Research exercise on charities SORP (FRS 102)

Consultation response

December 2016

About Charity Finance Group

Charity Finance Group (CFG) was founded in 1987. It is the charity that works to improve the financial leadership of charities, promote best practice, inspire change and help organisations to make the most out of their money so they can deliver the biggest possible impact for beneficiaries. CFG has over 1350 members and our members manage nearly £21 billion in charitable income. Our members work at the heart of the strategic development of their organisations, and are at the forefront of delivering a sustainable and efficient charity sector. CFG's CEO, Caron Bradshaw, is currently a member of the SORP Committee, providing her expertise and insight.

CFG hosts a regular Technical Accounting Forum that brings together charity experts, auditors and charities to discuss the impact of accounting legislation – as well as other accounting policy and regulatory changes – on their organisations.

For more information on this response please contact Heather McLoughlin, Policy and Public Affairs Office, on 0207 871 5480 or heather.mcloughlin@cfg.org.uk

Motivation for responding to this consultation

Over CFG's many years working with charities, regulators, auditors and independent examiners, we recognise the importance of the SORP and the benefits that derive from a strong reporting framework for charities, particularly in terms of accountability and public trust is important.

For this consultation we consulted with our members and the wider sector. This was done through a survey[1], which received 122 responses, and through four roundtable events across England and Wales[2]. These events were attended by 100 charity specialists and accountants.

Our response draws on the evidence collated through our consultation process, our work with the Technical Accounting Forum and our experience working with our charity members.

[1] https://www.surveymonkey.co.uk/r/CFGSORP
[2] http://www.cfg.org.uk/events/sorp-consultations.aspx

Executive summary

- **We believe that the SORP is too long and that steps which is hampering the ability of readers to understand the report and accounts and is also increasing the burden on already stretched charitable resources.**
- We believe that retention of a SORP is necessary and benefits both the public and the charity sector.
- **We recommend that governance costs should not be shown as a separate component of support costs within the notes** because it does not adequately reflect governance within charities and adds unnecessary complications.
- We would also support significant simplification of reporting on financial instruments and hedge accounting as these make the accounts too complex for the general public to read.
- We would recommend the reversal of investment gains and losses as sitting “above the line” on the SoFA and should revert to sitting “below the line”.
- **We do not support the recommendation of a Key Facts Summary and our consultation activities returned very little support for its introduction**.
- We advise against further definition and guidance on reserves in the SORP.
- **We recommend that the separate reporting of support costs should be abolished.**
- We agree that the SORP would benefit from clarification of the approach that charities can report on how they have achieved public benefit.
- We do not support the view that charities could be made to explain how their beneficiaries are involved in service design.
- **We do not support the proposals under the theme of enhanced analysis of expenditure. We are concerned that these proposals are not being made with charities and the public interest in mind, but due to recent intense media interest in the charity sector.**
- **We do not believe that administration or fundraising costs should be more detailed, and administration costs (similar to support costs) should be abolished. Charities should be encouraged to provide explanation for their approach and performance in their narrative report, rather than through financial disclosures.**
- **We recommend that any disclosing of jurisdiction of charity funds should remain voluntary and not mandated in the SORP.**
- We found little support for the NCVO proposals that larger charities should disclose the post and pay of senior employees beyond what the SORP already requires.
- **We do not support the mandatory disclosing of who funds charities.**

Wider issues for consideration

We believe that any revision to the SORP needs to consider the following issues:

The role of the SORP (FRS 102)

The way that the sector reports about itself is changing. In the past, the only way that a charity would communicate its work would be through its Annual Report and Financial Statements. However an increasing number of charities are compiling annual reviews, using social media to engage with supporters and trying to find innovative ways to demonstrate their impact. The SORP-making-bodies must consider what the role of the SORP is in the midst of this change, and whether it is time to refocus the SORP as a consequence of these developments.

It is CFG's view that at present we are in a 'twilight' period where the SORP remains the central document for most charities in communicating the difference they make. Yet it is worth beginning a debate now on what the future of the SORP as these trends continue.

Audiences

It is imperative that the question is asked: 'Who are these reports and accounts read by?' CFG's engagement with our members and the accounting community makes it clear that reports are generally read by a small group of people, usually with knowledge of the sector or financial understanding of charities as well as regulators and interested funders.

If the SORP is to be used to engage with the public, therefore, the narrative side of the SORP is **more important** in helping those with a limited understanding. Adding financial disclosures is not likely to improve understanding, as it assumes a level of knowledge that does not exist amongst the readership.

CFG believes that the SORP can play a role in improving public understanding and confidence in the charity sector, but that this will not come through adding more disclosures and increasing complexity.

Public interest

If changes are to be made, it must be because it is in the public interest to do so. This is not the same as what is merely 'interesting' to others, for example, the media. We have used as our definition, the definition of the public interest put forward by the Institute of Chartered Accountants in England and Wales, which defines acting in the public interest as:

> *"an action or requirement to change behaviour that will benefit the public overall – not merely a narrow group of stakeholders."*

As a consequence, we believe that changes should only be made if they can prove that they will lead to an improvement for beneficiaries or lead to a change in behaviour that will have a positive difference for beneficiaries. If this public interest test cannot be met, then a change should not be considered.

Comments on the research exercise on charities SORP (FRS 102)

Q.1 Do you agree that the new format of the SORP meets the needs of all those preparing accounts using the SORP, including smaller charities? If not, what improvements should be made and why?

