP • Changes to the **signposting/references** within the SORP • Changes to the **language**	Various

Appendix 3: Questions 12 & 15, Suggested items and disclosures for removal

TABLE A: Items and suggested disclosures for removal
Please note that this list only includes those areas noted by more than two respondents.

Suggested item or disclosure	Relevant section	Section of SORP	No. of respondents suggested by
Aggregate disclosure of the total amount of donations donated by trustees or other related parties without conditions	Notes to the accounts	9.18	17
The requirement for comparative to be provided for all amounts presented in the SoFA	Accounts	4.2	14
Disclosures to be made in the notes to the accounts in respect basic financial instruments	Notes to the accounts	11.35	10
Disclosures in the notes to the accounts of defined benefit plans	Notes to the accounts	17.24	10
Requirement for a statement of cash flow	Accounts	14.1	5
Disclosure of redundancy or termination payments relating to the reporting period	Notes to the accounts	9.27	4
The recognition of a liability for paid annual leave and paid sick leave	Accounts	7.41	4
Salary banding disclosure (the number of employees whose total employee benefits fell within each band of £10,000 (€10,000) from £60,000 (€70,000) upwards)	Notes to the accounts	9.30	3
The judgements management has made in the process of applying the entity's accounting policies that have the most significant effect on the amounts recognised in the accounts	Trustees' annual report	3.40	3
Discounting obligations to their present value	Accounts	7.8	3
Reference and administrative details within the trustees annual report	Trustees' annual report	1.27	3

Appendix 3: Questions 12 & 15, Suggested items and disclosures for removal

TABLE B: Changes/amendments proposed for those items and disclosures suggested for removal
Please note that this table includes only those suggestions offered by respondents for the top four areas in Table A

Summary of suggested change/amendment **[*Extract from respondent*]**	**Included in response**	
	No.	**Name**
Aggregate disclosure of the total amount of donations donated by trustees or other related parties without conditions (Paragraph 9.18)		
…restricted to donations from trustees	58	Charity Practitioner Forum
…there to be a Public Benefit Entity exemption for charities and charity trustees in respect of donations received without conditions.	142	Cancer Research UK
…should only be required disclosures if the Trustee has directed or restricted the nature of any donation made.	147	Price Bailey LLP
…where donations are within the normal course of business, the need to disclose this should be removed.	153	Sayer Vincent LLP
Introduce a threshold where disclosure is required is applied, suggesting 'if more than 10% of the income of the charity is donations from trustees then this should be disclosed'.	166	Kingston Smith LLP
The relevant provisions need to be focussed on situations where trustees are benefiting from the charity, rather than where the charity benefits from trustees.	162	ICAEW
The requirement for comparative to be provided for all amounts presented in the SoFA (Paragraph 4.2)		
…seek agreement from the FRC that paragraph 3.14 should not apply in relation to the analysis between funds. *…comparable information for all amounts presented in the SoFA, should be amended to "optional" or (preferably) removed altogether.*	156	Michael Brougham
…allowing a summary/single column SoFA and the notes to the accounts analyse the income and expenditure by material fund.	161	Scott-Moncrieff
Disclosures to be made in the notes to the accounts in respect basic financial instruments (Paragraph 11.35)		
SORP-11.35 should therefore be amended to require charities adopting FRS102-1A simply to confirm that they have only basic financial instruments as defined by Table 7 or else that their only non-basic financial instruments are immaterial to the public interest. It is only the very largest charities with financially significant non-basic financial instruments to reduce forward currency risks or derivatives to hedge against investment risks (given that the charity law duty of care does not permit indulgence in more speculative varieties), as well as the fee-charging Independent School charities with capped Advance Fee Schemes as identified in the third bullet-point at SORP-11.27, should have to make the detailed disclosures of SORP-11.35, as these will then complement the disclosures they have to make under FRS102-12, whose complexity, comparative rarity in the charity sector and lack of charity-specific characteristics justifies merely cross-referring to them in the SORP.	38	Association of Church Accountants and Treasurers

…these requirements are just included in the relevant balance sheet, accounting policy or SoFA note.	147	Price Bailey LLP
Disclosures in the notes to the accounts of defined benefit plans (Paragraph 17.24)		
Provide this note through a link to the charity's website	142	Cancer Research UK
	153	Sayer Vincent LLP
Severely shorten the pension scheme disclosures, but require that the charity possesses the information, says so in the accounts, and provides it on request.	3	Royal Blind & Scottish War Blinded
Where the charity participates in multiple schemes - aggregate disclosures in this area	166	Kingston Smith LLP

Appendix 4: Question 14, Suggested items to add to the report or accounts

Suggested items			Included in response	
Area of additional item	**Relevant section**	**Extract from respondent(s)**	**No.**	**Name**
Trustees and governance arrangements	Trustees' annual report	*Tenure of individual trustees; narrative on the frequency of meetings held in governing the charity* • *Trustees terms of office: fixed or perpetual?* • *What is the board's policy on individual trustee/chair appraisals? Who conducts them?* • *Activities undertaken to improve board performance, eg, induction of new trustees, training. We note that for larger charities, they already have to report on policies—but they should report on action too.* • *Board evaluations: whether there has been a recent board evaluation or other type of review, such as skills audit. What action taken as a result?*	148 162	haysmacintyre New Philanthropy Capital
Adherence with governance code	Trustees' annual report	*Asking charities to state in their Trustee Annual Report whether they comply with a governance code and, if so, to say which code they comply with (i.e. a step below the requirements of Listed Companies to report on how they have applied the Code in their annual report and accounts.)*	102	Rosie Chapman
Inclusion of new fundraising disclosures brought in by the Charities (Protection and Social Investment) Act 2016	Trustees' annual report	*…the new fundraising policy/control disclosures that auditable charities must now make in the trustees' annual report under s. 162A of the 2011 Act should also be included in the new SROP as a 'must', together with further best-practice disclosures considered appropriate.*	159 38	Crowe Clark Whitehill LLP Association of Church Accountants and Treasurers
Gifts-in-Kind, additional narrative disclosures	Trustees' annual report	*The trustees' annual report should be required to included particular in so far as not explained in the accounts or accounts notes, of any financially significant gifts-in-kind of* *(i) tangible assets (together with any restriction on their use and/or disposal) and (ii) services and facilities.*	159 38	Crowe Clark Whitehill LLP Association of Church Accountants and Treasurers
Amount paid to consultants	Notes to the accounts	*Costs paid to consultants involved in the delivery of charitable activity over £x value*	148	haysmacintyre
Tax relief claimed	Notes to the accounts	*… how much tax relief is claimed (eg Gift Aid, Council tax). And for larger charities, an *estimate* (say to within +/-5%) of how much irrecoverable VAT has been paid (I realise that even large charities may not routinely analyse the VAT in their payments, so such data would have to be an estimate in the Notes).*	1	Ian Clark
Staff turnover	Notes to the accounts	*Staff turnover (determined from payroll)*	160	Anonymous