

Independent Oversight Panel

# Guiding the Development of the Charities SORP

*Exploring changes to the way the Statement of Recommended Practice: Accounting and Reporting by Charities is developed*

## REPORT AND RECOMMENDATIONS

June 2019



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## Introduction by the Chair of the Panel – Professor Gareth Morgan



This Review asked a fundamental question: how should the future development of the Charities SORP be governed?

The Charities SORP sets out financial reporting requirements that apply to almost all charities preparing accounts designed to give a true and fair view (though it does not apply to the smallest charities preparing receipts and payments accounts – see Section 1 of this report and Appendix A for details).

There is much debate in the sector regarding the governance of individual charities, but what about the governance of key standards and requirements – such as the SORP – that charities need to follow?

Should such requirements be developed solely by the charity regulators? Or by the finance staff and accountants who are primarily responsible for preparing charity accounts. Or by those who will be the main users of charity accounts? And how should those responsible for the process engage with the wide range of stakeholders who are affected?

This report explains the finding of a governance review (see [www.gov.uk/government/news/charity-regulators-hold-governance-review-of-sorp-making-process](http://www.gov.uk/government/news/charity-regulators-hold-governance-review-of-sorp-making-process)) of the whole process by which the Charities SORP is formulated and developed – a review of the SORP-making process as applicable in four jurisdictions: England and Wales, Scotland, Northern Ireland and soon to apply also in Ireland.

### The Review Process

A Panel was established with a representative from each of the four charity regulators (CCEW, OSCAR, CCNI and the Irish Charities Regulator – see Section 1 for abbreviations). We were joined by an observer from the Financial Reporting Council (FRC) and I was honoured to be asked to act as Independent Chair of the Panel.

We were tasked with exploring the aims set out in Section 2 of this report. We launched a public consultation ([www.charitySORP.org/about-the-sorp/consultation-on-the-process-for-developing-the-sorp](http://www.charitySORP.org/about-the-sorp/consultation-on-the-process-for-developing-the-sorp)) raising some fundamental questions around five main themes as explained in Section 3.

### Chair's Reflection

As the Panel concludes its work, it is 24 years – nearly a quarter of a century – since SORP 1995 was issued (this was the first Charities SORP directly linked to a mandatory requirement enshrined in charity law). The SORP first acquired formal status in regulations from 1996 in England and Wales, from 2006 in Scotland and then from 2015 in Northern Ireland. It is soon expected to become mandatory, at least for larger charities, in the Republic of Ireland.

As someone who has studied charity accounting over many years, including the successive switches in each jurisdiction from the former approaches to the mandatory use of SORP, I have no doubt that the requirements to follow the Charities SORP (and the associated requirements for audit/independent examination of charity accounts) have led to massive improvements in the standard of charity financial reporting.

Charity accounts are generally now prepared in a consistent format, distinguishing the different types of funds, with common rules on other disclosures and with requirements for a trustees' report. This has led to a vast improvement in the understanding of charity resources by trustees, by funders, and by others who use charity accounts. This in turn has helped trustees make better decisions on how best to serve their beneficiaries, and has helped the sector make the case to donors and funders that it is worth investing substantially in charities as a means of delivering public benefit. The requirements of the SORP make it much easier for regulators to identify charities with serious failings and the consistent presentation helps those who undertake comparisons between charities (although there is also a danger if figures are extracted from the SOFA and Balance Sheet without consideration of the further explanations provided).

But if the SORP is to succeed for another quarter century it has to move on to meet new expectations regarding the accountability of charities for their plans and their use of financial resources. The resulting financial statements must be meaningful for those who use them. And the SORP must remain usable for those preparing charity accounts – there will always be some complaints, but it must be possible for the vast majority of charities subject to the SORP, whether larger or smaller, to apply it effectively when preparing their annual reports and accounts each year without disproportionate costs or effort.

We believe the significant recommendations set out in this report will make a major difference in enabling the future development of the Charities SORP to deliver on these requirements.

### **Findings and tensions**

The consultation process led the Panel to document some aspects of the SORP-making process that had evidently led to confusion in the past – for example, distinguishing between the role of the SORP-making body itself (currently comprising CCEW, OSCR and CCNI) and the role of the SORP Committee as an *advisory committee* to the regulators. We also documented the status of the SORP in relation to cross-sector accounting standards on the one hand as set by the FRC and on the other in relation to the specific requirements of charity law in each jurisdiction. See the consultation diagrams (reproduced in Section 1 of this Report) that sought to clarify these issues.

The Panel considered consultation submissions from some who were largely content with the current SORP-making process and only wished to see minor change, from others who called for more radical change to the structure and operation of the SORP Committee and its relationship to the charity regulators, and from some who felt that the whole paradigm of charity financial reporting under the SORP was fundamentally flawed in terms of meeting the needs of users.

The responses also brought out the inherent tensions in the role of the Charities SORP. On the one hand it must fit with the FRC's requirements for SORPs to interpret accounting standards such as FRS102 in the context of a specific sector (charities in this case). On the other hand, the SORP has a wider status in promoting charity accountability – especially in terms of donors, funders, beneficiaries and the wider public who have a legitimate interest in how charities are using their resources.

Responses also highlighted the tensions between large and smaller charities as entities required to apply the SORP, issues between the regulatory frameworks in the four jurisdictions, and between the very different types of organisations in the charity sector but all subject to the SORP, including grant-makers, faith-based organisations, charities delivering public services, membership bodies and many other categories.

Whilst we cannot resolve all these tensions, we believe that our recommendations will enable the SORP to be much more effective in future at bridging these demands.

Some respondents also raised issues outside our immediate terms of references, such as problems of poor compliance with the SORP, and some made suggestions for changes to the SORP itself. Where possible we have noted these issues in this report for wider consideration.

### **Acknowledgements**

I would like to thank all those who responded to the consultation or took part in the events, the Panel members for their commitment to the task, and Nigel Davies and Laura Anderson (Co-Chairs of the SORP Committee) who acted as our secretariat.

**Gareth Morgan**

June 2019

## Executive Summary

The Charities Statement of Recommended Practice (the Charities SORP, or – in this report – simply “the SORP”) has played a central role in the financial reporting by charities in the UK since 1995. It is essential that as the context in which charities operate and report changes, so the SORP evolves and develops to meet the new operational context and reporting challenges that trustees face. With this in mind, the Oversight Panel that conducted this Review considers that it is essential that the focus of the SORP and the way it is developed are significantly changed to have stronger emphasis on public interest.

The SORP has a track record as a ground breaking framework, which has been emulated in a number of other countries, that is technically sound in applying accounting standards – but in our view technical excellence is no longer enough. Profound changes are now needed in both the focus of reporting and wider engagement in the process for developing the SORP if the SORP is to continue to be fit for purpose and meet the needs of the key users of the trustees’ annual report and accounts.

Our desire, as a Panel, is that the SORP development process is able to meet the expectations of the wide range of interested stakeholders. This Governance Review was a response to concerns raised about the way the SORP has been developed, and in recognition of the application of the SORP potentially extending across the UK and Republic of Ireland. Both developments demand a more inclusive approach for a SORP that will be fit for the whole of the UK and Ireland. To this end, we set out specific aims for our review (refer to section 2.1 for these). We undertook a consultation process as part of our review to gather as many different views and suggestions as possible.

This report sets out the findings of the consultation and the recommendations of the Oversight Panel which has been conducting the Governance Review. As a Panel, in reaching our conclusions, we have considered the evidence and suggestions and debated what is the best way forward rather than seek a middle course or compromise approach between the various suggestions made to us.

In brief, the key conclusions from our review process were:

- Charity financial reporting must pay more attention to the users of charity reports and accounts. The key users, whose needs should be central to financial reporting by charities, are:
  - proxies who best represent the public and beneficiary interest whose needs should enjoy a greater prominence in the process
  - trustees who need to explain their charity’s activities to those interested in the work of their charity and the wider charity sector, and
  - those who give to, or fund, the charity sector
- There is a need to offer greater simplification of financial reporting requirements for smaller charities, which comprise the vast majority of users of the SORP. A fresh focus on the reporting needs of smaller charities is required.
- The advisory SORP Committee should be retained but it needs to be smaller, have a redefined role, and, although it should still play a central role, it is to be only a part of a more creative, ongoing and intensive engagement process with the key users. Its membership should include explicit representation from the four jurisdictions including smaller charities.

- The aim of the SORP should not just be about ensuring a high standard of technical compliance with accounting standards but equally it should be developed with a view to meeting interests of the key users of charity reports and accounts whilst being readily usable by smaller charities.
- There is a need for the charity regulators to identify good practice guidance on the form and content of non-statutory financial reporting by charities to encourage greater consistency with the report and accounts and to help in calling out misleading financial reporting by charities. There should be an explicit statement that where a charity provides financial information outside the statutory accounts it should be consistent with the SORP-compliant accounts.

To give effect to these key conclusions, the Panel made 36 recommendations, grouped under five themes (set out in section 3 and summarised in Appendix E). We would encourage all who are interested to read these recommendations in their context. The context comprises the findings from the consultation exercise and the conclusions reached following the Panel's deliberations.

The recommendations in summary can be paraphrased as:

- The reporting needs of the proxy user for the public and beneficiary interest and smaller charities require a refocusing of the SORP and greater simplification of reporting requirements for smaller charities with more support for trustees.
- The SORP Committee be retained but reforms are needed regarding size, composition and clarification of the respective roles of the SORP-making body and SORP Committee.
- Broader and ongoing engagement is needed with a much wider group of stakeholders if the SORP is to continue to be fit for purpose.
- The sector and charity regulators should collaborate to identify and codify best practice in non-statutory financial reporting.
- The SORP-making body, supported by the Financial Reporting Council (FRC) needs to ensure that the redesigned SORP development process takes effect.
- The charity regulators are asked to ensure that SORP process is adequately resourced to implement these recommendations.

The Panel's recommendations will be submitted to the charity regulators for consideration and response. The Panel hopes that this report of the Governance Review will be considered at board level by each regulator for support and allocation of resources to take the recommendations forward, subject to any recommendations that require approval from the FRC.

The test as to whether our recommendations have been successful will be whether the SORP-making body has in place a redesigned process that engages key stakeholders, reflects their views and delivers a trustees' report and accounts in both content and format which meets their expressed needs and accounts that are 'true and fair'. We acknowledge that to deliver this outcome the SORP-making body will need continued support from the FRC and the collaboration of law makers with respect to amending applicable law and regulations.

We recommend that the detail of this report and supporting analysis are both read in full to appreciate the comprehensive plans we have for change.

## Section 1 – The SORP and how it is currently developed

The *Charities Statement of Recommended Practice* (the SORP) is at the centre of financial reporting by charities in the UK. This is because those charities established as charitable companies, irrespective of size, and other types of charity with an income of £250,000 or more must follow the SORP.

There are some exceptions – certain educational charities, housing charities and charities that are primarily focussed on investing funds on behalf of other charities that are required to follow alternative SORPs.

