



Smaller charities, SORP and issues of financial accounting and reporting

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Introduction

The Charity Commission for England and Wales, the Office of the Scottish Charity Regulator and the Charity Commission for Northern Ireland are jointly responsible for the Charities Statement of Recommended Practice (SORP), one of seven SORPs authorised by the Financial Reporting Council. In July 2020 they launched an engagement process to develop the next iteration of the SORP.

This research is concerned with the use and impact of the Charities SORP on smaller charities across the three jurisdictions of the UK (England and Wales, Scotland, and Northern Ireland). We define “smaller charities” using the definition in the SORP itself i.e., charities whose total income does not exceed £500k.

It should be noted that all three jurisdictions currently allow non-company charities with annual gross income up to £250k the alternative of preparing receipts and payments (R&P) accounts. Therefore the use of the SORP by smaller charities falls into three categories:

- charitable companies (of any size) which must prepare their accounts to give a true and fair view in order to comply with company law which requires application of relevant accounting standards – so application of Charities SORP is effectively required where the company is a charity;
- non-company charities with incomes from £250k to £500k – for which the use of the accruals basis and SORP requirement for the final accounts is mandatory in the charity accounting regulations in each jurisdiction;
- non-company charities with incomes from £0 to £250k that may opt to use SORP accounts rather than R&P for non-statutory reasons.

Note that the term “non-company charities” includes charitable incorporated organisations (CIOs) in England and Wales and Scottish charitable incorporated organisations (SCIOs), as although CIOs and SCIOs are corporate entities they are not companies. In Northern Ireland, CIOs are enacted but not yet implemented.

Report structure

The report is structured around eight core research questions, with the findings from each research method synthesised to produce answers to these questions. We begin by summarising the key findings and stating our recommendations for changes to the SORP that would make it more effective and usable for small charities. We then describe the methodology underpinning the research, before presenting the results for each research question in turn.

Research of this scale can never fully be reported in a single (readable) document, therefore we have provided a supplement materials repository containing survey questions, topic guides etc:

small-charities-and-the-sorp-research-supplementary-materials-july-2021.zip.

Executive Summary

In this section we summarise the key insights from the research and state recommendations for making the SORP more effective and usable for small charities.

Use of SORP by small charities

- The analysis of the PDFs of charity accounts estimates around 60% of small charities use SORP, with a clear gradient by income band (with the smallest charities least likely to use SORP); these findings are consistent with previous research. Applying our estimate to the population of UK charities, it suggests there are c. 100,000 registered charities using the SORP.¹ This demonstrates how prevalent SORP is among small charities, and hence the importance of making SORP work better for this group.
- A distinctive finding of this research is the scale of accounts that have an undetermined accounting basis – some 25% of accounts analysed. Once again there was a size gradient, with the smallest charities most likely to produce undetermined accounts. We did not specifically examine how compliant charities' accounts were with current requirements, therefore 'undetermined' does not necessarily mean 'non-compliant'. Often an undetermined classification is due to limitations associated with the PDF text extraction process; sometimes however it will reflect the muddled, low quality reporting practices of some charities.
- **Recommendation 1:** The relatively high number of accounts which do not clearly indicate which accounting basis they use is in part driven by low levels of understanding of charity accounting requirements. As echoed elsewhere in the research, a considerable effort needs to be made to improve understanding of charity accounting requirements in small charities (in particular) and among their external advisors. Therefore the research strongly supports the case for more investment in training and guidance for small charities in preparing their annual accounts – what this might look like is addressed later in the executive summary. The level of undetermined accounts may also support further simplification of the SORP for small charities, though we acknowledge that low quality reporting can occur under the clearest of frameworks.
- **Recommendation 2:** The requirement in Scotland for charities of any size to have a qualified Independent Examiner when preparing SORP accounts should be considered for the other UK jurisdictions, as it may explain the higher take up of R&P by Scottish charities under £250k.

Decision to use SORP

- Evidence from the focus groups found that awareness of the choice of R&P or SORP basis for presenting the accounts, even where that choice existed, was relatively low. In many cases charities using external accountants to prepare the accounts simply accepted whatever the accountant produced. In other cases, standard templates were being used by treasurers, quite often produced by umbrella bodies, but with no discussion of alternatives.

¹ There is a detailed breakdown of SORP use estimates for each jurisdiction and various income bands in the supplementary materials folder.

- Where there was an understanding of the choice, both the small charity survey and the focus groups found many making a clear choice for R&P for reasons of simplicity, especially where the main readers of the accounts were seen as the charity's members or service users. But others made strong arguments for use of SORP to give a more realistic picture of the charity or to ensure certain assets or investments were more clearly reported. Others, however, seemed to think that SORP was required as a matter of compliance even when the R&P alternative was possible.
- **Recommendation 3:** Whilst the SORP Committee and SORP-making body is not directly responsible for the R&P framework, the research suggests that more publicity is needed to promote the R&P option so that small charities do not find themselves pressurised into using SORP when it is not required. Considerable work would appear to be needed on this issue with the accountancy profession e.g., to stress that all the legal requirements of an independent examination can be completed even with R&P accounts.

Understanding of key charity accounting concepts

- The understanding of fund accounting appears to be strong amongst the vast majority of participants in this study – even those using R&P accounts. In the small charity survey, 75% of those using SORP accounts and 58% of those using R&P considered themselves to be 'expert' or 'very familiar' with this issue. This was also reflected in the focus groups, where no one seemed to have any difficulty with issues of restricted funds.
- It is worth noting that this represents a huge advance as a result of the modern charity accounting framework that took effect from the late 1990s: literature examining the impact of these requirements in the early days found many treasurers unable to cope with the additional requirements of fund accounting.
- Similar numbers also felt comfortable with issues of reserves, though in the focus groups some suggested that the SORP requirements could be clearer.
- Issues of grant recognition and fair value are more subtle and really only arise with accruals accounts (SORP format), and survey respondents reported lower levels of familiarity – although some participants mentioned specific concerns around the treatment of multi-year grants.
- **Recommendation 4:** The level of understanding of fund accounting shows that real progress has been made over the last 20 years with the SORP framework and the similar issues with restricted funds in R&P accounts. However, there is still need for education on some of the other concepts examined in this research.

Improvements to SoFA and annual accounts guidelines

- Many small charity survey and focus group participants reported positive experience of guidance they received, particularly from their accountants and Independent Examiners, and the guidance from charity regulators (especially OSCR) was also mentioned. However, awareness of the SORP itself was more limited and whilst most were familiar with the term 'SORP', few if any had used the SORP directly as a source of guidance.
- Nevertheless, many wanted to see more simplifications in the SORP for small charities, though relatively few were able to raise specifics. The awareness of the specific simplifications already allowed for small charities, such as the use of natural

classifications on the SoFA, was found to be very low, even amongst professional accountants.

- **Recommendation 5:** This study provides further evidence supporting the calls for simplification of the SORP as it applies to small charities and existing simplifications such as the option for natural classifications on the SoFA clearly need much more publicity. But very few participants in this study appear to use the SORP itself as a source of guidance, so it will be vital to explain any simplifications through other means of communication.

Reliance on external advisors

- The majority of small charities, irrespective of size, consult external accountants or Independent Examiners when preparing their annual report and accounts. The distribution of the work of accounts preparation is shared between small charities and their external advisors, however some small charity treasurers appear unfamiliar with the work involved, SORP requirements, and judgments made when preparing and examining a set of accounts. While the demand for external accountants and Independent Examiners is increasing, the number of charity finance support services is in decline (CFG 2017). This supports suggestions that training and education of both trustees and Independent Examiners are needed alongside the SORP revision (CIPFA 2020a).
- **Recommendation 6:** Greater effort should be made to increase awareness of R&P basis among external advisors, especially in light of the large proportions of small charities <£250k income who we estimate use the SORP (many of which will not have any transactions requiring accruals or deferrals).

