

The funds note and the Charities SORP - Discussion Briefing

Prepared by: CIPFA and Reviewed by the Charities SORP-making body, August 2021

Purpose of the briefing paper

To assist the engagement strands and Charities SORP Committee in their reflections on the current approach to the funds note as required by the SORP and to undertake a problem-solving exercise to identify:

- Whether there is a need to make the funds note more prominent (within the limitations that the order of notes is proscribed by standards and/or legislation).
- Is more guidance required regarding this note?

A preferred option is required with a recommendation as to what changes there should be to the SORP, or other guidance required, if any.

Reflection - what are the SORP requirements for the funds note?

The origins of the requirement to differentiate the types of fund held by a charity is found in the 1988 SORP: <https://www.charitySORP.org/sorp-archive/previous-editions-of-the-sorp/> and the distinction is intended to represent the requirements of charity law in the accounts with respect to the source and application of those funds and any donor or other restrictions applying to those funds.

Module 1 requires for all charities:

- 1.24. The report must also identify any fund or subsidiary undertaking that is materially in deficit, explaining the circumstances giving rise to the deficit and the steps being taken to eliminate the deficit

In most respects each SORP since 1995 has required a consistent presentation for the note. SORP 1995 paragraph 45 looked for a reconciliation which was subsequently elaborated upon to assist preparers set out the note in SORP 2000 paragraph 49 and SORP 2005 paragraph 75 and table 2. A simplification in the FRS102 SORP dropped the requirement to disclose funds with negative balances separately, thereby widening the scope for netting off (this removed the requirement previously found in SORP 2000 paragraph 49(c) and SORP 2005 paragraph 75 (b)).

Module 2, Fund Accounting, of the current SORP covers;

- the general principles of fund accounting
- transfers between funds
- the fund disclosures in the accounts.

The discussions on this issue and therefore this Briefing Paper focuses on the third bullet point, the fund disclosures in the accounts.

FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* does not cover the funds note in charity accounts, the SORP's prescriptions therefore emanate from what is required by FRS 102 reporting and the legislative requirements for the notes regarding charity funds.

Para 2.27 to 2.30 of the SORP contains the following requirements for the fund note;

Fund disclosures in the notes to the accounts

- 2.27. For the proper administration of charitable funds, the accounting records of a charity must identify the transactions for each of the funds held. This SORP requires that items recorded in the SoFA must be analysed between unrestricted funds, restricted income funds and endowment funds. The information for endowment funds provided in the SoFA should combine the presentation of permanent and expendable endowment.
- 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. The notes must differentiate unrestricted funds (both general and designated), restricted income funds, permanently endowed funds and expendable endowments. Table 1, 'Outline summary of fund movements' gives an example of how the movements in material funds may be shown.
- 2.29. In particular, this SORP requires that notes to the accounts must disclose:
- a summary of the assets and liabilities of each category of fund of the charity, if not provided by presenting this information in a columnar balance sheet;
 - details of the purposes and trust law restrictions imposed on each material individual fund;
 - details of the movements on material individual funds in the reporting period, reconciling the opening and closing fund balance (small funds with similar purposes may be aggregated);
 - details of the reasons for any material transfers between different classes of funds;
 - where endowment has been converted to income, details of the amount(s) converted and the legal power for its conversion;

- where the trustees have a power to invest permanent endowment on a total return basis, the details of the movements in the value of unapplied total return for the reporting period (refer to the SORP module '[Total return \(investments\)](#)'); and
- details of the planned use of any material designated funds, explaining the purpose of the designation.

2.30. In deciding on the most suitable form of presentation, the charity should consider:

- the complexity of the fund structure; and
- the need for any separate fund statement(s) or note(s) to agree with the charity's SoFA and balance sheet.

As referred to in paragraph 2.28 above, the module provides an illustrative table for the presentation of the funds note in Table 1 to the Module. This is shown in Appendix 1 to this paper.

[Additional guidance](#)

Additional guidance is contained in the accounting regulations in the UK jurisdictions.