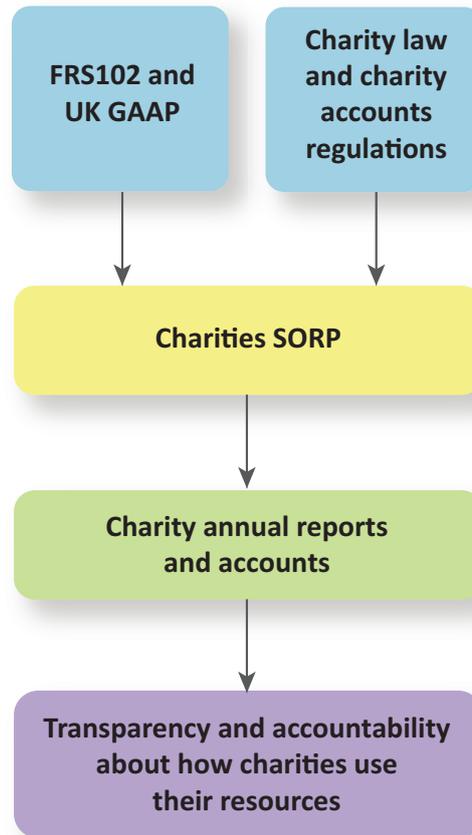
Charities up to £250,000 income that are not structured as companies are not generally required to follow the SORP as the law gives them the option to prepare their accounts on a cash (receipts and payments) basis. But in practice, many charities at this level choose to follow the SORP. (For more background on the SORP and explanation of the terms used below, refer to Appendix A.)

The SORP requires accounts and trustees' reports with a high level of detail, as compared to for-profit companies of a similar size. A standardised approach to financial reporting is required of larger charities but the SORP allows a reduced level of detail in reporting in the trustees' annual report and more freedom in formatting aspects of the accounts by smaller charities.

Larger charities are currently defined by the SORP as having a gross income of more than £500,000 (or €500,000 if reporting in the Republic of Ireland). References in this report to "smaller charities" refer to charities that are smaller under this SORP definition.

The SORP is part of the wider financial reporting framework known as UK-Irish Generally Accepted Accounting Practice (GAAP). It combines different influences in a coherent financial reporting framework: financial reporting standards, charity and company law, and the reporting needs of the sector itself (see figure 1). Prior to the SORP being issued, it is subject to review by the Financial Reporting Council (FRC). When issued it carries a statement from the FRC confirming, as appropriate, that the SORP does not appear to contain any fundamental points of principle that are unacceptable in the context of current accounting practice or that conflict with an accounting standard.

In addition to adhering to the requirements of accounting standards the SORP either incorporates, or cross refers to, the financial reporting requirements of charity and company law in the UK and Ireland.



*Figure 1: The status of the Charities SORP in relation to charity financial reporting*

The FRC appoints a SORP-making body to undertake the role of developing the SORP. In the case of charities, the joint SORP-making body is responsible for developing, maintaining and publishing the SORP. The current joint SORP-making body approved by the FRC comprises:

- the Charity Commission for England and Wales (CCEW)
- the Charity Commission for Northern Ireland (CCNI) and
- the Office of the Scottish Charity Regulator (OSCR)

Currently the Charities Regulator (CR) in the Republic of Ireland has an observer representative. The FRC exercises oversight over the SORP development process.

These responsibilities as members of the SORP-making body are ultimately exercised by the boards of each of the charity regulators.

To assist the SORP-making body comply with the FRC Policy for the development of SORPs and to represent stakeholders whose views are needed to inform the process, the SORP-making body has established and maintained a sector-based expert SORP Committee (see figure 2). The SORP committee plays a central advisory role in the current SORP-making process.

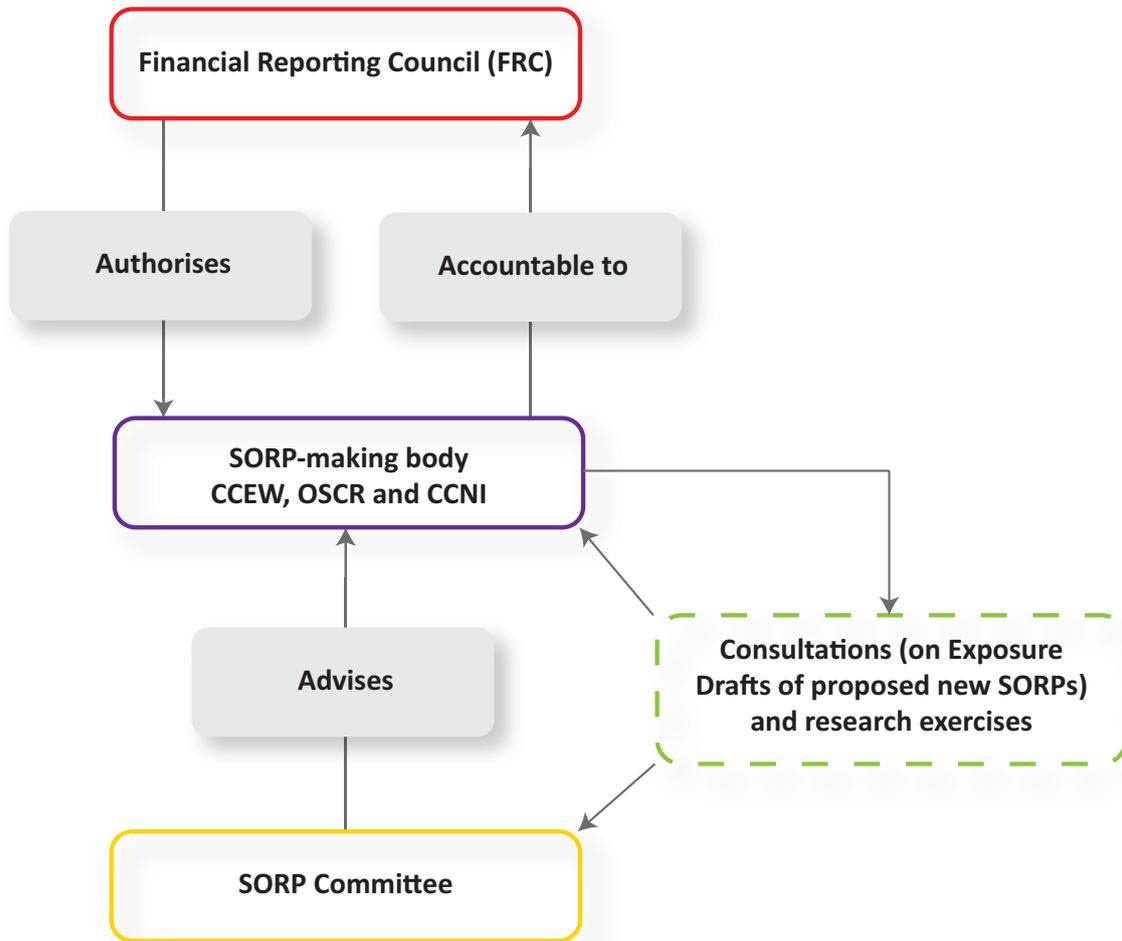


Figure 2: The current SORP-making process

## Section 2 – The Governance Review

### 2.1 What was the purpose of the review?

In 2018, the charity regulators for the UK and Ireland agreed that it was necessary to conduct a governance review to consider whether the process for developing the SORP is fit for purpose.

The review was in response to external criticism of the way the SORP was developed, and in particular a perception that is overly influenced by the views of charities in preparing their accounts and the accounting profession, and that the SORP was insufficiently responsive to the needs of smaller charities which desire a simpler reporting framework.

Also, since 2006, the SORP-making body has been the Charity Commission for England and Wales (CCEW) and the Office of the Scottish Charity Regulator (OSCR) but with the Charity Commission for Northern Ireland (CCNI) joining in 2018 and the Charities Regulator (CR) now involved it was opportune to revisit the arrangements again. A review of this nature had not been previously undertaken but was considered important with the expansion of the SORP-making body coupled with a desire to ensure the SORP is responsive to the demands placed on charity reporting and some challenge to the SORP development process from commentators, in particular those of Mr Joe Saxton, a former SORP Committee member.

The key aim was to ensure that the SORP continues to be fit for purpose and for the future and serves the needs of those interested in the work of the charity sector and the sector itself as well as it can.

An Oversight Panel (the Panel) was established to conduct the Governance Review. The charity regulators decided to appoint Professor Gareth Morgan as the independent Chair of the Panel. They considered that Professor Morgan brought a great depth of research knowledge and experience of the charity sector and not-for-profit financial reporting and was well suited to the brief.

An independent Chair brought both a fresh external perspective, the opportunity for critical challenge, and offers stakeholders interested in the SORP an assurance that the aims of the review are genuine and that the feedback received would be properly considered. The independent Chair had the casting vote on recommendations made by the Panel and ultimate editorial control over this report. Please see the introduction to this report for his comments on how the SORP Governance Review has been conducted and reported.

The charity regulators agreed with the Chair of the Panel that as a minimum the Governance Review should consider the following matters:

- The composition of the advisory SORP Committee with particular reference to the representation of key stakeholders.
- Identification of, and engagement with, key stakeholders in the SORP development process and to identify any necessary changes to the process to ensure their inclusion.
- The extent to which the views of key stakeholders have been recognised in the process and to identify any changes to the SORP development process needed to more effectively address their information and reporting needs.
- The possibility of alternative reporting formats better meeting the needs of stakeholders either by supplementing or replacing the traditional trustees' annual report and accounts and the role of the SORP-making body in making recommendations on such formats, if any (the adoption of any such recommendations would be subject to regulatory approval in each charity law jurisdiction).

Outside of scope was the formulation of accounting standards, the role of the SORP itself in relation to accounting standards, the creation of SORP-making bodies and the FRC's policy on developing SORPs, as these are all matters reserved to the FRC.

## 2.2 The work of the Panel

Alongside Professor Gareth Morgan as Chair, the Panel comprised representatives from the charity regulators (in most cases, a senior member of staff not involved in the work of the SORP Committee) and an observer from the FRC. With the exception of the Irish CR representative (who currently has observer status on the SORP Committee) none of the full members of the Panel were involved in the day to day activity of the SORP-making body or SORP Committee.

Independent Chair	Professor Gareth Morgan (formerly professor of charity studies at Sheffield Hallam University, and an adviser with charities in various jurisdictions)
CCEW	Sarah Atkinson, Director of Policy, Planning and Communications
OSCR	Judith Hayhow, Head of Support Services
CCNI	Punam McGookin, Head of Charity Services
CR	Tom Malone, Head of Compliance and Enforcement (until 31 January 2019 and Jelena Griscenko (from 1 February 2019)
FRC	Jenny Carter, Director of UK Accounting Standards and Mei Ashelford, Project Director UK GAAP (the latter until 30 November 2018) (observers)

The Panel was facilitated in its work by a Secretariat comprising Laura Anderson (OSCR) and Nigel Davies (CCEW). In addition to facilitating the Panel, Nigel and Laura are also Joint Chairs of the current SORP Committee.