Trustee Annual Report (TAR) requirements

- The TAR is seen by both charities and their advisors as being very important for accountability and transparency. Despite this, in some charities, trustees were disengaged from the process of drafting the TAR, seeing it as an exercise in compliance. In some cases, the TAR was produced primarily for trustees rather than by them, and had too much of an internal focus. Others emphasised the role of the TAR in 'telling the charity's story', though there was some concern that the TAR holds too much content to make this straightforward. Overall small charities seemed comfortable with preparing the TAR, but did identify some issues in presenting more technical information such as reserves levels and issues of going concern, and there was some call for tighter guidance on what should be included.
- **Recommendation 7:** Given the important role that the TAR is seen to play in accountability and transparency, it is worth reflecting on how the guidance might further encourage the active participation of trustees in its drafting. Small charities seemed to find it most effective when they saw it as presenting the story of the charity's year in a way that was accessible to external stakeholders. Guidance could help small charities in emphasising the key information that would be particularly suitable for inclusion to help focus the TAR, and providing examples of how to present this, to make sure that it delivers this external accountability role effectively for small charities.

Quality of external advisor support

- Small charity respondents generally showed a high satisfaction of their external accountants when preparing annual reports and accounts, however the relatively high cost and lack of understanding the charity's context was noted. By contrast, Independent Examiners and accountants appeared dissatisfied with their fellow accountants' advice and SORP compliance, and asked for more training, regulation and accountability of their sector.

General thoughts on charity accounting requirements

- The final substantive question in the small charity survey explored suggestions for changes to current charity accounting and reporting requirements. The most common response was that the current requirements are fine, with no need for changes. Where suggestions for changes were made, the most common was to simplify one or more of a) the requirements; b) the guidance; c) the presentation of the accounts.
- There was also strong sentiment – echoed elsewhere in the small charity survey – that more and better training and guidance materials were needed, in particular templates and case studies covering a broad array of small charities and their activities / transactions.
- **Recommendation 8:** Stakeholders with responsibility for designing and communicating charity accounting requirements should invest in developing a wider array of training and guidance materials – such as templates, case studies, interactive/online pro formas and webinars – that demonstrate whether and how to apply the SORP. Given their prominence in the sector, this initiative may best be led by the charity regulators.

Methodology

Research questions

The research brief commissioned by the Funders centred around seven key questions:

1. What is the estimated number of charities with an income below £500k that use the SORP?
2. Why do some smaller non-company charities (i.e., those with incomes below £250k) choose to use the SORP rather than simple receipts and payments (R&P) accounting?
3. To what extent do smaller charities understand key charity accounting concepts such as fund accounting, grant recognition, fair value and reserves?
4. To what extent do smaller charities rely on external accountants / Independent Examiners for advice and preparation of SORP accounts Does this vary by the size of charity? Is this reliance expected to change in the future?
5. Could the SoFA and annual accounts guidelines be improved / simplified to benefit smaller charities? Should the option of using natural classifications in the SoFA be promoted and possibly extended? What other simplifications in the annual accounts should be considered?
6. Could the requirements of the TAR be improved / simplified to benefit smaller charities?
7. Could the quality and consistency of support from external accountants / Independent Examiners be improved?

In addition, the research team examined a more general question – asked in the small charity and Independent Examiners / accountants surveys – relating to charity accounting and reporting requirements:

8. What changes would you like to see to the charity accounting and reporting requirements that would make them more effective or more appropriate for small charities?

Methods

The research questions were answered by combining methods and expertise from data science, social research, charity data, and charity accounting. There were five distinct elements:

1. Review of the existing academic and grey literature on small charities' accounts
2. Quantitative analysis of data scraped from the PDFs of small charities' accounts
3. Online survey of small charities
4. Online survey of accountants and Independent Examiners supporting charities
5. Focus groups with small charities

Review of the existing academic and grey literature on small charities' accounts

We conducted a focused literature review based on keyword searches of research databases and reference lists. In addition to academic outputs, we also examined the published research reports of significant sector bodies such as Charities Aid Foundation (CAF), Institute of Chartered Accountants in England and Wales (ICAEW), Institute of

Chartered Accountants (ICAS) and Association of Charitable Foundations (ACF). This resulted in 16 relevant publications informing the answers to the research questions, in particular on estimating the current use of SORP by small charities, and the reasons and barriers underpinning the choice (or not) to use SORP.

Quantitative analysis of data scraped from the PDFs of small charities' accounts

Despite recent improvements in quality and accessibility, it is not possible to tell whether a charity uses the SORP when preparing its accounts from publicly available regulatory datasets. However the PDFs of a charity's annual accounts are often provided via the relevant regulator's website. It is these documents that form the basis of our attempt to estimate use of SORP by small charities.

We began by identifying all charities across the three jurisdictions that:

- meet the definition of small charity (<£500k income); and
- meet the criteria for having their accounts published on the respective regulator's website²

This subset of 78,528 registered charities served as the sampling frame from which we would randomly select accounts to analyse.

From the sampling frame we randomly selected 15,000 organisations for whom to download accounts for (done in three batches). Due to the random sampling process, these charities were representative of the sampling frame in terms of jurisdiction, income and legal form (and assumed to be for other characteristics not included in the analysis e.g., charitable purpose, beneficiary group). Due to issues downloading accounts for particular types of charities in the random sample – those based in Scotland and Northern Ireland with an annual gross income between £250k-£500k – we added an additional 1,431 charities to the sample, bringing the total to 16,431. We then inputted the registered charity number of these organisations into the 'charity accounts download' tool.³

The accounts download tool is a web application, based on an elasticsearch database, which can find the latest accounts PDF for a charity, download the accounts from the regulator's websites, and store them in the database. Elasticsearch's indexing capabilities mean that the full text of the accounts can then be searched for key phrases. The tool can then return lists of accounts that contain the search phrase.

In most cases the pdf account files are "machine readable", in that the text is stored in the file itself, rather than an image of the text. Where a pdf only contained images, they were processed through "Optical Character Recognition" to extract the text. In these cases, there are likely to be transcription errors compared to machine readable files.

The accounts tool was able to source accounts for 12,746 of the 16,431 sampled charities (78%). For charities we could not find / download accounts for, these tended to be small (64% had annual gross income less than £100k), possess company status (53%) and registered in Scotland and Northern Ireland (64%). For the 12,746 charities we found

² It varies by jurisdiction but in general the sampling frame contains all charities with annual gross income between £25k and £500k.

³ <https://accounts.dkane.net/>.

accounts for, a further 436 were unusable due to issues parsing and extracting the text contained within the documents.

Thus, the final sample for analysis comprised of 12,310 accounts, 93% of which covered financial years ending in 2019 or 2020. Table 0.1 shows the comparison between the population, sampling frame, random sample and the analysis sample. On average, the analysis sample is biased towards larger organisations, those in England and Wales, and non-companies. These biases are expected given the following:

- With the exception of certain legal form (SCIOs, CIOs), the accounts of charities with less than £25,000 in annual gross income are often not published by the regulator.
- In general, accounts for Scottish charities are less likely to be published relative to other jurisdictions. This is particularly because the accounts of Scottish charitable companies are not published on the OSCR website (users are instead directed to view the accounts on Companies House). In other cases, Scottish charities can submit a link to the accounts on their own website rather than upload a PDF – in these cases many of these links do not work.
- Many accounts published by OSCR and by the Charity Commission for Northern Ireland were not “machine readable”, instead consisting of scanned images of the accounts. In particular, OSCR redacts information from submitted accounts which results in a non-machine-readable version, no matter what was uploaded by the charity themselves. The account download tool does include the capability to extract usable text from these accounts through optical character recognition (OCR), so some were included in the dataset, but this process is not always successful.

Table 0.1. Representativeness of final sample for analysis

Characteristic	% of charities			
	Population	Sampling frame	Random sample	Analysis sample
Annual gross income				
£0-£10k	40	11	10	4
£10k-£25k	17	5	5	3
£25k-£100k	20	47	44	51
£100k-£250k	10	25	23	26
£250k-£500k	13	12	18	16
	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>
Jurisdiction				
England and Wales	85	79	74	84
Northern Ireland	3	8	9	7
Scotland	13	13	18	10
	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>
Legal form				
Company	19	32	34	27
Non-company	81	68	66	73
	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>

Therefore to ensure the findings drawn from the analysis sample are representative of the UK charity population, we employ inverse probability weights to correct for sampling bias.⁴

Estimating use of SORP

The core approach for identifying whether a charity's accounts were prepared on a SORP or Receipts and Payments (R&P) basis was to search for certain key terms in the text of the document – those terms were as follows:

- SORP:
 - SORP
 - Statement of Recommended Practice
 - FRS102 / FRS 102
 - Statement of Financial Activities
 - Statement of Financial Position
 - Balance Sheet
- R&P:
 - Receipts and Payments / Receipts & Payments
 - Statement of Assets and Liabilities

⁴ Specifically the weights are calculated for each of our three key covariates: jurisdiction, income band, and legal form. Thus when we are estimating SORP use by income band we use the income band weights etc.