We support the modular format of SORP 2015, especially with regards to charities being able to create a bespoke SORP to suit their organisation. However, many charities do not use the bespoke option for fear of falling foul of the SORP by accidentally not realising something should be disclosed. The SORP-making bodies must do more to educate charities, or work with organisations to educate charities, so that they have the confidence to create a SORP that meets their needs.

Some changes in the SORP 2015 have caused confusion among charities as both auditors and charities reported to us that there have been various different approaches to implementation. This will be resolved over time by consistency in the SORP, and this is why many charities are concerned by the FRC's three year review cycle.

While we support the current research exercise, **we ask the SORP-making bodies to make representations to the Financial Reporting Council (FRC) to end the 'three year review' cycle** so that there is time for the next iteration of the SORP to 'bed in' and allow for charities and auditors to develop consistent approaches to reporting. While we are aware that the FRC's policy is that only major changes will be made in SORP after 2019, any minor changes to regulation can have a burdensome effect on charities, especially small charities.

The production of best practice example accounts by the Charity Commission could be instrumental in helping charities to understand the changes in required under the new SORP. We believe that this could be done in collaboration with charity representative groups.

Though the new format has allowed greater flexibility for the sector, ultimately the new additions in SORP 2015 has continued to add to the length of the reports, for example, with the requirement to disclose more comparatives, and this is having an impact both on the capacity of charities, which is stretched at this time due to the financial situation facing the charity sector, and is reducing the readability of the accounts. Many of our respondents reported that trying to compile the SORP 2015 took up unprecedented level of time, money and resources. There was general concern that the requirements under the SORP were disproportionally diverting charitable resources from doing the day-to-day running of their charity. One survey respondent noted that *"the regulators should be clear that there is a huge difference between the resources of the large national charities and the small local charities."*

Although we do not believe that there is a 'natural size' for the SORP, **we do believe that on balance the SORP is too long and that steps should be taken to reduce the burden on charities and on the readers.**

We would also reference the need for clarity on comparatives, with ideally an exemption given to avoid clutter.

Q.2 Is more assistance required to help smaller charities? If so, please explain what is needed and why.

We consider the SORP as being burdensome for smaller charities. The extra level of reporting and disclosures required under the SORP 2015 has been hard for small charities. With larger charities reporting that they devote up to six months of the financial year to compile their SORP, it is unsurprising that many small charities are struggling.

Furthermore, there is a great danger that as the requirements to report grows, trustees will become less able to engage in writing the SORP as the process becomes more complex due to additional requirements. A lack of trustee engagement will have an impact on financial governance in the sector, and the SORP making-bodies must try to avoid this.

As noted above, the production of more 'best practice' example accounts by the SORP-making bodies would be very useful to small charities and provide them with additional support.

We also recommend that the SORP-making body considers, when reviewing the need for additional disclosures, the fact that the vast majority of the sector are small charities with small (and often limited) income under and that adding to the SORP makes the process more challenging for these organisations. Some small charities do not consider the SORP applicable to them due to its complicated nature, sometimes overlooking that it is compulsory for charities with an income above £250,000 and for any sized organisation that is incorporated.

Q3. Is the use of the terms ‘must’, ‘should’ and ‘may’ successful in distinguishing between those requirements that have to be followed to comply with the relevant accounting standard and the SORP from those recommendations which are good practice and those that simply offer advice on how a particular disclosure or other requirement might be met? If not, what alternative format should be adopted and why?

We would recommend that either ‘should’ or ‘may’ be removed. The confusion that these three terms raise within charities was very clearly stressed to CFG during this consultation process. At a minimum, a thorough re-reading of the SORP is required to ensure that ‘may’ has not been inadvertently used. However, we would also ask the SORP making-bodies to consider whether it may be better to clarify through the lay out of the SORP, the difference between “must”, “best practice” and “alternatives”. While the use of the three different terms can help charities to compare best practice among the sector, the uncertainty behind ‘should’ and ‘may’ creates great uncertainty for charities.

Some charities reported that the uncertainty over 'should' and 'may' has often required them to use auditors more, which often comes at a cost for their charities and reduces their ability to focus on the daily activities of financial management.

Q.4 Given the requirements for financial reporting that are now explained in FRS 102, is the retention of a SORP still necessary in the charity sector? Please give reasons for your answer.

We believe that retention of a SORP is necessary for the charity sector. This was universally supported by those charities that attended our roundtables. It would be impossible for the FRS 102 to be fully adequate for the unique legal position of charities and their accounts in the UK.

As charities have to follow a unique regulatory environment, the removal of a charity-specific SORP would make it harder for charities to meet their requirements. Though some larger charities reported using the FRS 102 first as a reference, they still expressed the belief that the SORP is needed for the charity sector.

Q.5 Do you have any suggestions as to the changes needed to address issues on implementation or in meeting the SORPs requirements? If so, please explain what are they are and where possible please give examples.

We recommend that governance costs should not be shown as a separate component of support costs within the notes because it does not adequately reflect governance within charities. Many respondents reporting that it is illogical and challenging adequately calculate governance costs, as one respondent to our survey said *"Governance is a cross-charity process covering all activities of our charity but the recommended guidance is for it to be disclosed as an activity of its own. It is very manual for us to separate out the governance activity from all our other activities."*

The recommended guidance as it currently stands in the SORP (FRS 102) creates significant burdens of reporting for charities and often leads to unfair and unrealistic comparable as charities governance costs differ in relation to how the charity operates and the public benefit it provides.