The Panel met on five occasions:

- 10 September (London) to agree the process
- 30 October (Dublin) to settle the consultation questions
- 6 March (Edinburgh) to review the consultation feedback
- 24 April (Belfast) to consider the initial draft report
- 17 May (conference call) to settle the text of the report

A dedicated page was set up on the SORP site at [www.charitySORP.org/about-the-sorp/governance-review-of-the-sorp-process](http://www.charitySORP.org/about-the-sorp/governance-review-of-the-sorp-process) to publicise the consultation and the work of the Panel.

## 2.3 The consultation process

The Panel decided to hold a consultation as part of the Governance Review in order to obtain views from a wide range of stakeholders on the SORP development process and how it could be improved. Although a consultation does not always feature in a governance review, the Panel considered it important in terms of transparency and openness. The full list of consultation questions is set out in Appendix B.

The Panel also hoped that the consultation process might identify new stakeholders with whom the SORP-making body can engage with on an ongoing basis post the consultation. The consultation was launched on 26 November 2018 and closed on 4 February 2019.

Aware that the traditional approach of seeking written responses to a consultation document may not reach everyone with an interest in charity financial reporting, the Panel decided to hold events and offer the alternative of face to face interviews. The Panel recognised that the issue of how to engage with the wide range of stakeholders with an interest in charity reporting is a difficult one and that this is the same issue that the SORP-making body currently faces.

The notes from events and interviews and the written responses were published unless confidentiality was requested. For a list of events and respondents to the consultation refer to Appendix C.

## 2.4 The formulation of Panel recommendations

Following the close of the consultation, the Secretariat to the Panel prepared an analysis of the feedback from the written submissions, events and interviews. When the Panel met in March 2019, they discussed this analysis and their own reflections on the consultation responses. See Appendix D for the analysis of responses prepared by the Secretariat.

The consultation questions posed by the Panel were intended to draw out ideas for change and test out concerns that had been identified prior to the Panel convening. It afforded an opportunity to consider ideas for changes to the SORP development process and as importantly to consider the focus of charity reporting and accounting afresh.

The Panel considered the responses in discussion and debated the findings and feedback using the sections of the consultation document as a thematic. It was a process of critical evaluation rather than identifying a compromise or best fit. The Panel is mindful that any changes to the SORP development process involve a degree of disruption and puts back the development of a new SORP and so changes are only sought where a significant benefit is expected from them.

## Section 3 – Findings from the consultation and the Oversight Panel’s recommendations

The consultation looked at various aspects of the SORP development process and so the body of this report groups the consultation questions under each theme. Each theme has a separate section beginning with the main *findings* from the consultation feedback, followed by the Panel’s *conclusions* about that feedback, in particular matters that are not for the SORP-making body or the charity regulators, and the *recommendations* made by the Panel. The recommendations are the basis for the action plan for change.

The recommendations distinguish between those that are primarily for the SORP-making body (in liaison where appropriate with the FRC), for the charity regulators in their broader roles, and those for other parties including trustees and the accounting profession. Sections of this report simply headed *Panel recommendations* are recommendations to the SORP-making body – including, where relevant, to the SORP Committee membership.

The themes are:

- Section 3.1: The rationale for charity accounts and the role of the Charities SORP
- Section 3.2: The need for and composition of the SORP Committee
- Section 3.3: The consultation processes followed by the SORP-making body to engage with stakeholders
- Section 3.4: The potential need for guidance on non-statutory financial reporting by charities
- Section 3.5: Other issues raised by the consultation

For background information, reference also should be made to the consultation questions (Appendix B) and the analysis of responses (Appendix D) prepared for the Panel.

### 3.1 The rationale for charity accounts and the role of the Charities SORP (consultation questions 1 to 3)

#### Findings

Respondents acknowledged the central role that the SORP plays in financial reporting by charities and saw a need for significant improvement in how the SORP serves the sector in preparing its accounts and the needs of users of those accounts.

With regard to preparers, respondents noted that smaller charities<sup>1</sup> make up the vast majority of users of the SORP. While trustees have ultimate responsibility for preparing charity accounts very often they do not have accounting/financial background and rely on others to prepare and interpret the accounts. To address this, respondents suggested having a smaller charity SORP and considering afresh how the accounts can be better set out so that trustees can understand them and potentially explain them to others.

Whether as a result of the complexity of accounting standards, the SORP or the skills of preparers of accounts, many charity accounts are of poor quality and do not follow the SORP properly. Poor

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1 All references in this report to smaller charities follow the definition used by the SORP – so the term covers charities having an income of not more than £500,000 (in the UK) or €500,000 (in Ireland). However, as this report is about charities applying the SORP, use of the term smaller charities does not include charities in this band preparing receipts and payments accounts unless otherwise stated. See Appendix A for further details. (See also section 3.5.2 of this report for further analysis and recommendations by the Panel regarding smaller charities.)

quality financial reporting, aside from indicative of potential governance problems in charities, is potentially detrimental to public confidence in charities. Respondents noted that the regulators have a role to play in encouraging high quality reporting practices.

In terms of the external reader of the report and the accounts, respondents noted that although the public is an important user of charity accounts, due to their complexity, the majority of the public rely on proxies to analyse and interpret the information provided.

In contrast to placing the interests of the public at the centre of charity financial reporting, respondents noted that very often charities just do the bare minimum to satisfy regulators and funders. This narrower view of financial reporting met with the support of some respondents who argued that the purpose of the charities SORP should be simply that of providing an interpretation of the underlying financial reporting standard and generally accepted accounting practices only.

## **Conclusions**

The panel concluded that the SORP is essential to the sector due to its special character with its foundations in volunteer effort and public philanthropy; however the current approach is failing to meet the needs of smaller charities. Although steps have been taken to improve the design of the SORP and 'think small first' it needs to be further developed to meet the needs of the majority of charities. Trustees have ultimate responsibility for overseeing charity finances and therefore it is important they have sufficient financial knowledge and skills and are engaged with properly explaining their stewardship of charitable funds and assets.

The attitude of the accounting profession and preparers needs to be one of serving the public interest through high quality financial reporting. The SORP is not just a guide to the basic concepts of charity accounting and adherence to the SORP should be seen as more than just a matter of regulatory compliance.

## **Panel recommendations**

1. Given that there are many smaller charities preparing accounts to give a 'true and fair' view, their needs have not been demonstrably at the forefront of thinking by the SORP-making body. So a new approach is needed by the SORP to better meet the needs of smaller charities reporting under the SORP.
2. In terms of developing the SORP in the future, a key focus should be on the proxies who represent the public interest - their needs should be central to what financial reporting is all about. Early engagement with these proxies should help to identify what is needed to better serve public needs.
3. In developing the next SORP the aim should be to simplify and clarify the report and accounts making these an easy read for proxy users and those interested in the work of charities. Consideration should be given to simplified accounts, in particular for smaller charities, with a focus on key financial information in the statutory reporting.

## **Panel recommendations to the sector, accountancy profession and other parties**

4. Trustees need sufficient skills to understand charity finances through, for example training and development. If the central issue is a need for training, sector umbrella bodies and the accountancy profession will be best placed to meet this.

## 3.2 The need for and composition of the SORP Committee (consultation questions 4 to 7)

### Findings

Respondents offered a variety of views on how to improve on the current approach taken by the SORP-making body in convening an advisory committee. There was a consensus that an advisory committee is needed and a strong view that it needs to be representative of stakeholders, preparers, the accounting profession, trustees, funders, and those interested in the work of charities. There was also recognition that the diversity of the sector and those interested in it means that not all interests can be adequately represented in the Committee.

In particular, there was a desire that greater steps are taken to broaden engagement including working groups or sub-committees, focus groups, outreach events and direct dialogue with funders, donors, umbrella bodies and larger charities. This would mean going further than the working groups that already comprise members of the Committee. This engagement process should be ongoing as the current approach to developing the SORP is overly reliant on periodic formal consultations. Suggestions included ideas such as outreach activities, working groups and sub groups, and the commissioning of research.

Overall, respondents acknowledged the important technical role the SORP serves in providing an interpretation of the financial reporting standards issued by the FRC for the charity sector. The track record of technical expertise in the advisory SORP Committee was also noted.

However, reflecting the perceived dual purpose of a charity's report and accounts to be both technically compliant and also being a vehicle to explain the charity's activities and how it spends its money to a broad range of users, a number of respondents considered this second aim had been neglected.

The Panel notes that the charity regulators are recognised by the FRC as the SORP making body. Whilst a few respondents challenged this, most appeared content that the regulators working together should continue to be the decision making body for the Charities SORP.

The transparency of the governance of the SORP-making body and process for recruitment to the advisory committee drew comment and suggestions for improvement. There is also a desire for greater clarity as to the respective roles of the SORP-making body and SORP Committee; the role of observer members was unclear.

### Conclusions

The Panel concluded that the SORP making body should continue to be advised by a SORP Committee, but the role and purpose of the Committee should be made clearer and changes made to the membership and terms of reference to broaden engagement and focus on public benefit. The Panel also concluded that to improve the effectiveness of the Committee, there should be clear role descriptions for the Chair and members of the Committee, with regular performance evaluations. The Panel concluded that the principle of filling Committee roles through open recruitment was important, with co-option only where open recruitment was unsuccessful.

Any change to the status of the charity regulators as the SORP making body as recognised by the FRC was outside the terms of the Panel's work.

## Panel recommendations

5. The SORP Committee should be retained as an advisory committee to the SORP making body but its role documented with equal attention given to:
  - technical expertise to assess standards and recommendations which accountants can apply
  - ability to engage with wider context and breadth of issues
  - reflect the breadth of the sector
  - a focus on public benefit.
6. The composition of the SORP Committee should change with the key features being:
  - membership reduced to a maximum of 16
  - at least two members to be drawn from each of the four jurisdictions, with at least one of the two representing smaller charities
  - four members to bring additional skills and expertise including donor and government funder perspectives
  - one member drawn from each regulator.
7. Other than the FRC nominee and a SORP secretariat representative, there should be no observer members of the Committee.
8. Steps must be taken to broaden engagement to bring in external perspectives including the commissioning of focus groups and engaging critical friends in the process.
9. The SORP-making body should publish role descriptions for the chair and committee members with clear expectations about engaging widely, including with small charities; and a remit enabling the SORP Committee to establish sub-committees or working parties with additional membership for specific pieces of work.
10. The chair's role description should include the expectation that the chair enables the committee to work effectively, creating a culture where all committee members are willing and able to participate actively and that the full range of perspectives are heard and considered with no one member or interest dominant.
11. The Committee member role description should include the expectation of regular attendance and active participation at meetings.
12. In addition to the current transparency involving the publication of agenda, minutes and selected committee papers, the SORP-making body should publish an annual work plan after seeking the Committee's advice and input.
13. The SORP-making body should provide resources to enable the SORP Committee to commission regular reviews of trends and themes to inform the SORP making body and to support its engagement with the FRC.
14. The SORP-making body and the advisory SORP Committee should evaluate the collective performance of the chair(s) and members, annually. The SORP-making body should review the composition and skills needed on the Committee every three years.

### 3.3 The consultation processes followed by the SORP-making body to engage with stakeholders (questions 8 to 12)

#### Findings

Respondents noted that the current consultation process undertaken by the SORP-making body has been effective in drawing in the views of the sector, particularly the views of larger charities as preparers of accounts and the accounting and audit profession. Wider engagement, as the SORP-making body has already acknowledged, has been patchy and respondents offered a number of ideas as to how this deficit could be redressed. Steps could also be taken to better engage smaller charities to assist them in influencing and understanding the SORP development process.