England and Wales

The Charities (Accounts and Regulations) Regulations 2008,

Part 2, Form and Content of Statements of Account, S.8. (7)

- Where a charity has more than one fund, only amounts corresponding to the entries in the statement of financial activities relating to the totals of both or all of the funds of the charity need be shown

Schedule 2 "Notes the Statement of Accounts prepared by a charity that is not an investment fund of a special case charity", S.1 (1 (d and i))

- a description of the nature and purpose of all material funds of the charity in accordance with the methods and principles set out in the SORP
- an itemised analysis of any material movement between any of the restricted funds of the charity, or between a restricted and an unrestricted fund of the charity, together with an explanation of the nature and purpose of each of those funds

Scotland

Charities Accounts (Scotland) Regulations 2006

Schedule 1 Fully Accrued Accounts – Principles, S.9.

- Where a charity has more than one fund, only amounts corresponding to the entries in the statement of financial activities relating to the totals of both or all of the funds of the charity need to be shown.

Northern Ireland

The Charities (Accounts and Regulations) Regulations (Northern Ireland) 2015

Part 2 Form and contents of statement of accounts: general charities S.8 (6 and 4)

- (6) Where a charity has more than one fund, disclosure is subject to paragraph (4).
- (4) The statement of accounts must be prepared in accordance with the methods and principles set out in FRS 102 and the SORP.

What is the reporting difference between ‘all’ and ‘larger’ charities?

Fund accounting has been viewed as a distinctive feature of charity financial reporting and consequently the SORP contains no difference in the reporting requirements for large and small charities.

Engagement strand feedback during the exploration stage

The funds note

Engagement strand feedback - user of the accounts perspective and issues particular to preparers

Professional and Technical Strand B

Making the funds note more prominent in the accounts was suggested and more guidance on the preparation of the note would be helpful.

“Consideration should be given to giving greater prominence to the funds note. However, we recognise that this is a note which charities can find difficult to get right so some further guidance around the preparation of this note may be helpful.” (PTS(B))

The order of the notes is determined by legislation and changes to this would require changes in the legislation.

Major funders and donors and government and public bodies

This engagement strand noted in particular that the inclusion of the full SOFA from the prior year seems unnecessary given the summary comparative information on the face of the current year's SOFA **and also the movement of funds note.**

[Bold added for highlighting purposes]

Observations from the SORP Committee:

At their meeting on 23 February 2021, the Committee agreed to take forward the topic of the fund note for consideration.

Relevant SORP research findings

The focus group from the Small Charities Research reported that many trustees found charity accounts hard to understand. This did not address the funds note directly but certainly smaller charities and their trustees may lack resources to understand the note and its purpose.

OSCR Research showed that public trust is enhanced by transparency of accounting with 58% of the research sample saying trust is enhanced by seeing where a donation goes to.

The 2016 Research exercise identified the following:

That it was unclear what the status of 'requires' in paragraph 2.28 above. This might suggest that more could be done on linking the sources of the requirements to the provisions of the SORP.

What needs to be done now?

Step 1- Making the case for change - a 'basis for conclusions'

At this stage, there is a need to decide:

- (i) whether there need to be any changes to the funds note disclosure requirements specified in the Charities SORP, and
- (ii) what those amendments might be to improve the understanding of the users of the accounts or to assist accounts preparers with the decisions and judgements required to recognise the incoming resources and application of the charities' funds in the notes to the accounts.

Step 2 - Advising the change required to the SORP

Having made the case for change, the detailed amendments required to the SORP need to be specified. Consideration should be given in as much detail as possible for the funds note. If no

detail is given, the conclusion drawn is that the detail is left wholly to the discretion of the SORP Committee and SORP-making body.

Undertaking an assessment of the impact (savings or costs on the preparer and benefits or disadvantages to the reader)

The FRC will require an impact assessment but until the implications of change are worked through the SORP framework, the impact is unlikely to be clear and so this will be considered at the drafting stage of the process.

Step 3 - Recommendation

The case made by each engagement strand or combination of strands will inform the deliberations of the SORP Committee and so there needs to be a clear recommendation from the engagement strands and the SORP Committee.

Following evidence provided by the engagement strands the SORP Committee will have its own discussion about what needs to be done and taking the evidence and views from the process, the Committee will settle on a recommended approach for drafting the SORP based on the evidence presented.

Appendix 1

Module 2, Table 1: Outline summary of fund movements

Fund name	Fund balances brought forward	Income	Expenditure	Transfers	Gains and losses	Fund balances carried forward
	£	£	£	£	£	£
Fund 1						
Fund 2						
Fund 3						
Other funds						
Total funds						