

acie

association of charity independent examiners

Response to the invitation to comment on Research exercise on charities SORP (FRS102)

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1. Background

The Association of Charity Independent Examiners (ACIE) is an association of people who carry independent examinations of charity accounts in the UK. ACIE provides training, support and information to its members, charities and other interested parties. Since its launch in 1999 it has also become a national voice influencing policies regarding the legislation and regulation of charity accounts and independent examination.

ACIE is one of the professional bodies whose qualified members may act as independent examiners to charities where a professional IE is required.

2. Introduction

ACIE is responding on the basis that this is a research exercise rather than a formal consultation and that any new SORP would be subject to a formal consultation.

Prior to introducing a new SORP ACIE would strongly recommend that the Regulations in England and Wales under the Charities Act 2011 are updated to refer to the 2015 SORPs or “current SORP” as the current Regulations still refer to SORP 2005.

3. Structure, format and accessibility

The SORP is certainly required to support the sector interpret FRS102 and provide an additional level of transparency that is uniquely required by charities providing public benefit and receiving substantial public support.

ACIE understands that around 85% of charities have an income under £250,000. For charities below this level of income it could be assumed that they will make use of the ability to prepare Receipts & Payments accounts. However, there are many reasons why small charities whose income is under the threshold for preparing accruals accounts do not prepare R&P accounts, not the least of which is that they are companies or accruals accounts provide a clearer picture of the charity's activities or R&P accounts are considered by trustees and their advisors not to be "proper" accounts. The "think small" approach of SORP 2015, where every module starts with issues applicable to all charities and only then goes on to more complex issues is good and should, therefore, be retained.

However, there are a number of issues with the current SORP which mean that it is not helpful or useful for smaller charities, such as.

- A number of the requirements imposed by the SORP on small charities are overly onerous without adding significantly to the reader's understanding of the charity and its financial position. These requirements can lead to accounts for smaller charities being at least 20 pages long significantly reducing their usability as readers are put off reading them. See section 6 on the financial statements and disclosures for examples.
- The terminology can be too technical and may not be easily understood, especially by the preparers of smaller charity accounts who may not be accountants.
- There are currently highly confusing references in SORP to "smaller charities below the audit threshold" - but following SORP Update Bulletin 1, the SORP Committee is defining smaller charities in the UK as those under £500K income.
- There is no index, which can make clarifying and understanding a particular requirement time consuming.

An important issue facing the charitable sector is not the content of the SORP but rather compliance with it. ACIE's experience from membership applications and we understand from research, carried out by the Charity Commission for England and Wales and others, is that substantial numbers of accrued accounts submitted to regulators do not materially comply with the current SORPs. It is, therefore, important to consider any changes to the SORP in the light of will they aid or hinder compliance.

The reporting requirements for small charities (income under £500,000) should be further relaxed. ACIE would support a review of the all SORP requirements for small charities taking as the starting point for small charities the FRS102 requirements plus the minimum number of SORP specific requirements for transparency and accountability. This can then be built on with more requirements for medium and large charities (see sections 4 & 6 below). The group carrying out the review should include trustees, staff and professional advisors of small charities with an income under £500,000.

It would be helpful if, alongside the SORP, the Charity Regulators could publish example accounts for smaller charities that comply with the SORP.

4. Reporting by largest charities

ACIE would agree to a third tier for the largest charities and would suggest the following definitions with associated income:

Small charities £0 - £500,000

Medium £500,000 - <£10.2m

Large >£10.2m

The cash flow statement should be restricted to large charities only.

A number of the proposals in this research exercise should also be restricted to medium or large charities only.

5. Trustees report

The current SORP requirements for the trustee's report provides sufficient detail for readers, especially of small charities (income less than £500,000), to understand the purposes, activities, structure and management of the charity. Any changes proposed from the 4 review areas should be restricted to medium or large charities

6. The financial statements and disclosures

Examples of SORP requirements that could be removed, especially for small charities, as they just add to the length of accounts and are rarely useful to the reader are:

- Previous year comparators for all SOFA items
- Allocation of and support cost analysis – staff and trustees of small charities find it difficult to meaningfully apportion support costs across activities
- Previous year fund movements
- Requirement to accrue outstanding holiday pay

We acknowledge that some of the above are requirements of FRS102 and therefore will need to be taken up with the Financial Reporting Council.

With regard to the mixing of revenue and capital in the SOFA. The use of the “may” format to suggest using a column for capital would be helpful to highlight to people preparing accounts that they could adopt this method if it would be helpful to readers of the accounts.

7. Themes for making changes to the SORP

Making a difference for public benefit

While it can be argued that explicitly stating who the beneficiaries are will improve transparency this may be a duplication as the requirement in the trustee’s report to set out the purposes of the charity and the key activities may already make clear who the beneficiaries of the charity are. The requirement to explicitly state in the public benefit statement who the beneficiaries are should only apply if this is not clear from other areas of the trustee’s report.

A requirement to explain how beneficiaries are involved in service planning and design appears to be a move into using the accounts to influence how charities develop and deliver their services, rather than just reporting on the financial performance and position of the charity along with setting out the purpose, activities and structure of the charity. For many charities, especially small charities or those established by bequests or providing grants, it may be difficult or not appropriate to involve beneficiaries in the design of services or activities.

Risk management

Small charities very often operate 'hand to mouth' with minimal reserves and usually do not have audit or risk committees that would carry out reviews of the effectiveness of internal controls.. In the light of this the risk management issues for all charities should become "should" for small charities.

While independent examiners are not required to consider internal controls, the SORP might mention that small charities consider the option of delegating the review of internal controls to the independent examiner as an assurance service.

Going concern

Care should be taken when considering the extension of the "going concern" disclosure to periods longer than 12 months as many small charities exist on annual or short term grants and could all be "caught" by this requirement and appear to give to readers of the accounts the erroneous impression that they are in financial difficulty.