Respondents offered ideas on improvements to the format of the consultation process including providing worked examples to support understanding of proposed changes. Following the close of any consultation, the experience of respondents would be improved by ensuring they were advised of the outcome. The analysis of responses would usefully include a quantitative analysis, by type and by size of charity etc and report on how ideas put forward including those by an individual or involving a limited number of responses were considered. There was however no consensus in the responses about weighting the consultation responses by type of respondent.

With respect to wider engagement, there is a need to draw in the proxies for the public interest in particular. There should also be greater consideration of using appropriate channels to reach the target audience, for example the media and social media and make greater use of sector umbrella bodies to reach smaller charities, trustees and beneficiaries.

In terms of the consultation process, this should be broader than issuing a consultation document. Equal weight should be given to all responses, whether written submissions or responses from other forms of engagement, with care to differentiate the views of users and preparers. Adopting different language to engage with different audiences and making more use of social media to broaden the discussion would also be advantageous.

#### Conclusions

The panel concluded that the current level of engagement could be improved and perspectives broadened. The channels and mechanisms to engage with target audiences who use the SORP should in particular seek to engage more with smaller charities who form a significant part of the sector and with proxies who play a key role in the public's understanding of charity expenditure.

Increased understanding and practicality could only be beneficial in gaining development input and buy-in, greater exposure to larger audiences. Ultimately a more effective SORP would lead to better understanding of the information contained in charity accounts which follow the SORP.

#### Panel recommendations

15. In developing the SORP, the SORP-making body and the SORP Committee must strive for more engagement as well as additional broader engagement with more creative ways of communicating and ensuring understanding should be utilised. The current range of tools for engagement are limited in scope and restricted in timing.

16. Engagement should be an ongoing process not just linked to consultations. Those who engage should be able to feed views in at all stages of the development process and may indeed add to the range of considerations for development/consultation.

17. Illustrative examples should be provided to help explain proposed changes and the potential impact. The impact of changes to the SORP in exposure drafts is not clearly understood and worked examples would help support a broader understanding of the application.

18. Use should be made of a wide range of consultation engagement mechanisms/channels from critical friends' panels, direct approaches where appropriate through to umbrella bodies and more use made of social media. Previous SORP consultations have in the main reached a limited audience type, if the SORP is to become more meaningful to a broader audience type, efforts should be made to engage with them both throughout and outside of the development process.

19. Both quantitative and qualitative analysis should be used to draw out not only a consensus for change but also good ideas or suggestions that merit consideration. Consultations and broader engagement can uncover innovative and practical ideas or perspectives put forward by individuals or small numbers of individuals that may not necessarily be thought of by the majority.

20. When undertaking consultations respondents should be advised when consultation reports have been completed and where these have been published so that they understand how their views have contributed to the analysis of responses and the outcome. It is key that the views of respondents and contributors are valued and taken into consideration, regardless of whether or not those ideas eventually feed into a particular outcome.

### 3.4 The potential need for guidance on non-statutory financial reporting by charities (consultation questions 13 to 15)

#### Findings

Respondents considered non-statutory financial reporting to be an area of particular interest, with many responses highlighting the diverse range of audiences who have an interest in aspects of charity finances, but either find SORP accounts difficult to understand; or have difficulty locating the information they need from accounts.

Respondents also highlighted the important role which non-statutory financial information played in terms of influencing and informing the public, and providing greater transparency about the charity sector.

In recognition of the diversity and inconsistency in the range and quality of non-statutory information available, a majority of respondents suggested a requirement for some recognised form of good practice guidance on this area, albeit that the majority of respondents considered that non statutory financial reporting should be discretionary and not mandatory.

Respondents did not have a clear view as to who should be responsible for determining the nature and content of guidance in respect of this area, but it was recognised that the regulators; sector itself and SORP Committee all had an interest/role in contributing to debate about this matter.

#### Conclusions

The Panel agrees that non-statutory financial reporting is an area of interest to many; and good practice guidance which complements the SORP would be helpful. There is no clear consensus as to which body might issue such guidance, albeit that there was recognition that the four regulators have an interest and role in development of such guidance, but the regulators do not have sole responsibility for promoting accurate and understandable non-statutory financial reporting by

charities. The panel noted that some respondents considered that guidance would be best issued by the sector.

As a minimum, where non-statutory financial reporting takes place, the Panel considers that there is a consensus that the information reported should be consistent with that detailed in the SORP-compliant accounts.

### **Panel recommendations**

21. Members of the SORP Committee should identify best practice in non-statutory financial reporting; and the SORP-making body, advised by the Committee, should consider how they could engage and facilitate discussion with charities, their advisors and sector bodies around standards in non-statutory reporting.

22. A future SORP should include a statement to the effect that where a charity reports on financial matters out with the SORP compliant accounts, the other financial information reported should be consistent with that detailed in the formal accounts.

### **Panel recommendation to the charity regulators**

23. Consideration should be given by the four charity regulators as to how they can promote common principles and standards in respect of non-statutory financial reporting, in advance of the development of more formal guidance.

## **3.5 Other issues raised by the consultation (consultation question 16)**

The consultation provided the opportunity for respondents, either at events, in interview or in formal submissions to offer additional ideas and suggestions regarding the SORP governance process. This section considers five such broader themes on which we received responses.

### **3.5.1 The SORP-making body and SORP Committee**

#### **Findings**

The SORP-making body comprises the three charity regulators (soon to be four) as appointed by the FRC. A number of respondents welcomed the clear distinction made in the consultation document between the role of the SORP-making body and the SORP Committee in its capacity as an advisory committee. However, several felt this distinction had not been clear in the past and some called for more formal governance arrangements for both bodies.

Although the status of the charity regulators as the SORP-making body was outside the scope of the consultation, some respondents commented on this, and made suggestions for organisations which might take on this role but there was no consensus that the charity regulators should be replaced in that role or who should take over that role.

Several respondents accepted the role of the charity regulators as the SORP-making body but felt that the SORP Committee should have an independent chair rather than the current arrangement where the Committee has Co-Chairs drawn from the three regulators (CCEW, OSCR, CCNI and soon to include the CR). Some respondents felt it would be helpful in distinguishing more clearly between the roles of the SORP-making body and the SORP Committee to have the chair drawn from the members of SORP Committee, as they perceived a conflict of interest between the regulatory role and the SORP development role in the current set up. Others felt that having three or four Co-Chairs was a challenging arrangement, and that the SORP Committee would be stronger with a single Chair who did not combine that with being on the staff of one of the regulators.

## Conclusions

The appointment of the SORP-making body is a matter for the FRC, but on balance the Panel considers that there are considerable benefits of having the charity regulators as the SORP-making body as it minimises the risk of divergence between the requirements of charity financial reporting and the requirements of charity regulators in their Annual Returns. It also ensures that the regulators are fully committed to the SORP.

With regard to the suggestion of an independent chair for the SORP Committee, the Panel considered these comments carefully, but bearing in mind the Committee's role to advise the SORP-making body, the Panel felt that having the SORP Committee chaired by someone external to the charity regulators risked leading to a path of divergence between the aims of the charity regulators (with their broader statutory duties) and the role of the SORP. Nevertheless the Panel considers that good governance should require the chair to step aside when a potential conflict of interest arises, and encourages the role of the chair to be more clearly documented.

## Panel recommendations

24. The Panel welcomes the fact that the SORP-making body is now holding formal meetings with a representative from each regulator and the FRC observer member. However, the Panel considers that aims and membership of the SORP Committee must become clearer (as set out in early sections of this report) and, in particular, the Panel urges the charity regulators to document more clearly their expectations of the Committee.

25. The regulators should clarify the arrangements for the Co-Chairs with a more specific role description which, at its heart, recognises the distinction between the SORP Committee and the SORP-making body. Where a particular agenda item for the Committee could cause a conflict of interest for the chair, the Panel agrees that another member of the Committee should be asked to chair the discussion of that item.

26. It is already the case that working groups or sub-committees established by the SORP Committee on specific issues have been chaired by a member of the Committee who is not drawn from the charity regulators, and the Panel endorses this approach.

27. To provide greater transparency as to decision-making, the SORP Committee should be explicit when it is making a formal recommendation to the SORP-making body and where the SORP-making body disagrees with a recommendation from the Committee this should also be made clear and the response recorded in the Committee's minutes.

### 3.5.2 Smaller charities

#### Findings

Many respondents, whether or not calling for stronger representation from smaller charities in the SORP Committee and its consultation arrangements suggested that the whole processes by which the Committee operates should take much more account of the needs of smaller charities and the users of their financial statements. These respondents pointed out that the numbers of smaller charities preparing SORP accounts far exceeds the numbers of larger charities doing so, and suggested, therefore, that it was vital that the SORP is accessible and usable for trustees, accountants and independent examiners working with smaller charities. Some called for a separate version of the SORP for smaller charities.

#### Conclusions

The Panel broadly agrees with these concerns and the recommendations in sections 3.1, 3.2 and 3.3 are intended in part to address these concerns in relation to the membership of the Committee

and the engagement processes followed. However, the Panel agrees there are also broader issues to address.

It is outside the role of the Panel to comment on whether or not there should be different versions of the SORP.

### **Panel recommendations**

28. Financial reporting by smaller charities should be more central to the SORP-making process in future.

29. The Panel notes that it is already the policy of the SORP Committee to “think small first” but notes that this has not always been fully acted upon.

30. The Panel urges the SORP-making body, supported by the FRC, and the SORP Committee to take steps to ensure the SORP is made more accessible to the majority of users who are applying it in the context of smaller charities.

### **3.5.3 Compliance with the SORP**

#### **Findings**

Many respondents raised issues about poor compliance with the SORP and argued that any changes to the governance arrangements for the SORP will have no benefit to those who use charity accounts if compliance is poor.

Some felt this was particularly an issue with smaller charities applying the SORP, but others felt the problem was more general with only a small number of very diligent charities and their accountants having properly read and understood the SORP.

Respondents suggested that many others seem to rely on templates (rather than referring to the SORP itself) or have only made cursory attempts to apply the SORP format to the specific charity accounts being prepared.

#### **Conclusions**

SORP non-compliance is a serious issue although compliance is never likely to be perfect. However, ultimately these are issues for the regulators and not technically part of the SORP Governance Review.

Nevertheless the Panel considers that some improvements could be made to the SORP governance arrangements which may help to address this. The Panel notes that under the FRC guidance for SORP-making bodies, one of the responsibilities is to be mindful of the need to address issues of non-compliance.

### **Panel recommendations**

31. The SORP-making body and SORP Committee, when drafting or revising the SORP, should consider the costs and benefits of compliance in their decision making, bearing in mind the FRC’s policy on SORPs in cases where SORP requirements go beyond those of accounting standards. The SORP should avoid mandating compliance with requirements that are only likely to be complied with by the most diligent. In making such decisions the SORP-making body and SORP Committee should bear in mind that many of the SORP’s provisions are directly referenced in the charity law regulations in each jurisdiction, and the SORP thus has the force of law.