We would also support significant simplification of reporting on financial instruments and hedge accounting as these make the accounts too complex for the general public to read. A number of charities, particularly those working overseas, have reported difficulties in these reporting requirements and the appearance that they give that charities are making losses or gains which merely exist on paper and do not reflect the reality of the charity's financial position. Through our work with our members and the Technical Accounting Forum it was felt that even with notes on financial instruments most readers did not understand the benefit this information gives to charities accounts.

We recommend clarification about requirements on declaring the value of donated goods, or its removal from the SORP. The current requirements on declaring the value of donated goods have led to confusion and inconsistencies and our respondents have expressed concerns that it can give distorted impressions of the financial position of charities. At a very minimum, this needs be clarified so that there is greater consistency in application for charities. However, we would argue that this require does not create significant value for anyone reading charities accounts to try to understand the true financial position of a charity. As part of an effort to reduce the burden of the SORP, it should be considered whether this disclosure is necessary.

We would recommend the reversal of investment gains and losses as sitting "above the line" on the SoFA and should revert to sitting "below the line". This would allow a true and fair view of a charities accounts to be presented in the SoFA. By mandating the reporting of unrealised investment gains or losses as net income/expenditure there has been added confusion to the readers of charity accounts as it distorts the operational income for the charity. Though our members with significant investment portfolios are a small percentage, the income these portfolios generate are the third largest source of income for the charity sector.

There are also concerns over the poor wording of the endowment module and the related party section. Both are misleading due to unclear nature of the wording. We recommend that the SORP-making bodies review these modules.

We also have concerns about the SoFA's ability to demonstrate the position of charitable foundations, concerns that we share with the Association of Charitable Foundations. The SoFA does not show income from investment and capital growth, and is not fit for the increasing number of foundations that use a 'total return' approach to investment. As a consequence when foundations present their expenditure it can appear either much greater than it is or present a deficit, which does not exist. We recommend that the SORP-making bodies consult with charitable foundations about improvements to the reporting of charitable foundations investments and capital growth.

Related to the above, we recommend that long term grant commitments made by charities should be allowed to be carried at cost and not discounted in order to make reporting clearer.

Q.6 Do you agree that there needs to be a third tier of reporting by only the largest charities and if so at what level of income should that reporting requirement apply?

Our view, and the overwhelming view of those we have engaged with throughout this consultation process, is that this issue was impossible to consider without clarification about what would be expected of larger and the very largest entities.

However, there is significant concern about the definition of larger charities between £500,000 - £10.2m. Any cut off point of reporting based on income is likely to be arbitrary, as income does not necessarily donate the complexity and capacity of a charity. For those charities towards the bottom of that range, additional disclosures could increase the burden on them at a time when resources are already substantially stretched. Organisations with an income under £1m have seen significant reductions in income over the past five years and adding further disclosures would be disproportionate to their capacity.

There could be some merit to further stratification, but this would have to be premised on an understanding of what changes would be made to reduce the reporting burden on small charities, what additional disclosures will be required of large charities and what further disclosures will be required of the very largest charities. Another consultation would be necessary to agree any changes.

Q.8 Do you agree with one or more of the four suggested areas for review of the trustees' annual report recommended by the SORP Committee? If so, which ones do you support and if you do not support any of these suggestions, please give your reasons as to why not?

Trustees report/ Narrative reporting

Better integration of the report with the accounts and detail of reporting

We agree that there should be better and clearer guidance to help charities prepare the narrative reporting of their accounts. It is important that accounts can be read and understood by the public. However, we would caution against any guidance that unnecessarily lengthens the Annual Report as many charities are already struggling with burden of following the existing requirements and guidelines. Further guidance would need to be balanced with reductions in other areas of the SORP.

Any further guidance on narrative reporting should take into account the issues highlighted earlier in our consultation response:

1. Charities are no longer solely using their annual reports to communicate impact and efficacy.
2. Who an annual report's audience is and what level of expertise they may have.
3. That public interest in more than what is simply of interest but rather, *"an action or requirement to change behaviour that will benefit the public overall – not merely a narrow group of stakeholders."*

It would be detrimental to the sector if additional guidance just created unnecessary administrative work, which would be a cost to charities and distract a charity from supporting their beneficiaries. As one respondent to our survey said:

> *"complying with the changes introduced by the new SORP and FRS 102 this year added around two solid months to our usual year end timetable. … Undoubtedly, the time I had to spend on this during those extra two months could have been spent more beneficially for our service users, for instance on carrying out efficiency reviews or seeking ways to increase our income!"*