- Statement of Balances

Based on these terms, we employed two methods of classifying whether a charity's accounts were prepared using SORP:

- Binary method: a set of accounts was classified as SORP if it contained at least one of the terms associated with SORP and none of the terms associated with R&P.
- Metric method: a score was calculated as the sum of the following: +1 for every SORP term, -2 for every R&P term. This score was then categorised as follows:
 - Score of +2 or more = Definitely SORP basis
 - Score of -2 or less = Definitely R&P basis
 - Score of -1 to +1 = Mixed or undetermined.

Both methods were tested against a set of 50 randomly selected accounts that were manually assessed as SORP, R&P or Undetermined. Both methods were very good at identifying SORP accounts, doing so correctly for 9 out every 10 of these accounts. We selected the metric method as it also identifies accounts that are more mixed or uncertain in their accounting basis – an interesting finding in itself.

Online survey of small charities

We undertook a survey of small charities in the UK, with the aim of drawing a representative sample of 500 organisations from across the three jurisdictions. We attempted this by drawing on email address information contained in the charity registers for the three jurisdictions, and disseminating the survey to the organisations featured in the *Quantitative analysis of data scraped from small charity PDF accounts* phase. Unfortunately the availability and quality of email address information was below what was expected, therefore we disseminated the survey to the member lists and newsletter subscribers of a number of relevant bodies e.g., Small Charities Coalition (SCC), Power to Change. In total, there were 474 responses to the survey. However to be certain that the responses came from registered charities, we linked self-reported charity number to the charity registers and only kept responses where a match was made. Thus, the final sample comprised 445 responses from small charities (< £500k); table 0.2 outlines the composition of the sample according to key organisational characteristics. In general the survey sample is biased towards larger organisations, those based in Scotland, and companies.

Table 0.2. Small charity survey sample characteristics

Characteristic	% of respondents	
	Population	Analysis sample
Annual gross income		
£0-£10k	40	8
£10k-£25k	17	6
£25k-£100k	20	38
£100k-£250k	10	27
£250k-£500k	13	21
	<i>100</i>	<i>100</i>
Jurisdiction		
England and Wales	85	71
Northern Ireland	3	3
Scotland	13	26
	<i>100</i>	<i>100</i>
Legal form		
Company	19	35
Non-company	81	65
	<i>100</i>	<i>100</i>

Despite considerable efforts to contact a representative sample of small charities, the lack of good quality email addresses and the subsequent dissemination of the survey to membership lists and newsletter subscribers means that the results of the small charity survey should be considered reflective rather than representative of the wider population of small charities in the UK.

A copy of the survey questions can be viewed in the supplementary materials repository.

Online survey of accountants and Independent Examiners supporting charities

We undertook a survey of accountants and Independent Examiners to gather their experiences of advising small charities to prepare and review their annual accounts. As we did not have a list of contacts for these stakeholders, we asked a number of relevant bodies to disseminate the survey on our behalf: Institute of Chartered Accountants Scotland (ICAS), Charity Finance Group (CFG) and Association of Charity Independent Examiners (ACIE) in particular provided support. There was also a general link to the survey that was disseminated by members of the research team and the funders of this research. In total, there were 130 responses to the survey, of which over 65% came from accountants, c. 20% from Independent Examiners, and the remainder from charity treasurers and trustees.

A copy of the survey questions can be viewed in the supplementary materials repository.

Focus groups with small charities

We conducted three focus groups with representatives from organisations that participated in the small charity survey. The aim of the focus group stage was to discover in more detail the specific processes followed and the choices made when preparing accounts for small charities, gathering some rich qualitative data to supplement the quantitative data from the

surveys. Whilst such issues of the accounts preparation process for charities have been explored previously in a number of studies, the focus group work conducted here is believed to be the first to bring together representatives of the full range of small charities registered with charity regulators across the UK.

26 individuals participated across the three focus groups, with no representatives from Northern Irish or Welsh charities: there was a 50:50 split between England and Scotland. In each group there was a range of individuals representing the very smallest charities (in one case with as little as £2k income) up to those from charities not far below the £500k upper limit used for the definition of 'small charity' for the purposes of this study. (Note: The focus group stage of the research purely related to small charities – no attempt was made to recruit Independent Examiners to focus groups – although a few of the focus group participants mentioned that they also acted as accountants for other charities).

Analysis of the details on charity registers or at Companies House for the 26 charities represented by these participants indicated that 10 were charitable companies (9 using SORP but one had filed microcompany accounts). Of the 16 non-company charities (including six CIOs or SCIOs), 10 appeared to be using R&P accounts and 6 SORP. So in total, based on the most recently filed accounts, the 26 focus groups participants comprised:

- 15 using SORP
- 10 using R&P
- 1 other (microcompany format).

The topic guide of questions covered in the focus groups can be viewed in the supplementary materials repository.

Results

1. What is the estimated number of charities with an income below £500k that use the SORP?

1.1 Existing evidence of SORP use by small charities

The precise number of small charities in the UK that currently produce SORP accounts is unknown. Table 1.1 shows the division in accounting requirements between charitable companies on the one hand and CIOs, SCIOs or unincorporated charities on the other. Charitable companies represent about 20% of registered charities in England and Wales and 25% on the Scottish register (Thompson & Morgan 2020, Alsop & Morgan 2019), though this structure is more commonly used by larger charities.

Table 1.1. Income thresholds and minimum required accounting requirements for unincorporated charities, charitable companies and CIOs/SCIOs in the UK

Income threshold	Minimum required regarding presentation and filing of accounts	
	CIOs/SCIOs and unincorporated charities	Charitable companies
>£0	[V] Duty to update the charity regulator with changes to the charity's details including total income and expenditure. In Scotland and NI Accounts and TAR must be filed with charity regulator regardless of size but in E&W the filing requirements only applies to CIOs. Choice between R&P accounts or SORP FRS102	[M] Duty to update the charity regulator with changes to the charity's details including total income and expenditure. In Scotland and NI Accounts and TAR must be filed with charity regulator regardless of size but not in E&W. Must use SORP FRS102 to comply with company law.
>£10,000	[V] As above but full Annual Return required in E&W	[M] Duty to update the Charity Commission with Annual Return form (not required to file annual report and accounts in E&W, but required in Scotland and NI)
>£25,000	[V] As above but <i>all</i> registered charities must file accounts with the charity regulator. Choice between R&P accounts or SORP FRS102, but where SORP is used simplifications can be applied as 'smaller charity'	[M] As above but <i>all</i> registered charities must file accounts with the charity regulator. Accounts must follow SORP FRS102 but simplifications can be applied as 'smaller charity'
>£250,000	[M] As above, Accounts must be prepared on an accruals basis in accordance with the Charities SORP. Simplifications can be applied as 'smaller charity'	[M] As above
>£500,000	[M] As above, however simplifications no longer apply, a cashflow statement is needed and more detail is required in the TAR	[M] As above, however simplifications no longer apply, a cashflow statement is needed and more detail is required in the TAR