32. The SORP-making body and SORP Committee should seek to ensure that provisions in the SORP are understandable by those expected to apply them.

## Panel recommendations to the charity regulators

33. The Panel recommends the charity regulators consider their approach to education on the SORP with a view to improving compliance.

### 3.5.4 Interaction with accounting standards

#### Findings

Whilst almost all respondents accepted that the SORP must seek to apply the accounting standard FRS102 in the specific context of charities, some respondents felt that the SORP-making body and SORP Committee are at times too willing to accept the demands of accounting standards without challenge. It was suggested that this can lead to inappropriate requirements for charities with little or no benefit to the users of the accounts.

#### Conclusions

The Panel agrees that there is a delicate balance to be struck on this issue. Careful consideration is also needed to consider how far any concessions available in FRS102 for smaller entities can be applied in the context of charities.

#### Panel recommendations

34. The Panel noted that the SORP Committee has already been involved in responding to FRC consultations regarding the development of accounting standards, and suggests that this should be seen as a normal part of the Committee's work.

35. The specific issues for smaller charities (see 3.5.2 above) could merit further attention by the SORP Committee and the SORP-making body supported by the FRC vis-à-vis the interaction between the SORP and accounting standards, in particular with regard to how far any options available for smaller entities could be applied to charities.

### 3.5.5. Resourcing the SORP-making process

#### Findings

A number of comments were made that the development of the SORP could benefit from more resources. In particular:

(a) one respondent felt that the Committee needed an engagement officer to publicise and promote engagement with consultations;

(b) some respondents felt the Committee needed more resources for research, in particular to carry out focus groups with donors and other users of charity accounts, on the grounds that it was unrealistic to expect users of charity accounts to respond to SORP consultations; and

(c) some queried the fact that members of the SORP Committee are all volunteers (there are no paid roles other than the Co-Chairs and the Secretariat) and for those Committee members drawn from professional firms not even the member's travel expenses are reimbursed.

## **Conclusions**

The resourcing issues are matters for the charity regulators as the SORP-making body and the Panel recognises that the resources of all the regulators are extremely tight. Nevertheless, the Panel considers that these findings from the consultation are worthy of consideration in improving the SORP governance process.

## **Panel recommendations**

36. Proper resourcing of the SORP-making process is essential for the successful implementation of the Panel's recommendations. The Panel commends the suggestions above for consideration for the necessary funding and allocation of resources.

## Section 4 – Conclusion and next steps

This SORP Governance Review has provided an opportunity to appraise the current approach to developing the SORP and consider how it could be strengthened.

In conclusion, the Panel has set out an ambitious series of reforms in relation to the SORP Committee and the SORP development process. Charity financial reporting will always start from a focus on charities as organisations established for public benefit, frequently dependent on volunteer effort and public philanthropy.

At the heart of this Review is the aim of focussing charity financial reporting around needs of the public interest reporting and broadening the engagement of stakeholders in the process. If the Panel's recommendations are implemented in full this will provide a sound basis for ensuring the SORP is not just technically fit for purpose but delivers on what the public want to know about the charities they fund and support and from which they benefit and is a framework which better addresses the reporting needs of smaller charities.

### **In terms of immediate next steps:**

The report of the Panel will be formally submitted to the SORP-making body for its consideration and action. The SORP-making body has already committed itself to make any changes in time for the development of the next full SORP with the development of the next SORP having been put on hold until the Panel had reported. The SORP-making body intends to publish its response and planned actions by the autumn of this year.

The recommendations will be submitted to the charity regulators for consideration and response. The charity regulators need to establish what resources in time, technology and funding can be made available to give effect to the new arrangements. In particular, we request their support to giving effect to the Panel's recommendations and consideration of allocating the necessary resources to see through their successful implementation. The Panel hopes that these proposals are considered at board level by each of the four charity regulators (in addition to their joint discussions as a SORP-making body).

The Panel notes that the response of the SORP-making body and charity regulators may be combined as there is a degree of overlap and inter-relationship between them.

The Panel's recommendations will also be shared with the FRC. This will initially involve the Independent Chair presenting to a meeting of the FRC's UK-Irish GAAP Technical Advisory Group.

### **Longer term success involves wider support:**

To effect the changes we have identified there is a role to be played by a number of other participants in the SORP development process.

The SORP-making body needs to take forward the recommendations as to respective roles for it and the SORP Committee, the proposed arrangements for the Committee and take forward the new engagement process.

The co-operation of the existing SORP Committee members, who have served on a voluntary basis since 2014 and have given of their time and expertise to the existing process, is needed to help effect the changes to Committee membership and to take forward the SORP development process for the future.

The charity regulators also need to engage with government to ensure the outcomes of the new engagement process are facilitated by the applicable law and regulations. Also the charity regulators need to address, in partnership with the charity sector and stakeholders, the issue of non-statutory financial reporting by charities.

The sector and stakeholders have an important role to play in participating in and supporting the new engagement process that we envisage. Their support is needed for the SORP if it is to continue to succeed in ensuring high quality financial reporting by charities in the public benefit. Their co-operation is essential if good practice on non-statutory financial reporting is to be identified and codified for the sector.

## Appendix A – Overview of charity accounting and the role of the Statement of Recommended Practice

“The SORP” is an abbreviation for the *Statement of Recommended Practice: Accounting and Reporting by Charities*.

The SORP sets out what charities must say in the trustees’ annual report and the form and content of the accounts. The accounts set out how a charity has spent the money it has received and what funds it holds at the year-end. Much detailed information to support the accounts is provided in the notes.

The SORP applies to charities preparing accounts under UK-Irish Generally Accepted Accounting Practice (UK-Irish GAAP) to present a ‘true and fair view’. The SORP supplements accounting standards (in particular, the standard known as FRS102) and other legal and regulatory requirements to reflect the special factors prevailing or transactions undertaken in the charity sector. The SORP is developed in line with a Policy on Developing SORPs issued by the Financial Reporting Council (FRC).

The SORP is also referred to directly in the regulations made under charity law in each jurisdiction.

In each UK jurisdiction, the smallest charities (those up to £250,000 income) are allowed to prepare their accounts on a receipts and payments (R&P) basis unless other legislation or constitutional requirements require them to produce accruals accounts (so charitable companies, for example, cannot do R&P accounts, whatever their income). The SORP does not apply to R&P accounts. In the Republic of Ireland, regulations are not yet in force, but the SORP is not expected to be compulsory for any charity below €250,000 income.

But unless a charity is covered by these exceptions, in almost all other cases, charities have to follow the Charities SORP.

Moreover the Charities SORP is the framework which sets the accounting and reporting requirements for the charities that receive the majority of income in the UK charity sector. Whilst there are substantial numbers of smaller charities eligible to produce R&P accounts, their total income is relatively modest: the vast majority of income to UK charities is subject to SORP accounting.

For a copy of the SORP or for more information about its development refer to the dedicated website: [www.charitySORP.org](http://www.charitySORP.org)

## Appendix B – Consultation Questions

### The rationale for charity accounts and the role of the Charities SORP

Q.1 Please explain your role (or the charity or organisation on whose behalf you are responding) including your specific interest in or use of charity accounts. (However, please do not include any personal information in your formal response which you do not wish to be published.)

Q.2 Who do you see as being the main users of charity reports and accounts? To whom are charities being accountable when they prepare their reports and accounts?

Q.3 What do you see as being the main purpose of the Charities SORP? Do you feel it is effective at meeting that purpose? If not, what changes would you suggest to the processes of developing the SORP to improve its effectiveness for those who prepare and use charity accounts?

### The need for and composition of the SORP Committee

Q.4 Do you agree that having an advisory SORP Committee is the best way of ensuring stakeholder engagement with the development of the SORP? If not, what alternative arrangements would you recommend and why?

Q.5 Do you consider that the composition of the current SORP Committee is appropriate both:

(a) to provide the necessary expertise in charity accounting and

(b) to reflect the range of stakeholders who use charity accounts and reports?

If not, what changes are necessary to the membership of the Committee and why? For example if you feel more representation is needed from beneficiaries or from donors, or from particular types or sizes of charities, please give details.

Q.6 Do you consider that the work of the SORP Committee is overly technical in its approach? If so, what changes should be made? (In your answer you may wish to reflect on how the work of the SORP Committee could be made less technical, whilst still ensuring the SORP reflects the requirements of general purpose accounting standards and the requirements of charity law.)

Q.7 Do you have any comments on the balance of the membership of the SORP Committee?

### The consultation processes followed by the SORP-making body to engage with stakeholders

Q.8 Do you have any suggestions as to how the SORP making body might improve the consultation process – either at the research stage or at the exposure draft stage?

Q.9 Can you suggest any particular organisations (in particular, those that may not have taken part in past SORP consultations) that you consider it would be useful for the SORP-making body to consult?

Q.10 Do you think that the balance given to various groups during consultations concerning the development of the SORP should change? For example, do you consider that more or less weight should be given to any of the following groups:

(a) beneficiaries

(b) the donating public

(c) representatives of smaller funders

(d) representatives of larger funders

(e) representatives of smaller charities

(f) representatives of larger charities

- (g) the accountancy profession
- (h) commentators on the sector and journalists
- (i) any other categories you consider relevant?

Q.11 If you felt in Q10 that more weight should be given to one or more groups listed, what are your suggestions as to how these views can be obtained?

Q.12 Do you have any other suggestions for improvements that can be made to the consultation process in the development of the Charities SORP?

### **The potential need for guidance on non-statutory financial reporting by charities**

Q.13 Do you think that the SORP development process should cover all forms of financial reporting by charities – both those required by charity law (or company law) and other financial communications issued by charities – for example in a non-statutory annual review, summary financial reports, or visual summaries of a charity’s finances?

Q.14 If you agreed that the SORP Committee should issue guidance on non-statutory financial reporting by charities, what form do you feel such guidance should take, bearing in mind that (without a change in the law) it would not be mandatory?

Q.15 If you considered that the SORP process should cover all forms of financial reporting by charities, what changes to the SORP Committee and SORP consultation process would you recommend and why?

### **Other issues**

Q.16 Do you have any other comments on how the SORP is developed, the SORP-making body, the advisory SORP Committee or the SORP consultation process?

## Appendix C – List of Respondents, Consultation Events and Interviews

### Events

Office of the Scottish Charity Regulator - 9 January 2019

Charity Commission of Northern Ireland - 15 January 2019

### Interviews

Chair interview with members of the Charities SORP Committee

Chair interview with SORP process stakeholders

Chair interview with Mr Joe Saxton

National Audit Office (submission advised as confidential to the Panel)

Nicola Silverleaf

### The following written submissions were received:

Association of Charity Independent Examiners

Association of Chartered Certified Accountants

Association of Charitable Foundations

Anonymous submission

Association of Accounting Technicians

Association of NHS Charities

BDO LLP

Benefacts

Michael Brougham

Liam Byrne

Chartered Institute of Public Finance and Accountancy

Charity Finance Group

Chiene Tait LLP

Church of Scotland

Ian Clark

Community Accountants Scotland

Mr Crothers

Neil Dickson

Directory of Social Change

Free Church of Scotland

Fundraising Regulator

Green Light Trust

Health Financial Management Association

Institute of Chartered Accountants England and Wales

Institute of Chartered Accountants Scotland

Institute Chartered Secretaries and Administrators

Johnston Carmichael LLP

Nick Kavanagh

MHA

National Council of Voluntary Organisations

NfPSynergy

Price Bailey

Sayer Vincent

Shona Wardrop

Sightsavers

Social Practice (ENT)

Turcan Connell

Wellcome Trust

The Wheel

Neil Williams

Yoke & Co

## Appendix D – Analysis of Responses as prepared by the Secretariat to the Panel

### Overview of the responses to the consultation

The responses to the consultation took three forms, firstly the feedback from interactive workshops, seminars and similar events organised by OSCR and CCNI, secondly the content of the various structured interviews undertaken by CCEW and the Chair and lastly 41 written responses were received.