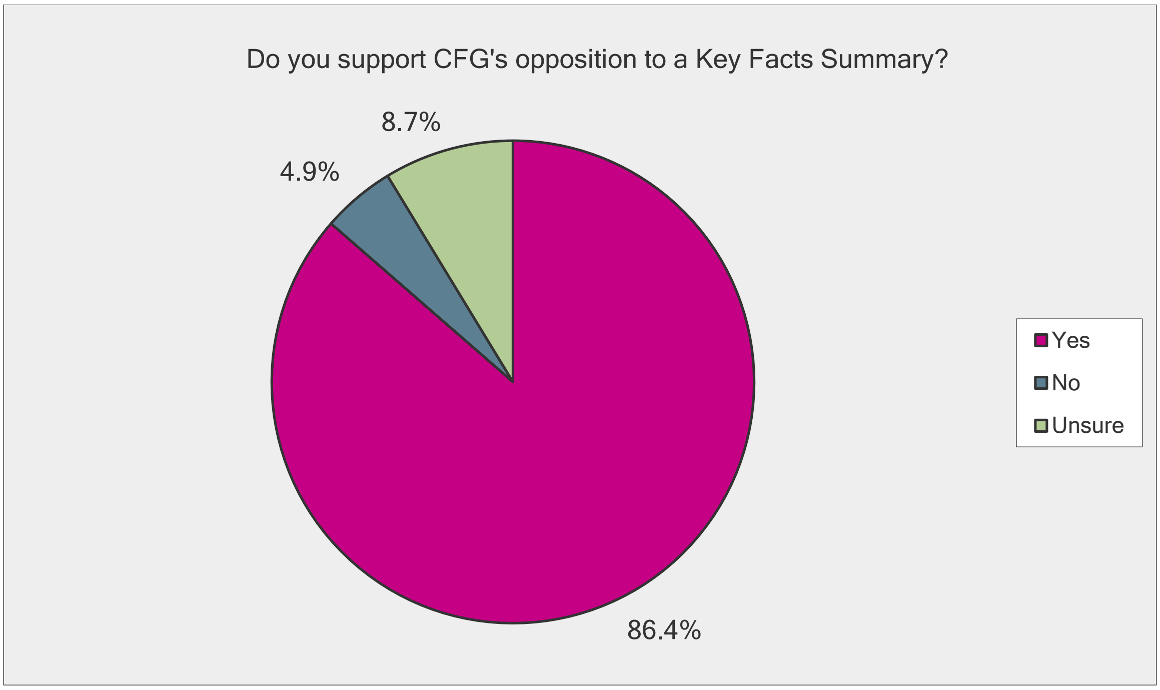
Our members also stressed that to allow better narrative reporting for charities, it is important to allow charities to have greater flexibility over the format of the SoFA. A greater flexibility here would allow charities to create accounts that show how charities actually plan and internally report their finances.

Key facts summary

We do not support the recommendation of a Key Facts Summary and our consultation activities returned very little support for its introduction. A number of reasons have been highlighted:

1) A summary would be detrimental to public interest as there is no consensus on what facts would be useful to universally declare to the public. Arbitrarily selecting 'facts' would therefore give **false assurance** and comfort to the public, **undermining public trust and confidence in the long term**.
2) A summary would reduce the likelihood of the public from fully engaging in charities accounts. Without this engagement, the public will struggle to understand how charities operate and it would undermine the value of the full Annual Report and Accounts which enables charities to provide a narrative context.
3) Previous attempts at presenting simplified reports have been attempted in the past, and these have all failed due to a lack of consistency in approach, a lack of perceived value by preparers and auditors and the unnecessary burden that was created. We should learn from these past mistakes.
4) We believe that the development of a Key Facts Summary that was not universal would undermine the main reason put forward by proponents of the summary that it would give a quick way for readers to compare the operations of a charity.

Given these reasons, and the lack of appetite amongst charity preparers and auditors for a Key Facts Summary, we ask the SORP-making-bodies to reject this addition. The figure below shows that 86.4% of our survey respondents agreed with CFG's position a key facts summary is unwelcome in the sector.



Reserves definition and guidance

We would advise against further definition and guidance on reserves in the SORP. We believe that regulatory guidance (such as CC19 in England and Wales) already provides sufficient support for charities on how to report on reserves. Additional guidance would just create more burdens for charities and would increase the length of the already burdensome SORP. We recommend that SORP making body leave this matter to regulators, such as the Charity Commission, to produce guidance. In England and Wales, the Charity Commission should focus on improving CC19.

Q.9 Do you agree with either of the two suggested areas for the review of the accounts recommended by the SORP Committee? If so, which ones do you support and if you do not support any of these suggestions, please give your reasons as to why not?

The accounts (financial statements)

SoFA – more specific definitions of support costs and fundraising costs

We recommend that the separate reporting of support costs should be abolished.

We found very little support for the continuation of this separation that is not consistently applied and provides very little value to the public as ‘support’ as a concept is not very well understood.

Although we are aware that removing support costs from the SoFA may give the impression of less transparency, removal of support costs would actually give a clearer picture of the true operations of charities. Ultimately, ‘support’ is critical to the delivery of charitable activities and should be considered a part of those costs. We recognise that there needs to be a continued focus on improving efficiency within the sector, however this disclosure does not advance that cause – if anything, it undermines the ability of the sector to invest in cross-organisational functions which are critical to the sustainability and effectiveness of the charity. As a consequence, it has a negative impact on the charity sector’s ability to deliver public benefit and is not in the public interest.

Removal of support cost separation would significantly simplify the SORP and would enable more time to be spent on explanation of the operations of the charity and the overall organisational approach to efficiency and value for money.

The mixture in the SoFA between ‘revenue’ and ‘capital’ items needs to be considered

There is no real support for this proposal, due to fears that it would further complicate and clutter the SoFA. Instead, we propose it should remain voluntary for how charities lay out their capital items.

Q.10 Do you agree with one or more of the six themes for review of the SORP suggested by the charity regulators? If so, which themes do you support, and if you do not support any of these suggested themes, please give your reasons as to why not? Research exercise on Charities SORP (FRS 102) 17

Theme: making a difference for the public benefit:

We agree that the SORP would benefit from clarification of the approach that charities can report on how they have achieved public benefit. Research by the Charity Commission and our experience with charities indicate that charities are still not reporting on public benefit as well as they should.