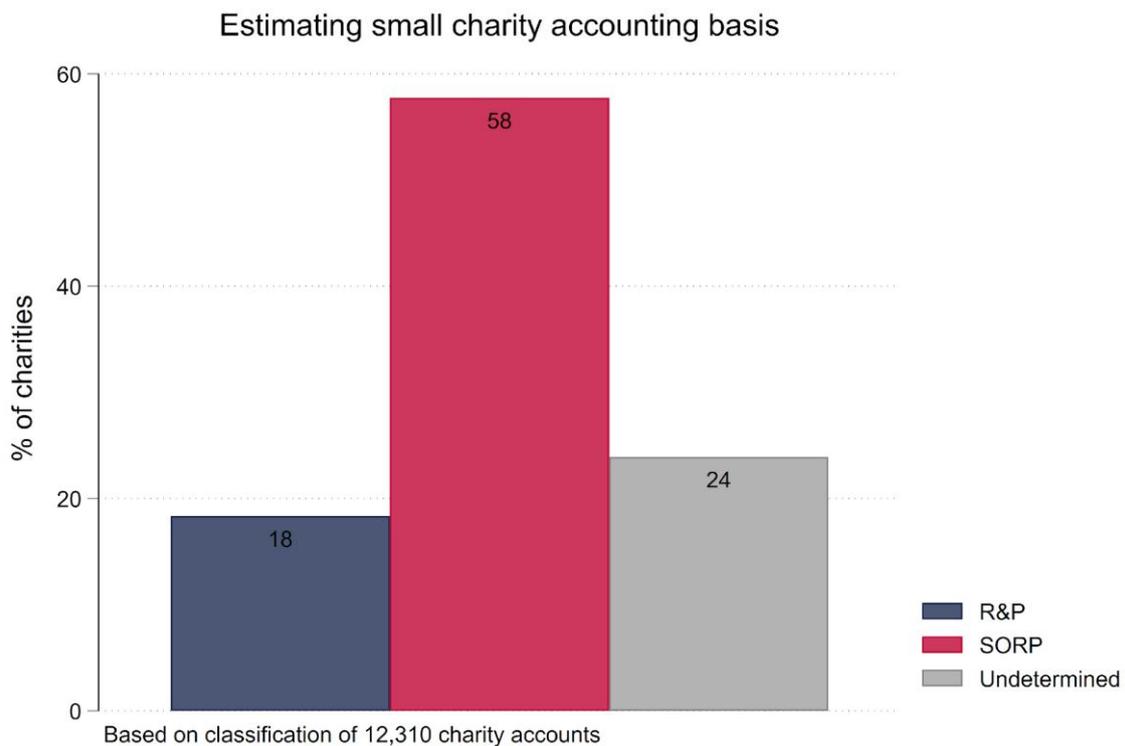
Note: [V] charity can choose SORP basis; [M] charity must use SORP. Separate charity accounting reporting requirements apply in each jurisdiction (England and Wales – E&W, Scotland, N Ireland). This table highlights the main features common to the three regimes. In E&W the regulations still refer to SORP 2005 for non-company charities but the table assumes that the trustees are applying a 'true and fair' override to follow SORP FRS102 where applicable.

Research has been conducted amongst Scottish charities registered with OSCR, which estimated that 39% of charities with income between £100k to £250k used receipt and payment (R&P) accounts, while 57% used SORP with a wide range of reasons to justify their choice of accounting practice (Alsop & Morgan 2019). Morgan & Fletcher (2011) conducted a desk-based study of 1,402 Charities Annual Reports of which 68% used SORP accounts (23% of £1-£25k charities, 42% of £25k-£100k and 86% of £100k to £500k - in 2011 the R&P option had just been extended to charities in the £100k-£250k band). Ten years on, it is unknown if these figures remain consistent in England and Wales and whether the reasons for smaller charities to choose to use SORP or R&P accounts across the UK continue to be the same.

1.2 Estimating SORP use by small charities

Focusing now on the research conducted during this project, Figure 1.1 shows the unconditional estimate for the percentage of charities using SORP to prepare their annual accounts: we estimate 58% of the population of UK small charities use SORP, 18% use R&P, and 24% do not give a clear indication which accounting basis they use. We expand on the nature of these undetermined accounts at the end of this section. See this charity's accounts for an example of what we consider an undetermined accounting basis: <https://accounts.dkane.net/doc/GB-CHC-1034689-20191231>

Figure 1.1. Estimation of accounts type



The population of small charities is heterogenous, therefore we disaggregate these estimates for a number of relevant characteristics – see figures 1.2-1.4. There is a clear gradient in SORP use across income bands: larger charities are more likely to use SORP. The jurisdiction a charity is registered in is also highly predictive of SORP use, with organisations in England and Wales most likely to use SORP – some of this pattern is

possibly due to issues downloading accounts for Scotland and Northern Ireland e.g., we do not have accounts for Scottish charitable companies, and only 99 for charitable companies in Northern Ireland. And finally, legal form is highly predictive of SORP use, which is expected as charitable companies of any size are required to file accruals accounts. However it is interesting that c. 10% of these charities file accounts that are ambiguous with regards to their accounting basis – see this example <https://accounts.dkane.net/doc/GB-CHC-701263-20200331>.