The profile of the written responses is given in the table below and set against two previous consultation exercises. Although the governance consultation sought to reach out to a broader range of stakeholders, the pattern of submission was broadly consistent with the normal population for SORP responses. (It should be noted the more recent consultations on the SORP Update Bulletins are omitted as these were highly technical by nature.)

Respondent category	Exp. Draft SORP 2014	Research 2017	Gov. Review 2019
Auditors & audit firms	31	18	6
Professional bodies	5	5	7
Sector umbrella bodies	16	14	7
Charities / charity finance directors	34	60	6
Charity finance staff	35	38	1
Charity CEOs and equivalent	-	6	1
Trustees	15	10	2
Honorary treasurers	17	5	2
Other preparer / practitioner	1	2	4
Academic	2	1	-
Funder and funding body	8	1	1
Members of the public	2	-	-
General user of accounts	3	5	-
Fundraisers / Fundraising Regulator	-	4	1
Think Tank	-	1	-
Independent examiners	10	-	2
Commentator / sector press	-	-	1
<b>Total</b>	<b>179</b>	<b>172</b>	<b>41</b>

This analysis considers the written responses and other feedback in a number of broad categories. The notes and feedback from the consultation events and interviews 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 and many chose to answer only one. This means that the number of responses to any given question do not match to the grand total of submissions received.

The broad categories used 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 and commentators
- Independent examiners.

The detailed analysis that follows considers the total of responses received for each of the questions. In a number of cases respondents cross referred between questions effectively tabling the same response to more than one question. In these cases the analysis groups the responses by related questions. Illustrative comments are included. Quotations from confidential responses are not used as these are unavailable for public view. The analysis concludes with a review of the evidence from the interviews held.

### **Interpreting responses to questions**

In a small number of instances the respondent in answering a question said they had no view in which case their answer was not counted but any comment was noted.

In the tables that follow the total number who answered each question is given, followed by the percentage it represents of that submission received. Responses include those who provided a comment or cross referred to a comment elsewhere as covering the same point. As the umbrella body Association of NHS Charities (ANHSC) endorsed the Health Financial Management Association (HFMA) submission this counts as two responses.

#### **Q1. Please explain your role (or the charity or organisation on whose behalf you are responding) including your specific interest in or use of charity accounts.**

See analysis of respondent categories on the previous page.

#### **Q2. Who do you see as being the main users of charity reports and accounts? To whom are charities being accountable when they prepare their reports and accounts?**

There were 36 responses to this question with no one group of stakeholders singled out as the principal user. A number of respondents differentiated between the regulatory oversight and accountability to the regulator with the accountability to a broader group of users. There was also a suggestion that the Committee should consider conducting research as to how different user groups apply the SORP in practice to enable the SORP to respond more effectively and understand the needs of the diverse range of users of charity accounts.

Typical comments from respondents were:

“Initially the trustees of the charity itself, and their members. Present and future funders, donors, solicitors, the relevant regulators, and other interested parties”. (Community Accountancy Scotland)

“The main users of charity annual accounts reports and accounts are members of the company, donors, funders and those providing grants such as Health Boards and Trusts. In addition, banks and those who may lend to the charity will be users of the accounts.

Associated with serving a broader group of users, several respondents took the opportunity to highlight the problems with the current model:

Charities are accountable to anyone who reads the accounts and wishes to see the financial position of the charity, what it will be doing to achieve its objectives and what its future plans may be". (Mr Crowther)

A number of respondents took the opportunity to criticise the current approach as not meeting the needs of users:

"The ever increasing length and complexity of both accounting standards and the SORP has caused charity accruals accounts to become inaccessible to most beneficiaries, members of the public and even trustees of smaller charities". (Michael Brougham)

"However, the full report and accounts are complex documents which are hard to understand for most people, including a proportion of trustees". (Free Church of Scotland)

Feedback at the two events similarly highlighted a range of users in particular trustees and members along with the public. The delegates at the OSCR event noted a mismatch between the statutory accounts and trustees' understanding of their charity's finances and their expectations of what the accounts will show, sighting FRS 102 as contributing to the problem.

**Q3. What do you see as being the main purpose of the Charities SORP? Do you feel it is effective at meeting that purpose? If not, what changes would you suggest to the processes of developing the SORP to improve its effectiveness for those who prepare and use charity accounts?**

There were 37 responses to this question. With respect to the technical interpretation of the application of UK-Irish accounting standard FRS 102 for the charity sector almost universal agreement to the SORP being a success. There were also comments that suggested that the SORP is less helpful for charities with straightforward finances and something simpler would be better for those charities.

"The main purpose of the Charities SORP is to interpret UK accounting standards for the charity sector to assist the sector comply with those standards". (ICAS)

"The Charities SORP is well regarded in general within the charity sector and it forms the basis for reporting by the sector". (ACCA)

With respect to serving the needs of a broader range of users' views were very mixed with most criticising the result for non-technical users of the report and accounts under the SORP.

"However, as noted in Q2 for many trustees to understand and be aware of how a true and fair view which complies with the statutory requirements, represents their charity's activities. If the SORP does not inform the Trustees adequately because the technical requirements of FRS102 SORP produce, to their eyes, an incomprehensible result...then what I consider to be one of the primary purposes of the SORP fails at the first hurdle". (Dr Wardrop)

"The main purpose is the promotion of consistency across the sector. We think it is effective, but some of the accounting rules applied are (perhaps necessarily) complex and this can make both the production of accounts and their interpretation difficult, especially for lay trustees". (Turcan Connell)

Also a majority critiqued modern accounting as demanding a skill set beyond that of volunteer treasurers and practitioners.

"The SORP in its current form might therefore not be accessible to a lot of charities which do not have complex affairs but still fall under the SORP...Smaller charities without capacity or the skillset

available on their board might rely mostly on external people to prepare their accounts”. (DSC)

“For smaller charities, we believe it can be onerous on finance staff and/ or trustees to understand and deal with the both the Charities SORP and FRS 102” (Johnston Carmichael)

At both events, the dual role of telling the story in a way accessible to readers as well as technical compliance was also noted. At the OSCAR event the issue was raised whether FRS102 applies to all accruals accounts – “Maybe we need the FRSE back? Something equivalent to section 1A of FRS102 is needed for charities.”

**Q4. Do you agree that having an advisory SORP Committee is the best way of ensuring stakeholder engagement with the development of the SORP? If not, what alternative arrangements would you recommend and why?**

In total 35 responded to this question. There was near unanimity in having an advisory committee but a number of suggestions were made to broaden engagement, including working groups or sub committees, focus groups, outreach events and direct dialogue with funders, donors, umbrella bodies and larger charities. It was also noted however that given the considerable range of stakeholders who should be included this would result in a Committee that was too large.

“I agree this is the best route but equally best served by utilising feedback such as this consultation process” (Neil Williams)

“We think it is very important that the SORP-making body is supported by an advisory board involving people with expertise who do not work for the regulators”. (ACF)

“An alternative arrangement would be for a SORP committee which has direct accountability to the FRC and has a broader range of stakeholders...In view of getting the views of the individual supporter and general public, this could be addressed through running more public events and round tables to seek wider input”. (Sayer Vincent)

“It clearly isn’t. It really only engages with the finance community of charities, not even all parts of the charity sector. Of the 118 response to the 2017 consultation roughly 100 came from finance professionals in or serving charities (this figure from memory. We would create a Charity Finance and Reporting Regulator or equivalent...” (NFPSynergy)

At both events the need to have greater participation from funders, smaller charities and umbrella groups, trustees and non-accountants was noted. .

**Q5. Do you consider that the composition of the current SORP Committee is appropriate both:**

**(a) to provide the necessary expertise in charity accounting and**

**(b) to reflect the range of stakeholders who use charity accounts and reports?**

**If not, what changes are necessary to the membership of the Committee and why? For example if you feel more representation is needed from beneficiaries or from donors, or from particular types or sizes of charities, please give details?**

There were 38 responses to this question. Those responding in the main agreed that the Committee needed broader representation but a balance had to be struck to avoid the committee getting too large. A few commented that the technical expertise is well demonstrated. Some respondents also noted that the committee should also not be the sole means of engagement with ideas such as outreach activities, working groups and sub groups, commissioning of research. This was also picked up in some written responses where there appeared to be concern over the lack of clarity and transparency of the recruitment process.

“While there is value in reflecting a range of stakeholders who use charity accounts, perhaps the

most important consideration should be that the committee has members who represent the sector as a whole, rather than the narrow perspective of any single stakeholder". (CFG)

"The SORP Committee is not representative of the charity sector as a whole. The vast majority of charities are small. The composition of the Committee should reflect that". (Dr Dickson)

"However, the current composition does not appear to adequately reflect the range of stakeholders who use charity accounts and reports". (AAT)

"It doesn't. It doesn't have the giving public. It has funders but not philanthropists or major donors. It doesn't have charity CEOs, or fundraisers or beneficiaries. It also probably breaks many of the guidelines of the Code of Good Governance for charities ..." (NFPSynergy)

In addition to those groups cited by NFPSynergy, other suggestions included the commercial sector, preparers of accounts and independent examiners of smaller and medium sized charities, charity trustees and lay people including journalists, and representatives from the regions.

At the OSCAR event participants wanted more explanation of how the SORP Committee members are recruited and how different groups are represented.

**Q6. Do you consider that the work of the SORP Committee is overly technical in its approach? If so, what changes should be made?**

This question divided opinion, perhaps reflecting the perceived dual purpose of the report and accounts to be technically compliant with accounting standards and charity and company law and also being a vehicle to explain the charities activities and how it spends its money to a broad range of users. There were 36 responses to this question. The question of complexity of accounting prompted some to suggest a simpler SORP for smaller charities.

"No, given the purpose of the SORP. The style and drafting of the SORP and associated communications might be somewhat more user friendly but cannot escape the fact that accounting standards and practice are technical and complicated..." (ICAEW)

"The work of the SORP committee does appear to be overly technical but this might be unavoidable because of the requirements of FRS 102" (Church of Scotland)

"We fear that being technical is being confused with being obstructive - a sort of cultural revolution where the sector's interests trump technical excellence..." (BDO)

"It is appropriate that the Committee is technical in its approach however, there should also be a mechanism where the practical application can be tested..." (Wellcome Trust)

"Nevertheless, consideration should be given to introducing a simplified SORP for charities with straightforward financial affairs". (ACIE)

This was also reflected in an anonymous written response:

"I've seen nothing from the Committee that seems to give the impression they are looking at the bigger picture of what charity accounts should look like – all I see is technical instruction, compliance and a distinct lack of vision."