The SORP should help charities to consider how they should explain how they are achieving their objectives and benefiting the public. This should not be about costly impact measurement but rather an approach to effective explanation and reporting.

We do not support the view that charities could be made to explain how their beneficiaries are involved in service design. We think this should be voluntarily so that charities can decide the appropriate level of reporting for this. Although in many cases engaging with beneficiaries in service design is valuable, this is not universally the case or necessary for all charities e.g. a charity for the protection of animals. As a consequence, we believe that discretion should be given to charities on how to report on this.

Theme: risk management

As above, we do not believe that charities need to undertake further disclosures on their reserve policy. Guidance from regulators should be used to improve risk management, rather than asking for further declarations from the SORP. We fear that additional requirements would only further lengthen the annual report and accounts, lead to 'boilerplate' answers and not add value to readers of the accounts.

Although initially favourable to the suggestion that charities should provide additional assurance on the state of their financial controls, after engagement with our members and auditors we have come to the conclusion that requiring charities in the SORP to explain what assurance they have over their internal financial controls would not be effective.

We believe that this would merely lead to 'boilerplate responses' that would not be productive to help encourage charities to review internal financial controls. Moreover, such a disclosure would significantly increase costs for charities as they would likely need to bring in individuals to provide independent assurance and this would not be desirable. Furthermore, the charities most likely to have weak internal financial controls are the charities that would be least likely to meet the requirements of this disclosure, and as a consequence would not assist either the public or the regulator in understanding the strength of their financial controls.

Similar concerns are raised over the proposal to require larger charities to explain how their charity manages the risk of fraud (either through the corporate risk register or through another method). While CFG recognises the importance of countering fraud within the sector, we are concerned that this method could be ineffective and again produce boilerplate responses. We recommend that regulators do more to engage with the sector, and representative bodies, to raise the issue of fraud up the agenda within charities and provide charities with the support that they need to combat fraud – with guidance on how to report publicly on their efforts to combat it.

We also do not believe that it is necessary to require that charities explain the efficiency of their governance arrangements. The current requirements are already satisfactory and we would encourage that any additional requirements on trustee inductions and training remain voluntary for organisations. Any mandatory requirements here would just add to the length of the reporting, placing a greater burden on charities.

Theme: going concern

It is unclear what additional value charities would gain from further explanation as to why the charity is a going concern.

Although CFG was initially supportive of additional disclosure, consultation with members and auditors has identified that the *real* challenge resides in the **unwillingness of auditors to give qualified accounts**. If there is a concern that auditors are not being rigorous in their approach then steps should be taken to improve and increase guidance for auditors, not charities. The overall report and accounts should give readers an understanding of what basis the charity is a going concern, from the charity's perspective, and any additional requirements specifically on the theme of a going concern are unlikely to add value to the other elements of the report.

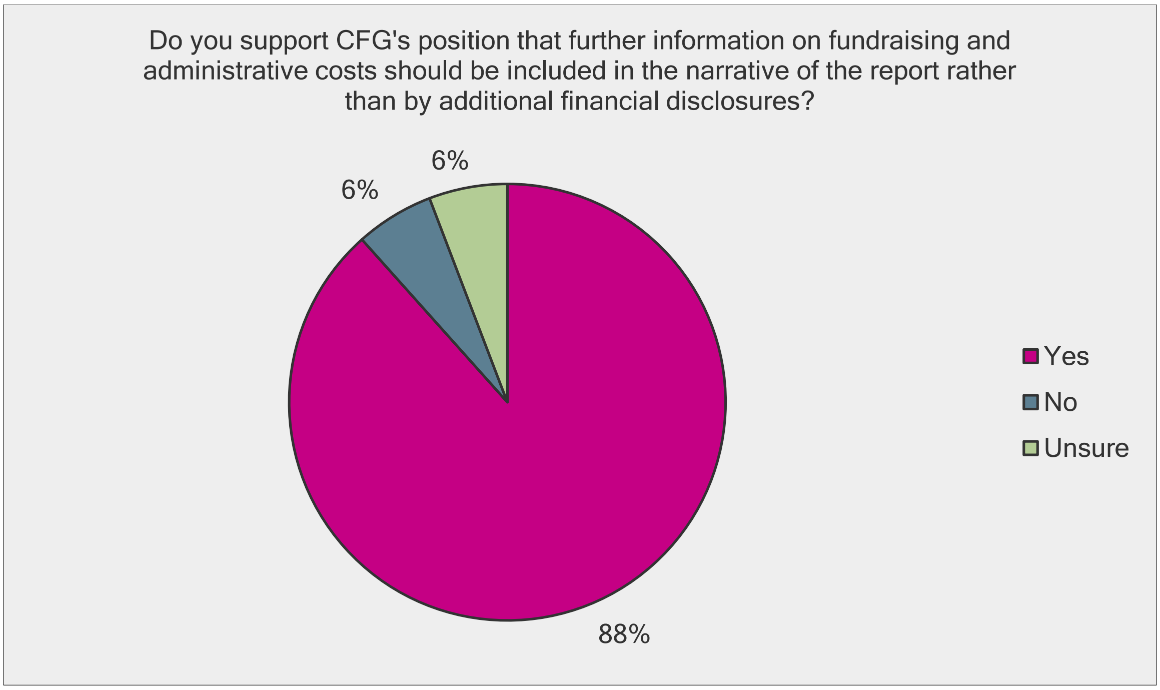
Instead we would recommend that charities be given guidance on how to better discuss uncertainties and management in the narrative report.