Figure 1.2. Estimation of accounts type, by income band

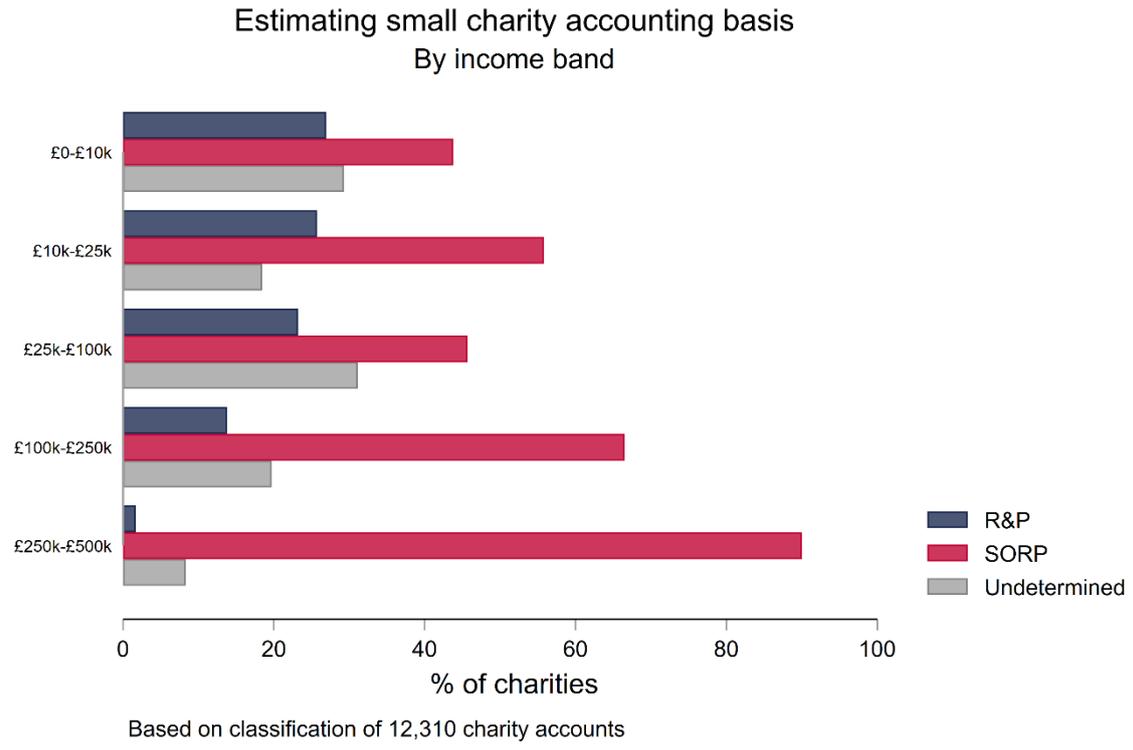


Figure 1.3. Estimation of accounts type, by jurisdiction

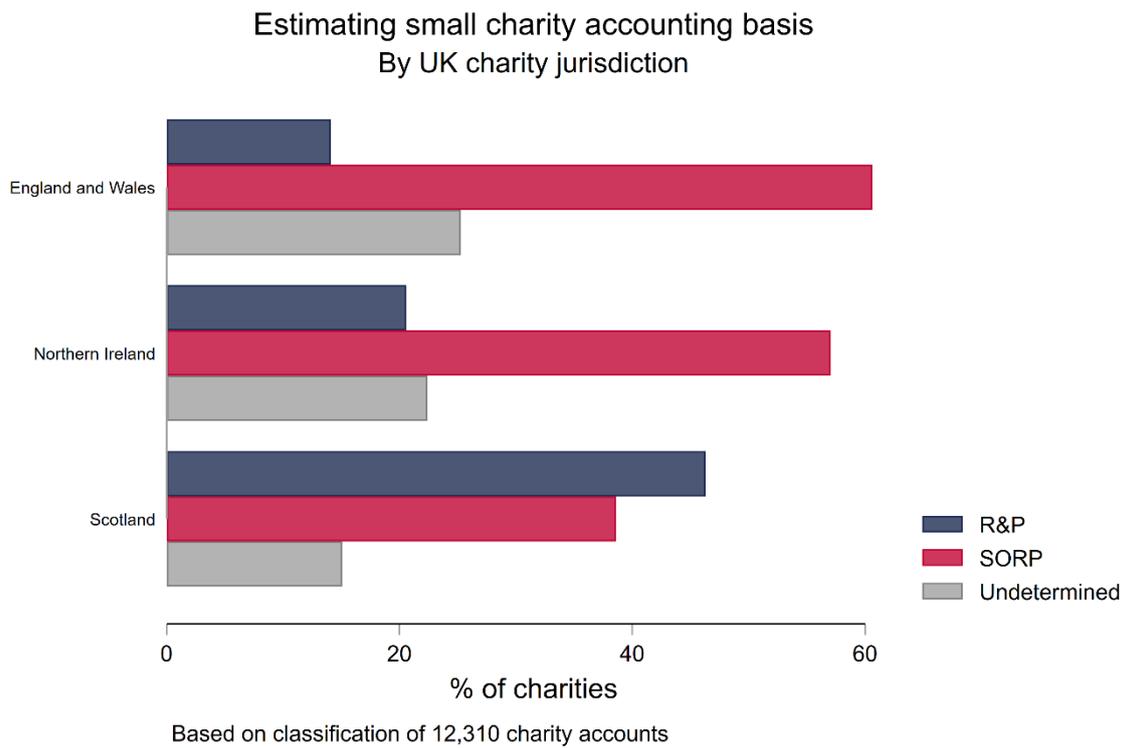
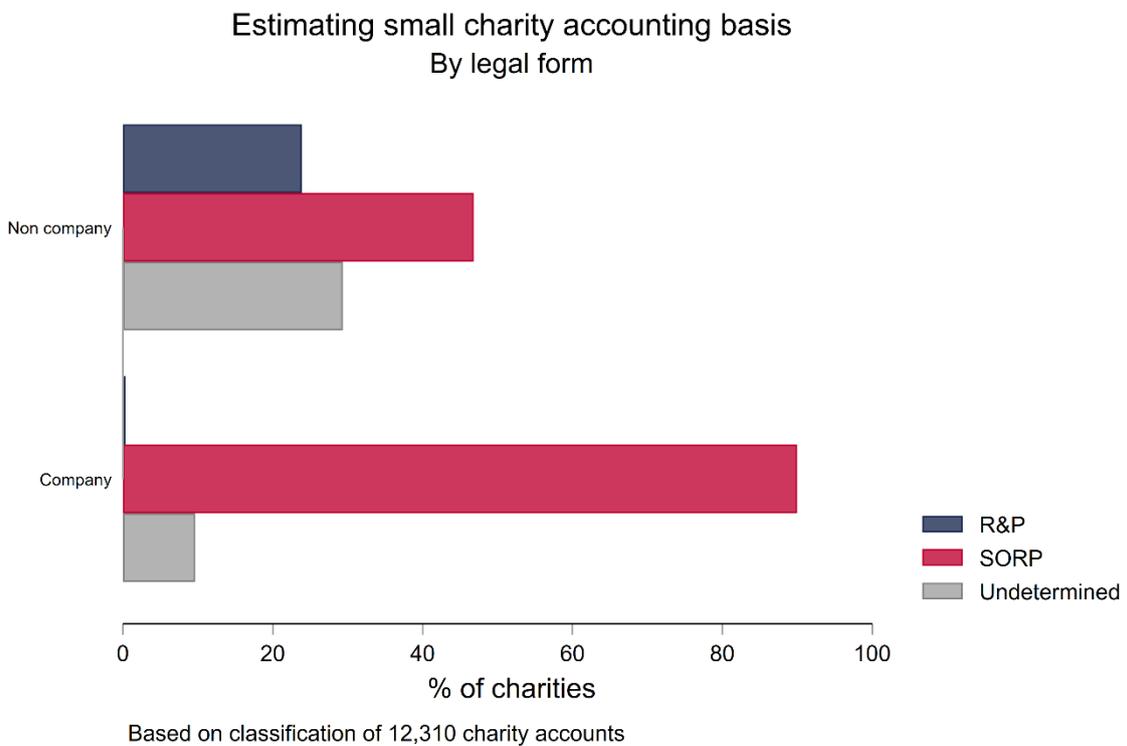


Figure 1.4. Estimation of accounts type, by legal form



The bivariate patterns above are revealing but do not provide the full picture. For example, SORP use for Scotland is lower than for England and Wales: is this due to real differences in

jurisdiction, or is it an artefact of not being able to sample accounts for charitable companies in Scotland? Table 1.2 presents the patterns of SORP use by income band and legal status, however this time disaggregated by jurisdiction. Therefore the question we are posing is: for a given jurisdiction, what is the association between SORP use and income band / legal form.

The estimates for charitable companies in Northern Ireland should be interpreted very cautiously due to the very low numbers of charities in each income band (fewer than 99 accounts in total for these organisations). However, the fact the CIOs are not available in Northern Ireland means proportionally more charities are established as companies, so the overall proportion of NI charities required to use SORP is almost certainly higher than elsewhere.

For non-companies, there is a clear income gradient in every jurisdiction: the larger a charity is, the more likely it is to use SORP. However we do not observe full compliance with SORP over the £250k threshold; some of this may be due to difficulties in determining the accounting basis from the PDFs, though we have classified a small proportion of these accounts as clearly being R&P. For non-companies, there is also a clear income gradient – in the opposite direction – with respect to undetermined accounts: smaller charities were much more like to produce accounts that were not clearly SORP or R&P in their basis.

Table 1.2. Contingency table of estimated SORP use, by jurisdiction, income band and legal status

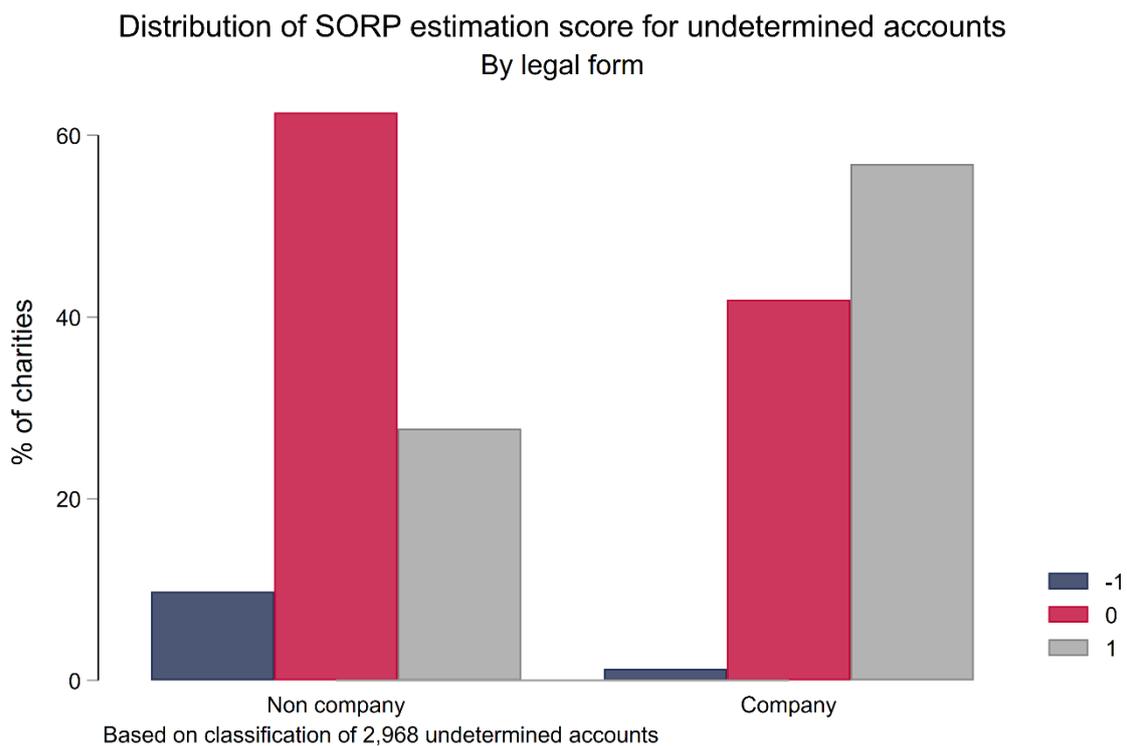
Jurisdiction	Accounts type	% of charities									
		Non company					Company				
		£0-£10k	£10k-£25k	£25k-£100k	£100k-£250k	£250k-£500k	£0-£10k	£10k-£25k	£25k-£100k	£100k-£250k	£250k-£500k
England and Wales	SORP	-	-	38	57	85	90	86	88	91	93
	R&P	-	-	24	17	3	0	0	1	0	0
	Undetermined	-	-	38	26	12	10	14	11	9	7
Northern Ireland	SORP	13	22	29	42	93	78	100	80	100	97
	R&P	27	41	45	36	2	11	0	0	0	0
	Undetermined	60	37	26	23	4	11	0	20	0	3
Scotland	SORP	9	6	26	52	90	-	-	-	-	-
	R&P	62	79	57	41	3	-	-	-	-	-
	Undetermined	29	15	17	7	7	-	-	-	-	-