At the OSCAR event the technical aspect was recognised as necessary but it was also thought that there needs to be more focus on the role of the SORP Committee as a lobby for the specific reporting needs of the sector.

**Q7. Do you have any comments on the balance of the membership of the SORP Committee?**

There were 34 responses to this question, however many respondents cross referred to their response to question 6. Of those offering comment, there were suggestions for bringing in

technical expertise as needed but also being mindful of the practical application of the SORP in its work, religious charities, donors and funders. Suggestions also included advisory sub groups and of dropping the observer member status.

“CAS suggests that lay representatives should be included within the committee which would enable development of discussion especially when the areas become too technical in its approach”. (Community Accountancy Scotland)

“...donors, funders, trustees, academics etc are poorly served by the current SORP in the provision of data that would show the sector’s charitable effectiveness and efficiency”. (Ian Clark)

“An issue of concern is the prominence of the Charity Commission governance structure in the SORP. The SORP is an advisory body to the Charity Commission and should therefore remain independent and removed from governance structures of the Commission for it to do its job effectively...” (CFG)

**Q8. Do you have any suggestions as to how the SORP making body might improve the consultation process – either at the research stage or at the exposure draft stage?**

Aside from practical presentational changes including explanations for proposed changes, worked examples showing the changes, and consideration of the use of tracked changes, respondents looked at how engagement could be broadened with better use of social media, charity and professional networks, outreach work including approaches to relevant umbrella groups, and direct approaches to larger charities and to funders. The special nature of Academy Schools should also be considered. There were 34 responses to this question. Regular roundtable discussions on a regional basis were also suggested to keep engagement ongoing.

“In Ireland, it would be extremely useful to reach out to the sector and the practice members of the professional bodies, where practice networks and affiliation groups are well established”. (Benefacts)

“In the first instance, the consultation process can be by the charity regulators through their correspondence with charity trustees themselves and the regulator’s newsletters”. (Community Accountancy Scotland)

“...the problems of SORP are way more systemic than who responds to consultations; not least when the end results are done by weighing the responses for and against, and then decided by a vote of the SORP committee itself. The regulated decide on their regulation”. (NFPSynergy)

At CCNI event the need for greater input to the process from smaller charities was identified and the use of a critical friends panel suggested.

**Q9. Can you suggest any particular organisations (in particular, those that may not have taken part in past SORP consultations) that you consider it would be useful for the SORP-making body to consult?**

This question was answered by 28 respondents. A number of suggestions were made as to organisations that could be contacted for future consultations with offers of help: Carmichael, The Wheel, Charity Institute Ireland, Third Sector Interfaces (Scotland), Development Trust Association of Scotland, Small Charities Coalition, ACO, Community Accounting Network, ICSA, ACEVO, NCVO, Voluntary Organisations Network North East, ACF Charity Tax Group, Association of Chairs, Institute of Fundraising, Charity Practitioners’ Forum, BOND, New Philanthropy Capital, The Social Audit Network, and sector media, faith groups, membership bodies and trade organisations. It was also suggested to notify the largest 100 charities directly.

“It might be useful to have an international contribution, especially from either Europe or the US.

As charities work across these countries, or fund raise, ironing out unnecessary differences might help". (BDO)

"Knowing whether smaller organisations are contributing would be useful to understand".  
(Johnston Carmichael)

**Q10. Do you think that the balance given to various groups during consultations concerning the development of the SORP should change? For example, do you consider that more or less weight should be given to any of the following groups:**

- (a) beneficiaries**
- (b) the donating public**
- (c) representatives of smaller funders**
- (d) representatives of larger funders**
- (e) representatives of smaller charities**
- (f) representatives of larger charities**
- (g) the accountancy profession**
- (h) commentators on the sector and journalists**
- (i) any other categories you consider relevant?**

There were 33 responses to this question with no unanimity as to whether differential weighting was appropriate. Those who considered it beneficial differentiated between the issue under consideration, by consideration of who was affected by the issue, the technical ability of the person, extra weighting for smaller charities and smaller funders, the donating public, balancing preparers and those who read account or extra weighting for representative bodies. The inclusion of journalists drew diverse views. Alternatives were to directly engage with harder to reach groups or convene sub groups for to consider particular issues. In terms of any other categories, a question was raised as to what legislators and MPs want to achieve with charity accounts and how this could be taken into account.

"All views to the Committee should be considered properly and on their merits. Clearly this requires different perspectives to be balanced, but everyone who engages in the process should be able to understand how their feedback has fed into the eventual outcome". (NCVO)

"This very much depends on the outcomes being sought but whilst all views should be given due consideration, irrespective of which audience they emanate from, it is not unreasonable to give additional weight to those most likely to be affected or with greater experience in a relevant area".  
(AAT)

**Q11. If you felt in Q10 that more weight should be given to one or more groups listed, what are your suggestions as to how these views can be obtained?**

This question drew 27 responses with a variety of views. Most respondents chose to emphasise points made elsewhere about broadening engagement. Of those discussing weighting views varied between having an equal weighting to more heavily weighting: donors and funders, beneficiaries, smaller charities, smaller accounting firms. It was also noted that written responses should not be the key method used to gain feedback and other ways should be explored – for example, open events should be held for people to hear more about charity accounting in general.

"Organisations which are key stakeholders will most likely respond in writing to consultations. It should be possible to reach most stakeholders through alerts from the charity regulators, the

charity press and through press releases from the FRC. If the Charities SORP-making body or the Charities SORP Committee identifies organisations which don't routinely respond to consultations making a direct approach may be fruitful" (ICAS)

"We do not think that any more weight should be given to any group of stakeholders- however we do think that a wide variety of methods of engaging with the development of the SORP will be beneficial. This should include face to face engagement at a local level, surveys, targeted contact with individuals or representatives of groups of charities as well as the formal written consultation". (HFMA and ANSHC)

At the OSCAR event the need for other forms of engagement was highlighted with a full 12 week consultation period, the involvement of umbrella bodies and a greater effort to obtain the views of beneficiaries. Illustrative examples of the effect of proposed changes would also be helpful.

**Q12. Do you have any other suggestions for improvements that can be made to the consultation process in the development of the Charities SORP?**

This question drew 13 responses with many cross referring to previous suggestions to broaden engagement. Additional ideas prompted by the question were: having worked examples illustrating proposed changes, ensuring use of open questions rather than yes/ no survey formats, shortening the time for responses, explaining changes that are proposed, better advertising of consultations, breaking it down to avoid too lengthy a consultation. A more radical suggestion was also made that more people would engage if fundamental changes to the accounting framework for charities were debated.

Of the four responses seeking a worked example the advantages suggested were:

"Being able to see how a revised SORP may impact on their charity may encourage greater participation". (MHA)

**Q13. Do you think that the SORP development process should cover all forms of financial reporting by charities – both those required by charity law (or company law) and other financial communications issued by charities – for example in a non-statutory annual review, summary financial reports, or visual summaries of a charity's finances?**

This question had 38 responses with those responding broadly in favour of some good practice guidance with few supporting making it mandatory. In many cases it was thought that the guidance should come from the regulators as opposed to the SORP Committee or SORP-making body.

Against – 15 responses

"The SORP development process though should be limited to all financial reporting that is legally required by charities." (DSC)

"Charities vary widely in the groups with which they engage and the reports which are appropriate in different fora and it would be impossible for the SORP to cover all the reports which may be required. This is an area which should be left to the individual charities to work out for themselves". (Free Church of Scotland)

Neutral – four responses

In favour – 19 responses

"It would be useful if the SORP development process considered wider financial reporting requirements. However, we do not think that they should be included in the SORP itself..." (HFMA and ANHSC)

"Not necessarily all forms of financial reporting but there needs to be some sort of safeguard

to prevent charities picking and choosing what information is extracted as this could lead to a distorted view of the charity's true financial position being given". (Church of Scotland)

At the CCNI event the need to bridge the statutory accounts and charity reviews was recognised. There was a concern about burdens if the remit was extended to other financial information and the challenge of developing guidance given the diversity of the sector was noted.

**Q14. If you agreed that the SORP Committee should issue guidance on non-statutory financial reporting by charities, what form do you feel such guidance should take, bearing in mind that (without a change in the law) it would not be mandatory?**

This question drew fewer responses as it invited comment only from those supporting extending the remit to other forms of financial reporting. Only one respondent favoured mandating any guidance with 24 favouring some form of separate good practice guidance.

"The approach that the Fundraising Regulator now takes would be a useful model. Ask charities (perhaps above a certain size) to sign up to follow the new codes voluntarily. This has been 90% successful with charities who are deemed eligible from a fundraising standpoint, so it's hard to see why it shouldn't work from a finance point of view". (NFPSynergy)

**Q15. If you considered that the SORP process should cover all forms of financial reporting by charities, what changes to the SORP Committee and SORP consultation process would you recommend and why?**

There were 23 responses to this question with many cross referring to answers previously given about broadening engagement with the SORP process.

One respondent suggested incorporating in the brief of a new regulatory body. Of those suggesting the existing SORP process cover other forms of non-financial reporting views ranged from no change to convening a separate working group or process. Some suggestions were made to including other skills: people with knowledge of media formats and having a broader range of stakeholders involved including non-accountants and the public.

At the OSCR event there was a consensus that offering further guidance on other financial reporting would be helpful but it needs to be short and simple and user focused. There may be a role for the regulators to issue it.

**Q16. Do you have any other comments on how the SORP is developed, the SORP-making body, the advisory SORP Committee or the SORP consultation process?**

Of the 17 respondents answering this question a variety of issues were flagged which included:

- the burden of reporting
- comments about the current SORP
- payment of committee volunteers for their time
- the role of the SORP in promoting transparency
- adequacy of the resources to support the SORP
- better alignment of regulators' annual return requirements with the SORP
- better monitoring of quality with action taken by the regulators
- having formal governance arrangements in place for the SORP-making body and SORP Committee, and
- seeking fundamental change to the accounting standards to better serve the sector

At the OSCR event the problem of telling the charity's story well given FRS 102 was highlighted, there was also a lack of awareness of the contents of the SORP and the trustees' annual report and accounts need to better linked.

In reviewing the responses, at some point, six respondents took the opportunity to suggest a replacement to the SORP making-body. Their suggestions were:

- The FRC take on the role (ICAEW)
- A new regulator is created (NfpSynergy)
- The SORP Committee be independent with the regulator(s) as adviser to it (CFG)
- The SORP Committee have an independent chair (BDO)
- Inclusion of the Fundraising Regulator (Fundraising Regulator)
- The sector alone to develop the SORP (Sayer Vincent)

Although not all respondents are content with the existing model overseeing the process with NfpSynergy submitting a detailed report setting out the perceived shortcomings of the current SORP process, by far the majority respondents were either broadly supportive of the current process, and the composition of the SORP-making body either drew no comment or received supportive comment.