Theme: enhanced analysis of expenditure

We do not support the proposals under the theme of enhanced analysis of expenditure. We are concerned that these proposals are not being made with charities and the public interest in mind.

<u>Administrative and fundraising costs</u>

As can be seen from the figure below, 88% of our respondents to our survey agreed with CFG that further there should not be further financial disclosures on fundraising and administrative costs.



Comparing administration and fundraising costs is not effective for the broad church that is the charity sector. It is impossible for readers to know what reasonable or unreasonable administrative and fundraising costs are as each charity operates differently.

As a Director of Finance for a charity with an income of over £10 million said in CFG's survey response*:*

> *"How much charities have to spend on fundraising and admin* [sic] *will vary depending on how they are funded, what sector they are in, and similar factors. For instance, charities with high percentages of public sector funding will need to spend relatively little on fundraising from voluntary sources, whereas charities with little or no public funding will need to spend much more. That doesn't make the latter charities inefficient, simply more independent and (potentially) better value for money overall! Likewise, charities operating services in highly regulated sectors such as those falling under CQC or Ofsted are likely to have much higher admin/governance* [sic] *costs than those which are primarily campaigning/lobbying or advocacy charities. Again, that doesn't make them less efficient."*

Similar to the issue of support costs, this proposal to add additional disclosures of administrative and fundraising costs to only financial disclosures would only add complexity and not provide clarity.

As one auditor, responding to CFG's survey said:

> *"The fact is that there is little or no correlation between income raised in a year and fundraising costs or for that matter administration. Previous SORPs have moved away from the idea of good and bad expenditure. Going back to administrative costs is a retrograde step."*

We have encountered no arguments made so far that more detail would be useful, and little or no support in the charity sector or amongst professional auditors. We believe that discussions around charity's approach to efficiency and fundraising are best done through charities using narrative reporting, where context and explanations can be given and numbers presented in a useful manner. CFG strongly believes that additional disclosure of the kind referenced in the research consultation would ultimately undermine public trust and understanding rather than increase it.

We do not believe that administration or fundraising costs should be more detailed, and administration costs (similar to support costs) should be abolished. Charities should be encouraged to provide explanation for their approach and performance in their narrative report, rather than through financial disclosures.

<u>Identifying charity expenditure outside of jurisdiction</u>

We have concerns with this proposal for requiring charities to identify expenditure outside of jurisdiction of main registration. A charity that is operating overseas will be state in their charitable aims and in the narrative report where they operate. Furthermore, those charities typically break down their spending by country, if they believe that it is useful. Another approach taken by charities is to break down all the funds by project, rather than the time-consuming method of geography. However, a mandated universal application does not appear to have usefulness to such a varied sector.

Similar to governance costs, various financial aspects of charity projects will often cross borders. International projects often require support from the UK and charities might find it hard to define money in this way. The cost of disclosing this information could be prohibitive, particularly for smaller charities and provide no added value. Furthermore, defining and then declaring where money is spent could prove to be a burden for many charities. Concerns were raised that this recommendation would place more and more restrictions on geographical basis, making it difficult for charities to fund the much needed support costs that often occur outside of the jurisdiction of the front line service. It is vital for international projects to have these essential support costs for charities to be effective.

This trend also fails to recognise the approach taken by international standard setters such as the Financial Action Task Force (FATF) which overseas global standards on counter terrorism and money laundering risk. It has stated that only some charities are at risk in specific situations and, as a consequence, a blanket approach would be disproportionate and breach these standards to which the UK and the Republic of Ireland are party.

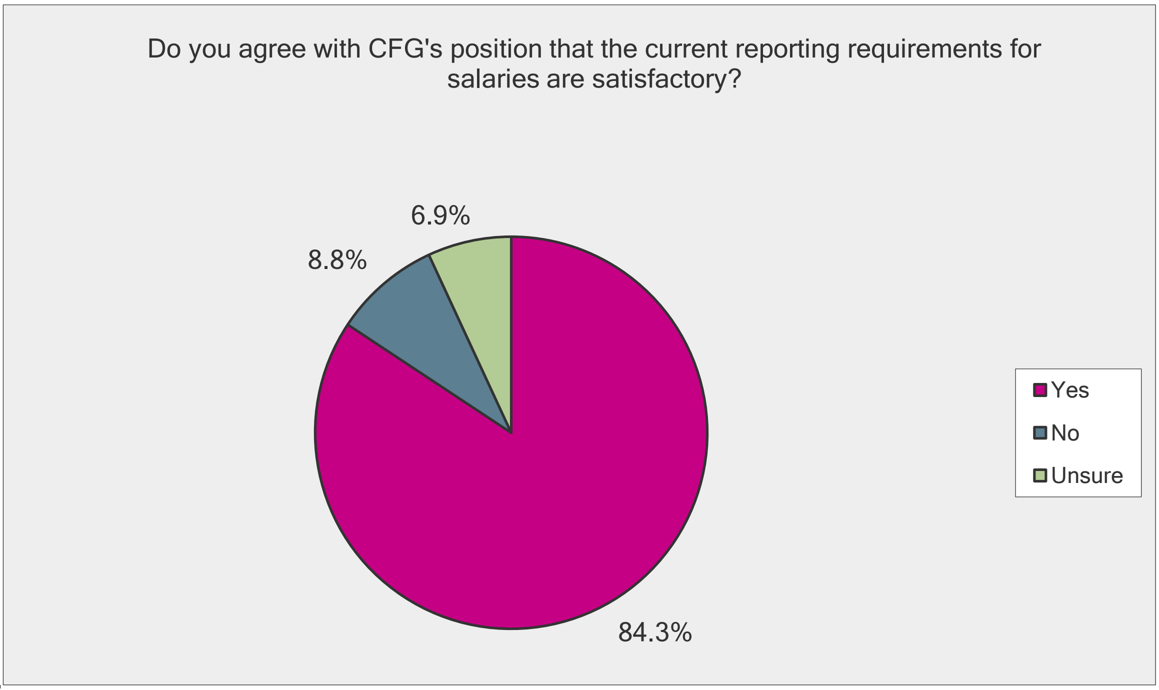
We recommend that any disclosing of jurisdiction of charity funds should remain voluntary and not mandated in the SORP.