1.2.1 Examining undetermined accounts

How do we interpret the 24% of accounts that were classified as 'undetermined' by our scoring system? As a reminder, a set of accounts is classified as undetermined if it scores between -1 (slightly more likely to be R&P) and +1 (slightly more likely to be SORP). For the 2,968 undetermined accounts, 60% have a score of 0, 30% a score of 1, and 10% a score of -1: therefore for a majority of accounts it is difficult to say whether they are more likely to be SORP than R&P (and vice versa). Of the 60% of accounts with a score of 0, 95% refer to instances where none of the search terms are present in the annual accounts; some of this may be due to issues extracting the text from accounts, like this example of R&P here: <https://accounts.dkane.net/doc/GB-NIC-105924-20180831>. However there are still a substantial number of accounts where the text was extracted correctly but it simply is not clear which accounting basis was used: <https://accounts.dkane.net/doc/GB-SC-SC049273-20200531> and <https://accounts.dkane.net/doc/GB-CHC-1103201-20170430>.

Charitable company accounts were more likely to lean towards use of SORP than non-companies (figure 1.5 below).

Figure 1.5. Distribution of SORP estimation score for undetermined accounts, by legal status



1.3 Conclusion

The estimates of SORP use presented here are consistent with the findings of previous studies of this phenomenon. Our analysis estimates 58% of small charities use SORP, with a clear gradient by income band. Scotland would appear to have higher proportions of small charities using R&P basis compared to other jurisdictions, which may be due to the requirement for charities of any size preparing SORP accounts to have a qualified

Independent Examiner, whereas in England and Wales this only applies to charities with annual gross income >£250k. If a similar requirement was implemented in the other jurisdictions, small charities may be more tempted to use R&P basis. Readers should note that the analysis presented here refers to *registered* charities, and thus we cannot speculate on the use of SORP by very small charities that are exempt or excepted from registering with the regulator in England and Wales.⁵

A distinctive finding of this research is the scale of accounts that have an undetermined accounting basis. Some of this will be the result of limitations associated with the text extraction process; however it is also revealing of the muddled, low quality reporting practices of some charities. In terms of making a decision of whether undetermined accounts are really SORP or R&P: 10% of the c. 3000 undetermined accounts were from charitable companies, who are required to follow the SORP by company law. Therefore we could assume that these 300 organisations, despite the ambiguity of their accounts, follow the SORP; this changes our estimate of SORP use to c. 60% of small charities, though conversely these cases may just be preparing company accounts with no consideration of the additional requirements for charities. We do not wish to speculate too much on the nature of undetermined accounts for non-companies in our sample, particularly those below the £250k threshold. However, we will conclude by stating a sensible upper bound of SORP use by small charities at c. 65%.

⁵ <https://www.gov.uk/government/publications/exempt-charities-cc23>

2. Why do some smaller non-company charities (i.e., those with incomes below £250k) choose to use the SORP rather than simple receipts and payments (R&P) accounting?

2.1 Background

Alsop and Morgan (2019) looked at the choice made by Scottish small charities to prepare cash or accrual accounts. They found that the larger the organisation was, the more established, or those looking to grow were more likely to adopt accrual (SORP) accounting. The choice was influenced by many different factors: encouragement by their Independent Examiner, expectations of funders or reporting bodies, or perceptions this was a more professional approach. These pulls towards choosing accrual accounting even when cash accounting was legally permissible matched the results of a similar study of small charities accounting choice in New Zealand (Cordery and Sim 2014).

Charity funding bodies and grantmakers see the accounts of a charity as a vital tool for funding decisions (Morgan et al 2020), so an actual or perceived preference for SORP accounting by funders may significantly influence the type of accounts that small charities report under (Alsop & Morgan 2019). The recent study of grantmakers' use of charity accounts for decision making found that 77% of accounts seen by funders are on the SORP basis with only 16% on the R&P basis (and the remainder in formats which did not comply with either basis) – so funders' experience of R&P accounts may be limited (Morgan et al 2020).

The reasons that trustees gave for choosing SORP accounting, beyond it being a legal or regulatory requirement, are that the board believe it to be good practice, that it offered a 'true and fair view' of the accounts, and it was advised by their Independent Examiner (The Chartered Governance Institute 2021).

Various discussions have taken place over the years to explore the barriers to small charities using SORP accounting, and how these might be overcome. The consultation for the revision of the 2005 SORP brought the 'think small first' philosophy to future redevelopments of the SORP (Connolly et al 2009). Further research by CIPFA, CCEW and OSCAR in 2016 recognised that the SORP should be written in an accessible style to assist smaller charities and help them more readily identify those requirements relevant to their circumstances. Specific recommendations included: more examples of TAR and accounts for smaller charities, use of less technical language, disclosure checklists, tables to identify reporting thresholds, links to regulators guidance on specific disclosures and guidance on receipt and payment accounts (CIPFA 2017). In 2018 a working group advised the SORP committee how the reporting burden on smaller charities could be reduced either by increased emphasis on R&P for all charities with income below £250k or a four-tiered approach where the disclosure requirements increased with income (CIPFA 2018). The Charities SORP Governance Review 20-18/19 recognised that 'there is a need to offer greater simplification of financial reporting requirements for smaller charities. In the next development of the SORP a 'fresh focus on the reporting needs of smaller charities is required' (Morgan 2019 p6).

2.2 Survey evidence

The small charity survey asked respondents to state the main reasons why their charity decided to prepare its accounts using SORP (rather than on the receipts and payments basis)? There were 115 responses to this question from non-company charities (87 from those with annual gross income below £250k). The most common reason given related to presenting a true and fair picture of a charity's finances and activities (34% of respondents). In the words of one respondent:

Accrual accounting provides a fair and true view of the whole operation of the charity, rather than just the state of the bank account. [survey respondent]

The next most common reason referred to the role of external advisors / internal treasurers in suggesting or leading on the use of accruals accounting. For example:

Our accountants have always prepared our accounts. [survey respondent]

Recommended by our accountant. [survey respondent]

Cannot say, to my knowledge our accountants conform with what the Charity Commission requires. [survey respondent]

Compliance is the next most common reason, largely due to the presence of some charities above the income threshold (£250k) in the survey. However there were a handful of responses from charities that thought they needed to use the SORP despite not being mandated to do so. The final common reason referred to the historical trend of a charity using the SORP. That is, the SORP is followed because it always has been followed:

As CEO this was the system I inherited. It does seem to add an extra layer of complexity and also does not tie in fully with the accounting system we use to track in-year spend (although this could be my lack of expertise). [survey respondent]

This is the format that has always been used since my time working at the charity. [survey respondent]

Table 2.1. Reasons for choosing SORP, small charity survey

Reason	no. of responses	% of respondents
Present a more accurate picture of charity's finances	39	34
On the advice of external advisor e.g., accountant, IE	25	22
Compliance (e.g., over income threshold / company legal status)	24	21
Used SORP in the past / maintain consistency	17	15
SORP is the industry standard	7	6
Satisfy funders / grantmakers / large donors	5	4
Found useful SORP templates	4	4
Meet transparency aims / requests	3	3
Not sure why SORP is used	3	3
Reduce costs e.g., fees to umbrella bodies	1	1

We asked a similar question in the Independent Examiners / accountants survey: ‘What are the main reasons that those small charities chose to use SORP in preparing their accounts?’. There were 95 responses to this question (73% of respondents) – see table 2.2 for the top five reasons. Note that these responses refer to small charities in general, not just non-company charities. Therefore it is unsurprising that the most common reason given was ‘compliance’ i.e., the charities were required to do so due to their size or legal form. Other common reasons were that SORP accounts present a ‘more accurate picture’ of the charity finances, were used to satisfy funders, grant making bodies or large donors, or because SORP had been used in the past (sometimes by previous accountants) and the charity wanted to continue to use SORP ‘as they had always done’. A few respondents recognised that SORP accounts facilitate small grant making charities, charities with significant fixed assets or investments better. It was recognised that there are charities whose income fluctuates near the threshold of SORP accounts or anticipate growth and so SORP is chosen again to maintain consistency. Six respondents said that it is considered best practice / more professional for the charity to produce SORP accounts, and four respondents said that the charities they were working for had been advised to use SORP. Others commented that it provides better transparency or that some charities accounting software lends itself to accrual accounts. Only three respondents recognised that the charity had misunderstood that there was an alternative to SORP available to them.