"...Benefacts welcomes this instance of outreach to the sector and looks forward to participating in future consultation. The committee's own adoption of greater transparency and disclosure would reflect the determination of the FRC and the SORP-making body to support continued improvement of the sector's reporting and reputation" (Benefacts)

"We are mindful that the SORP-making body consists of the organisations responsible for regulating rather than representing the sector. However, UK charity regulators have a history of supporting the sector through providing additional good practice guidance and that members of the SORP-making body and the Charities SORP committee have extensive knowledge and experience of the corporate and financial reporting challenges faced by charities". (ICAS)

The SORP governance arrangements and forward work programme should be published. The website could be further developed and a more navigable electronic SORP offered.

Minutes of SORP Committee meetings should be published more quickly, rather than after the subsequent meeting when they are adopted, so that the reasons for decisions and forthcoming developments are known about sooner.

### **Findings from the interviews**

The interviews with the SORP-making body and SORP Committee members and Mr Joe Saxton were undertaken by the Independent Chair. The interview with the NAO was undertaken by Sarah Atkinson and Nigel Davies and that with Ms Nicola Silverleaf by Nigel Davies. The formats and topics covered differed and the following points are drawn from the notes of the discussions that were shared with those interviewed.

Points made about the SORP-making body:

- From the vantage point of the SORP-making body and committee members the current arrangements generally work well with the format of the working groups being a particularly successful in considering wider issues in depth and a good level of collaboration and open discussion. The governance arrangements could be better set out to ensure roles are understood and enhance transparency. There was recognition that a more varied

membership including non-technical people is now needed. The SORP processes grew organically over many years and it is time to think afresh what works best.

- Views from the other interviews were more mixed with a proposal that the existing SORP-making body be set aside in favour of a new body with a different advisory committee structure and members drawn from other SORP-making bodies as the existing SORP-making body was supine in the face of sector opposition to change on the SORP Committee. Two other interviewees considered the current approach satisfactory but more use could be made of representative bodies including exempt charities with a broader range of stakeholders on the advisory SORP committee.

Points about the SORP Committee and SORP development process:

- From the vantage point of the SORP-making body and committee members the challenges facing smaller charities need to be better addressed and the current form and content of the accounts improved to better meet the needs of stakeholders and engagement with stakeholders needs revisiting to bring more diverse views into the process.
- Views from the other interviews were more mixed with a view expressed that the process was flawed self-regulation by the charity sector with inadequate weight given to the views of donors and passivity in always seeking to comply with FRC reporting requirements without challenging them. Alternative views were that the process was leading to complex reports and accounts confusing to users and that a broader range of stakeholders need to be involved with alternatives to relying on a consultation document including more outreach events, focus groups and targeted engagement. Two interviewees looked to see better engagement with Parliament and both were concerned at the increasing clutter in the reports and accounts.

Points made about extending the remit to look at other financial information:

- From the vantage point of the SORP-making body and committee members there is a case for the SORP Committee to issue guidance on non-statutory financial information as best practice that looks to ensure consistency between what appears in the SORP accounts and other information produced by charities. There is no appetite for such guidance to be mandatory.
- From the other interviews, two commented on the situation where there is very detailed regulation of the formal financial statements, but virtually no regulation of other financial information issued by charities and that some guidance is needed to address this gap.

## Appendix E – Recommendations made by the Panel

This Appendix reproduces all recommendations made by the Panel in section 3 of this report. For the findings and conclusions which underpin each recommendation, please refer to sections 3.1 to 3.5.

### **The rationale for charity accounts and the role of the Charities SORP**

1. Given that there are many smaller charities preparing accounts to give a ‘true and fair’ view, their needs have not been demonstrably at the forefront of thinking by the SORP-making body. So a new approach is needed by the SORP to better meet the needs of smaller charities reporting under the SORP.
2. In terms of developing the SORP in the future, a key focus should be on the proxies who represent the public interest - their needs should be central to what financial reporting is all about. Early engagement with these proxies should help to identify what is needed to better serve public needs.
3. In developing the next SORP the aim should be to simplify and clarify the report and accounts making these an easy read for proxy users and those interested in the work of charities. Consideration should be given to simplified accounts, in particular for smaller charities, with a focus on key financial information in the statutory reporting.
4. Trustees need sufficient skills to understand charity finances through, for example training and development. If the central issue is a need for training, sector umbrella bodies and the accountancy profession will be best placed to meet this.

### **The need for and composition of the SORP Committee**

5. The SORP Committee should be retained as an advisory committee to the SORP making body but its role documented with equal attention given to:
  - technical expertise to assess standards and recommendations which accountants can apply
  - ability to engage with wider context and breadth of issues
  - reflect the breadth of the sector
  - a focus on public benefit.
6. The composition of the SORP Committee should change with the key features being:
  - membership reduced to a maximum of 16
  - at least two members to be drawn from each of the four jurisdictions, with at least one of the two representing smaller charities
  - four members to bring additional skills and expertise including donor and government funder perspectives
  - one member drawn from each regulator.
7. Other than the FRC nominee and a SORP secretariat representative, there should be no observer members of the Committee.
8. Steps must be taken to broaden engagement to bring in external perspectives including the commissioning of focus groups and engaging critical friends in the process.

9. The SORP-making body should publish role descriptions for the chair and committee members with clear expectations about engaging widely, including with small charities; and a remit enable the SORP Committee to establish sub-committees or working parties with additional membership for specific pieces of work.
10. The chair's role description should include the expectation that the chair enables the committee to work effectively, creating a culture where all committee members are willing and able to participate actively and that the full range of perspectives are heard and considered with no one member or interest dominant.
11. The Committee member role description should include the expectation of regular attendance and active participation at meetings.
12. In addition to the current transparency involving the publication of agenda, minutes and selected committee papers, the SORP-making body should publish an annual work plan after seeking the Committee's advice and input.
13. The SORP-making body should provide resources to enable the SORP Committee to commission regular reviews of trends and themes to inform the SORP making body and to support its engagement with the FRC.
14. The SORP-making body and the advisory SORP Committee should evaluate the collective performance of the chair(s) and members, annually. The SORP-making body should review the composition and skills needed on the Committee every three years.

#### **The consultation processes followed by the SORP-making body to engage with stakeholders**

15. In developing the SORP the SORP-making body and the SORP Committee must strive for more engagement as well as additional broader engagement with more creative ways of communicating and ensuring understanding should be utilised. The current range of tools for engagement are limited in scope and restricted in timing.
16. Engagement should be an ongoing process not just linked to consultations. Those who engage should be able to feed views in at all stages of the development process and may indeed add to the range of considerations for development/consultation.
17. Illustrative examples should be provided to help explain proposed changes and the potential impact. The impact of changes to the SORP in exposure drafts is not clearly understood and worked examples would help support a broader understanding of the application.
18. Use should be made of a wide range of consultation engagement mechanisms/channels from critical friends' panels, direct approaches where appropriate through to umbrella bodies and more use made of social media. Previous SORP consultations have in the main reached a limited audience type, if the SORP is to become more meaningful to a broader audience type, efforts should be made to engage with them both throughout and outside of the development process.
19. Both quantitative and qualitative analysis should be used to draw out not only a consensus for change but also good ideas or suggestions that merit consideration. Consultations and broader engagement can uncover innovative and practical ideas or perspectives put forward by individuals or small numbers of individuals that may not necessarily be thought of by the majority.
20. When undertaking consultations respondents should be advised when consultation reports have been completed and where these have been published so that they understand how their views have contributed to the analysis of responses and the outcome. It is key that the views of respondents and contributors are valued and taken into consideration, regardless of whether or not those ideas eventually feed into a particular outcome.

## **The potential need for guidance on non-statutory financial reporting by charities**

21. Members of the SORP Committee should identify best practice in non-statutory financial reporting; and the SORP-making body, advised by the Committee, should consider how they could engage and facilitate discussion with charities, their advisors and sector bodies around standards in non-statutory reporting.

22. A future SORP should include a statement to the effect that where a charity reports on financial matters out with the SORP compliant accounts, the other financial information reported should be consistent with that detailed in the formal accounts.

23. Consideration should be given by the four charity regulators as to how they can promote common principles and standards in respect of non-statutory financial reporting, in advance of the development of more formal guidance.

## **Recommendations on other issues raised by the consultation**

24. The Panel welcomes the fact that the SORP-making body is now holding formal meetings with a representative from each regulator and the FRC observer member. However, the Panel considers that aims and membership of the SORP Committee must become clearer (as set out in early sections of this report) and, in particular, the Panel urges the charity regulators to document more clearly their expectations of the Committee.

25. The regulators should clarify the arrangements for the Co-Chairs with a more specific role description which, at its heart, recognises the distinction between the SORP Committee and the SORP-making body. Where a particular agenda item for the Committee could cause a conflict of interest for the chair, the Panel notes agrees that another member of the Committee should be asked to chair the discussion of that item.

26. It is already the case that working groups or sub-committees established by the SORP Committee on specific issues have been chaired by a member of the Committee who is not drawn from the charity regulators, and the Panel endorses this approach.

27. To provide greater transparency as to decision-making, the SORP Committee should be explicit when it is making a formal recommendation to the SORP-making body and where the SORP-making body disagrees with a recommendation from the Committee this should also be made clear and the response recorded in the Committee's minutes.

28. Financial reporting by smaller charities should be more central to the SORP-making process in future.

29. The Panel notes that it is already the policy of the SORP Committee to "think small first" but notes that this has not always been fully acted upon.

30. The Panel urges the SORP-making body, supported by the FRC, and the SORP Committee to take steps to ensure the SORP is made more accessible to the majority of users who are applying it in the context of smaller charities.

31. The SORP-making body and SORP Committee, when drafting or revising the SORP, should consider the costs and benefits of compliance in their decision making, bearing in mind the FRC's policy on SORPs in cases where SORP requirements go beyond those of accounting standards. The SORP should avoid mandating compliance with requirements that are only likely to be complied with by the most diligent. In making such decisions the SORP-making body and SORP Committee should bear in mind that many of the SORP's provisions are directly referenced in the charity law regulations in each jurisdiction, and the SORP thus has the force of law.

32. The SORP-making body and SORP Committee should seek to ensure that provisions in the SORP are understandable by those expected to apply them.
33. The Panel recommends the charity regulators consider their approach to education on the SORP with a view to improving compliance.
34. The Panel noted that the SORP Committee has already been involved in responding to FRC consultations regarding the development of accounting standards, and suggests that this should be seen as a normal part of the Committee's work.
35. The specific issues for smaller charities could merit further attention by the SORP Committee and the SORP-making body supported by the FRC vis-à-vis the interaction between the SORP and accounting standards, in particular with regard to how far any options available for smaller entities could be applied to charities.
36. Proper resourcing of the SORP-making process is essential for the successful implementation of the Panel's recommendations. The Panel commends the suggestions received (see section 3.5.5 of this report) for consideration for the necessary funding and allocation of resources.





**CHARITY COMMISSION**  
FOR ENGLAND AND WALES

The **Charity**  
**Commission**  
for Northern Ireland

**OSCR**  
Scottish Charity Regulator



An Rialálaí  
Carthanas  
Charities  
Regulator