<u>NCVO proposals on executive pay disclosures</u>

We found little support for the NCVO proposals that larger charities should disclose the post and pay of senior employees beyond what the SORP already requires.

For many charities this would present a confidentiality problem, as it is often easy to identify senior staff in charities with a low number of employees. The current requirements for reporting on senior employees pay are transparent and adequate for the sector and unlike the private sector, include disclosure of any staff exceeding £60,000 salary. The requirement for additional disclosure relating to senior pay should be kept voluntarily and allow charities to adapt it to suit the structure of their organisation.

We, and 84.3% of respondents to our survey as seen below, have seen no clear arguments given for why these proposals should be universally applied and why they would be in the public interest..



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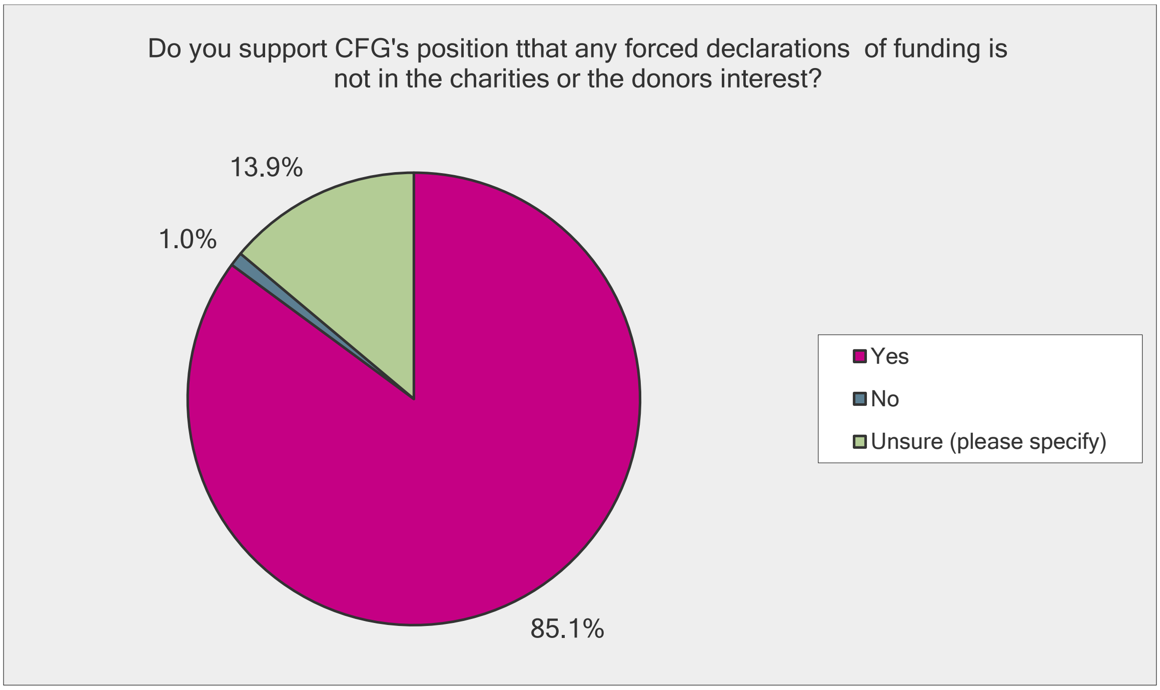
However, we do support the tightening of staff pay disclosures for interim staff, agency or similar in senior management roles in the charity as this is a fair extension.

Theme: disclosure of who funds a charity

We do not support the proposal that all charities should identify by name and amount any material individual/ corporate/ government/organisation donations and/or contracts. While we recognise that charities should be transparent, we do not believe that this disclosure would be useful. Mandated disclosures do not equal transparency, as transparency is cultural, an approach, a willingness to help beneficiaries and all stakeholders understand how a charity is run. Disclosures conversely can make it more difficult for a charity to aid understanding of their organisation.

Moreover, we and our respondents (with over 85% of survey respondents support CFG’s concerns on this proposal, as seen in the figure below) have great concern that the removal of the right for a donor to be anonymous would be severely detrimental to charities that rely on individual donations as the resulting removal of privacy could very well undermine the motivation of donors to give to charities. This would undermine the public interest.



We question why identifying by name and amount of materially significant donors adds value to readers. If this proposal were done to help counter terrorism, we would refer regulatory bodies of the FATF recommendations on charities and the need to avoid disproportionate regulation.