Table 2.2. Top five reasons for choosing SORP, Independent Examiners / accountants survey

Reason	no. of responses	% of respondents
Compliance (as over income threshold / company legal status)	31	34
Present a more accurate picture of charity's finances	26	28
Satisfy funders / grantmakers / large donors	16	17
Used SORP in the past / maintain consistency	10	11
Good for grantmaking charities / with significant fixed assets or investments	9	10

Another perspective on this topic is to consider the barriers to using SORP, and the reasons for selecting R&P instead. In the small charities survey we asked: ‘If you have considered SORP, what were your reasons for deciding against using it?’ There were 85 usable responses to this question from non-company charities with annual gross income below £250k. The most common barrier to choosing SORP was that it was considered unnecessary: respondents were from charities that did not need to account for any accruals or deferrals, or only conducted simple transactions throughout the year (e.g., small, regular donations). As one respondent said:

[We use R&P] Because we survive entirely on donations and pay all our bills immediately. Donations come from all sorts of well wishers, family, friends etc and are not regular in nature. We have no creditors, other than the auditor who is paid immediately [when] he presents his fee note. We have no debtors. [survey respondent]

The reason SORP was considered unnecessary often reflected the capacity / size of the charity:

Receipts and payments accounts are sufficient to give a clear understanding of our financial position and can be prepared by a relatively unskilled volunteer (me). [survey respondent]

With such a small charity (£75,000 or so of income), there is nothing added to the accounts by using accruals basis. The other trustees are "financially illiterate" so it assists them to see a cash basis being used. They are therefore more engaged in this process, rather than being scared off. [survey respondent]

A significant minority of respondents (9%) felt that SORP was too complex and difficult to understand and apply:

It's just too huge and time consuming, and we don't properly understand it. The guidance on the government website is long, uses too many technical terms and contradicts itself. [survey respondent]

Understand it is not required to use accruals for a charity of our size. Accruals add a level of complexity as they need to be reversed out the following year and are not really a significant part of our accounts. Easier to explain to Trustees without accruals. [survey respondent]

Table 2.3. Reasons for not choosing SORP, small charity survey

Reason	no. of responses	% of respondents
Not considered necessary	42	49
Charity is too small for SORP to be a benefit	16	19
Too difficult / complex to understand and use	10	12
Does not possess capacity (skills / money)	8	9
Not sure why SORP isn't used	6	7
SORP guidance is overlong and difficult to follow	6	7
External advisor recommended R&P	6	7
Too time-consuming to use SORP	3	4
Unaware of SORP / why it would be better	3	4
Not relevant to specific charity	2	2
Charity does not possess relevant info	2	2
Does not have software for producing SORP accounts	2	2

The responses to a similar question in the Independent Examiner / accountants survey were broadly similar to those above, but with more weight given to the off-putting cost of using SORP, and the increased interpretability of R&P accounts (table 2.4).

Table 2.4. Top five reasons for choosing R&P, Independent Examiners / accountants survey

Reason	no. of responses
R&P accounts are simpler and less work to produce	29
R&P accounts are cheaper to produce	19
R&P accounts are easier to understand / interpret by readers of accounts	16
R&P accounts have fewer disclosures	9
Some small charity accounts may not need to accrue to present a true and fair financial picture	3

2.3 Focus group evidence

The reasons why SORP was chosen over R&P were also explored in the focus groups. Only a small number of participants were really aware of this choice and had consciously made a decision for their charity to use one basis or the other. Most were aware that their accounts had to be prepared in a certain format, but were relatively unaware of the choices. This was particularly the case for those using standard templates from umbrella bodies or from former treasurers: they typically had no clear view as to whether they were using an R&P or SORP template.

Many participants from non-company charities were unclear about the requirement for charities to prepare accounts either on the R&P basis or the SORP. In at least three cases a participant stated incorrectly the type of accounts used, for example people insisting they were using SORP format when in fact they were completing an R&P template, including one who insisted the raw figures were on an accruals basis. There was also one participant who felt sure the R&P basis was used, but the actual accounts filed were clearly SORP accounts produced by a firm of accountants.

A number of participants indicated that the format was determined by their accountants and they either did not appreciate that there was a choice of presentation or felt unable to challenge the accountant's presentation. This was the case even in one charity where the treasurer was frustrated at the enormous delay in getting the accounts back from an Independent Examiner in a large firm of accountants, but he felt under an obligation to use this firm because the wife of one of the partners was actively involved in the charity. In another case the treasurer prepared R&P accounts which could probably have been filed as they were but the accountant who acted as Independent Examiner to the charity insisted on re-creating them in SORP format.

Of the 15 participants from non-company charities up to £250k income where the choice of R&P or SORP accounts was available, fewer than half were clearly aware of this choice and able to give reasons for the approach used. Where the choice was appreciated, the following reasons were offered.

- Several treasurers said they specifically used R&P because of the intended readership: for example one person was representing a fairly large church which might have used SORP, but recognised that other churches in the area grouping were smaller and so used R&P to make it easier for those who would be reading the

accounts. Others were aiming for simplicity because they saw the main users as being the members of the charity. One said:

- *A receipts basis is adequate for our charity, we have very little in the way of assets – it's just small amounts of equipment and we don't receive grants. Another participant commented: We have converted from a company to a CIO specifically one of the main reasons was to avoid doing accruals accounts because the membership literally could not understand them.*
[Focus group participant]
- Some treasurers specifically stated that they chose R&P because it fitted their own skills and experience. One treasurer of a very small musical charity stated that she was self-taught but by using the R&P format she said:
 - *Yes, I can manage this ... but I would have great difficulty understanding SORP.* [Focus group participant]
- Two of the professional accountants stated that they were uncomfortable with the R&P basis and would always use SORP even though one felt that the notes are excessive for smaller charities. However, another accountant commented:
 - *R&P are not as bad as some suggest ... the statement of assets and liabilities could be more useful than a SORP [balance sheet] for the average reader.*
[Focus group participant]
- One participant specifically chose the SORP basis because it meant the charity could then recognise the value of significant donations in kind which were particularly important: this gave the charity a substantially higher total income than would have been the case with R&P accounts.
- One of the participants using the R&P basis mentioned taking steps to ensure the charity's income did not exceed £250k in order to avoid having to switch to the SORP approach.

2.4 Conclusion

Evidence from the focus groups found that awareness of the choice of R&P or SORP basis for presenting the accounts, even where that choice existed, was relatively low. In many cases charities using external accountants to prepare the accounts simply accepted whatever the accountant produced. In other cases, standard templates were being used by treasurers, quite often produced by umbrella bodies, but with no discussion of alternatives.

Where there was an understanding of the choice, both the survey and the focus groups found many making a clear choice for R&P for reasons of simplicity, especially where the main readers of the accounts were seen as the charity's members or service users. But others made strong arguments for use of SORP to give a more realistic picture of the charity or to ensure certain assets or investments were more clearly reported. Others, however, seemed to think that SORP was required as a matter of compliance even when the R&P alternative was possible.

3. To what extent do smaller charities understand key charity accounting concepts such as fund accounting, grant recognition, fair value and reserves?

3.1 Background

The extant literature suggests that understanding of key charity accounting concepts may be suboptimal in many charities. There has been growing concern that accrual accounting under SORP is too complex and time consuming, and the skills required to produce a set of SORP accounts are lacking in smaller charities (Connolly et al 2009, Morgan 2019, Blythe 2021). This is resulting in small charities and their Independent Examiners producing reports and accounts that are poor and do not meet the required standards (Morgan 2019 p14).

