

PAPER 1: Initial topics and ideas under discussion by the SORP engagement strands

❖ About the SORP

1. Can there be distinction between different kinds of charities (fundraising/investment/holders of assets/social enterprises) and a modular approach to reporting
2. Consistency required between what SORP requires and fact that there are different jurisdictional requirements (which all adds to confusion)
3. SORP appears to be drafted with larger charities in mind, rather than the 90% of charities which have income of less than £500K (Euro 500K)
4. In terms of tiered reporting, as well as considering tiers below the larger charities threshold, it may also be important to consider stratification above that threshold to distinguish between large charities and super-large charities
5. Training and education of Trustees and Independent Examiners needed alongside SORP revision
6. Frame the SORP guidance in light of the core concern of the regulators i.e. providing an accurate and compelling account of a how a charity makes a difference
7. Ensure the SORP guidance speaks to trustees in a language they understand and communicates the benefit of meeting the requirements
8. Provide numerous examples of good Trustee Annual Reports alongside the SORP guidance
9. There should be a review of the drafting convention for the SORP i.e. the use of 'must', 'should' and 'may' to denote the status of the content both to reduce the length of the SORP and improve the drafting
10. Consider framing the SORP in terms of the key focal points: income, expenditure, reserves, impact
11. Revised SORP should include examples illustrating particular accounting treatments or disclosure requirements (e.g. grant income recognition or the definition of reserves) with numbers
12. Make better use of technology for both preparers and readers of annual reports and accounts to access and use that information
13. There should be an index to support easy searching for specific items

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14. The tables within the SORP that illustrate formats (e.g. the SOFA on page 38) should have numbers added to be more helpful to the user

❖ About the trustees' annual report

1. Could there be some kind of 'up front' summary/meta-data sheet that acts as a key go-to page for each charity and potentially offers enhanced understanding in a simpler way to readers
2. Importance of a coherent connection between reserves, future developments and sustainability which can enhance understanding of each charity and how they are different i.e. not a 'one size fits all'
3. Impact reporting requirements should be introduced. Charities should be making more use of the annual report and should not seek to avoid including information about impact or instead report similar information elsewhere so that it falls outside the scope of the external scrutiny report.
4. Requirements relating to standing information/boiler plate disclosures should be reviewed. There are different views as to whether or how this information should be relegated.
5. Consider divorcing the non-financial narrative information from the financial information required/desired under the SORP i.e. make SORP a purely accounting concern

❖ About the financial statements

1. The requirements for comparative information are driven by FRS 102. However, this leads to more onerous disclosures for charities. Some of the additional comparative information is viewed as useful but not all of it.
2. Remove some unnecessary pages – e.g. last year's SOFA
3. Could there be greater clarity and flexibility on categories of expenditure which would better describe each charity's business, including simplification of cost analysis in notes and greater clarity on support costs to help consistency
4. The statement of cash flows would be more meaningful if it reported cashflows relating to different categories of fund – unrestricted, restricted etc.
5. The distinction between expenditure on charitable and non-charitable activity is problematic as in normal circumstances all expenditure should be considered charitable, for example, investment management fees. A distinction will remain necessary for example to report losses due to fraud.

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6. Change format of cashflow statement or remove for smaller charities

❖ About technical accounting issues

1. Greater flexibility on income categories used and greater guidance and consistency required on income recognition
2. Materiality - if SORP gave guidance on materiality, large charities could focus on reporting what is material and not on every 'disclosable' item which adds to length and complexity of SORP accounts
3. Some technical issues, such as valuing donated goods, income recognition for grants and legacies and the definition of free reserves, merit further consideration
4. Consideration should be given to removing the requirement to recognise donated goods and services (but not donated fixed assets)
5. Simplify reporting on pensions and financial instruments