While many of our respondents stated that they categorise disclosing of funds in some way, 85% of our respondents agreed with CFG that the proposal it was not in charities or funders interests.

We also have concerns that disclosing for whom the charity is acting will just place additional bureaucracy on charities, stretching their already limited time and resources. The current level of reporting for this area is already adequate enough for charities and to prevent regulatory burden we would encourage that arrangements that explain how being a party to an agency or consortia benefits the charity remains voluntary.

We do not support the mandatory disclosure of who funds charities.

Theme: disclosure of key facts

We strongly oppose the inclusion of a key facts page in the report and 86% of our survey respondents did not support the inclusion of a key facts summary, for reasons that we previously stated above.

As we explained previously, there is significant difficulty with a key facts summary as the sector is a broad church and not all the proposed mandated facts would be relevant to the entire sector. There is also a major concern over the use of ratios or standalone figures to give an accurate assessment of a charity's performance. This complexity of the sector makes it hard to identify useful and meaningful comparability. The current SoFA is the best opportunity for charities to explain their financial differences to the public and in a sense, is already a 'Key Facts Summary'.

The proposal for a quote of pence in the pound making it to the end beneficiary is completely without merit. This disclosure would perpetuate the belief that charities should not spend income on governance costs and undermines the sector's ability to be professional.

We are concerned that this could encourage charities to 'game' the system to ensure that their pence in the pound was greater than others, leading to misleading claims like the 'golden pound' and charities that are unable for a variety of reasons to match the 'golden pound' to be unduly judged by a misunderstanding media and public.

The inclusion of this Key Fact, and others, would encourage the public to make snap judgements on the basis of numbers without context. This would undermine, not increase, public confidence and understanding in the charity sector.

Q.12 Are there any items in the report or accounts which could be removed. If so, what are they and what are your reasons for removing them?

The majority of our respondents stated that they would support the removal of holiday pay accrual from accounts. Maintaining information for this requirement was often deemed as a great administrative and cost burden to charities and added very little value to charities reports. As holiday pay accrual is a requirement of FRS 102, we would ask the SORP making-bodies to make representations to the FRC to remove this requirement.

We would also support the removal of total donations from trustees as it appears to add no value to the accounts and their readers. Respondents also raised that issue of removing average head count as they could not see any benefit in reporting this.

Another strong point of contention among our respondents to our consultation was the maintaining of prior year comparatives on the SoFA. The view widely expressed during our consultation process is that with accounts now being available online it is redundant for charities to have to include prior year comparatives as all that information can be easily found. The removal of prior year comparatives would help to greatly reduce the cluttered nature of the SoFA and would make accounts easier to read.

In line with the right to privacy for donations, we would also recommend that the requirement to declare trustee donations should be removed. We do not believe that knowing whether trustees have given and how much they have given is relevant to the financial governance of the charity.

Q.14 Are there any items you would like to add in to the report or accounts? If so, what are these items and how would their inclusion help the user of the report and accounts?

We do not think that any items should be added to the report or the accounts.

Repeatedly charities expressed that compiling the SORP was an administrative and financial burden on their charity. While the sector understands that the information required by SORP is needed to enable transparency and demonstrate public benefit, the sector do not understand who actually reads and benefits from the information provided by the SORP.

Charities felt that they were required to keep a lot of the information that they must state in their reports, but that this information does not provide any value to the charities or the readers. This information is costly, with one respondent estimating that it costs *“around £100,000 to write a full stack report that no one will actually read!”*

Conclusion

We understand that the Charity Commission and OSCR are concerned about maintaining in public trust and confidence in the sector, but we fear that some of the proposals outlined in the research exercise on charities SORP (FRS 102) will create a significant increase in regulatory burden for charities and actually *undermine* public confidence in charities due to the misunderstandings that would be created.

We have tried to consult as with hundreds of charities and specialists (members and non-members) across England and Wales to ensure that this response is shaped to support and benefit the charity sector as a whole. We ask the regulation bodies to recognise this in its analysis of the responses, and ensure that the SORP is not shaped by a narrow group of stakeholders.

It is imperative that the SORP is not shaped by recent media coverage but is rather built on the principle of public interest. We must ensure that charities are able to report in a way that is constructive to both the charities themselves and to their beneficiaries. A SORP that requires a charity to focus resources and capacity unduly away from their remit is damaging for the confidence and ability of the sector to help the very public we serve.

As previously stated, it is important that any proposals to the SORP should be made with three important points in mind:

1. **Role of the SORP -** Charities are no longer solely using their annual reports to communicate impact and efficacy.
2. **Audience -** Who an annual report’s audience is and what level of expertise they may have.
3. **Public interest** – This is more than what is simply of interest to the media, public and regulator but rather, *“an action or requirement to change behaviour that will benefit the public overall – not merely a narrow group of stakeholders.”*

These three points have been widely supported throughout of consultation process and we feel that there is a significant appetite within the sector to ensure that these three themes are instrumental when reviewing the SORP (FRS 102).

Overall, CFG’s main areas of focus for this research exercise are:

1. Reject the proposal for a Key Facts Summary
There is no rationale for why this summary would improve understanding of charities, and I do not believe that there is financial information which would universally demonstrate the

effectiveness of a charity. It is only likely to encourage readers not to engage with the full annual report and accounts.

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

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

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

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

We strongly urge caution when reviewing the charities SORP (FRS 102) and that the regulators must ensure that any additional requirements will not become burdensome and disadvantageous for the charity sector.