A recent research paper on financial literacy by Sage (2021) showed that many non-finance professionals are fulfilling the finance function in non-profit organisations. Financial staff rated their skills as either low or basic (Sage Foundations et al 2021). Thompson and Morgan (2020) investigated small charity trustees' understanding of the charity accounting and reporting requirements through case study analysis. They found that the financial knowledge was frequently held by a key individual, and recommend training for non-finance trustees to engage them in their reflective responsibility and understand their duties to present the charity as accountable and performing their public benefit.

3.2 Survey evidence

The small charities survey asked respondents to state their familiarity with key charity accounting concepts (Table 3.1). We disaggregate findings by the accounting basis reported by respondents i.e., SORP or R&P. A majority of respondents, regardless of accounting basis, are at least quite familiar with current accounting requirements. There are some differences by accounting basis for the other concepts: charities that follow SORP are noticeably more familiar with 'Accounting for restricted and unrestricted funds', 'Recognition of grants or other income', and 'Fair value'.

Table 3.1. Familiarity with key charity accounting concepts, small charity survey

Concept	% of charities									
	SORP					R&P				
	Not at all familiar	Somewhat familiar	Quite familiar	Very familiar	Expert	Not at all familiar	Somewhat familiar	Quite familiar	Very familiar	Expert
Current charity accounting requirements	2	31	29	33	5	2	36	39	21	2
Accounting for restricted and unrestricted funds	2	8	15	61	14	5	14	24	52	6
Recognition of grants or other income	3	7	18	59	14	3	13	25	52	7
Fair value	23	16	23	32	5	32	22	23	20	3
Reserves	1	7	15	65	13	2	15	21	54	8
Presentation of the SoFA	15	18	18	40	9	36	14	27	20	3

Note: 443 responses to these questions.

We asked the same questions in the Independent Examiners / accountants survey – see table 3.2. In general the assessment of familiarity is broadly similar to those of the small charities respondents, with the exception of ‘Recognition of grants or other income’ and ‘Fair value’, where Independent Examiners / accountants are more likely to say small charities are unfamiliar with this concept. Familiarity with two additional concepts was examined: ‘SORP and other published guidance’ and ‘Requirements for preparing a Trustees’ Annual Report’. For the former it is considered that small charities are very unfamiliar with this concept, while they are considered more familiar with the latter.

Differences in the assessment of familiarity with these concepts may not be indicative of unreliable responses: the Independent Examiners and accountants may have worked with charities who are broadly unfamiliar with some of the concepts; while the small charities who responded could be drawn from a different set of organisations that are more familiar with SORP accounts and associated concepts.

Table 3.2. Familiarity with key charity accounting concepts, Independent Examiners / accountants survey

Concept	% of respondents				
	Not at all familiar	Somewhat familiar	Quite familiar	Very familiar	Expert
Accounting for restricted and unrestricted funds	4	29	30	29	8
Recognition of grants or other income	15	37	19	23	6
Fair value	58	16	11	13	2
Reserves	9	33	27	26	5
Presentation of the SoFA	24	34	21	15	6
SORP and other published guidance	38	41	15	5	1
Requirements for preparing a Trustees’ Annual Report	7	30	40	20	2

Note: 130 responses to these questions.

Focusing again on the responses to the small charity survey, we see a clear income gradient in familiarity with each of the concepts: for example, 78% of respondents from charities with an annual gross income of £250k-£500k state they are at least very familiar with ‘Accounting for restricted and unrestricted funds’, compared to 47% of charities with income under £10k.

3.3 Conclusion

The understanding of fund accounting appears to be strong amongst the vast majority of participants in this study – even those using R&P accounts. In the survey, 75% of those using SORP accounts and 58% of those using R&P considered themselves to be ‘expert’ or ‘very familiar’ with this issue. This was also reflected in the focus groups, where no one seemed to have any difficulty with issues of restricted funds.

It is worth noting that this represents a huge advance as a result of the modern charity accounting framework that took effect from the late 1990s: literature examining the impact of these requirements in the early days found many treasurers unable to cope with the additional requirements of fund accounting.

Similar numbers also felt comfortable with issues of reserves, though in the focus groups some suggested that the SORP requirements could be clearer.

Issues of grant recognition and fair value are more subtle and really only arise with accruals accounts (SORP format), and survey respondents reported lower levels of familiarity – although some participants mentioned specific concerns around the treatment of multi-year grants.

4. To what extent do smaller charities rely on external accountants / Independent Examiners for advice and preparation of SORP accounts? Does this vary by the size of charity? Is this reliance expected to change in the future?

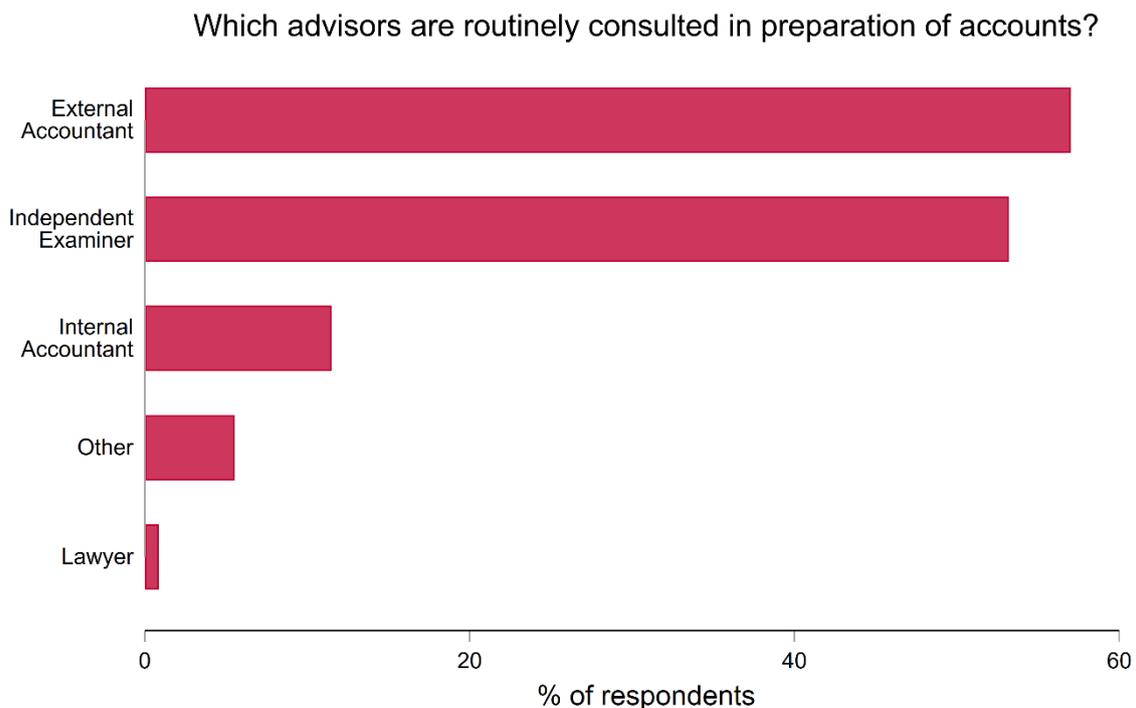
4.1 Background

The literature discussed in section 2.1 revealed the key role external advisors (accountants or Independent Examiners) play in a charity's decision to use the SORP. A natural extension to this line of inquiry is to consider the role of external advisors in the preparation of SORP accounts. This is important to understand, as a recent research paper on financial literacy by Sage (2021) showed that many non-finance professionals are fulfilling the finance function in non-profit organisations, with said staff rating their skills were either low or basic (Sage Foundations et al 2021). There is also a reported decline in the number of charity finance support organisations in England and Wales, and an increase in demand for Independent Examination (CFG 2017). The lack of skills is related to suggestions for improvements to the SORP, which we examine in sections 5 and 6. For now we consider survey and focus group evidence of the role of external advisors in a charity's preparation of SORP accounts.

4.2 Survey evidence

In the small charity survey we asked the question: 'Which of the following advisors do you routinely consult in the preparation of your charity's accounts?' 235 respondents from charities using SORP provided answers to this multiple choice question – see figure 4.1. Small charities using SORP are highly reliant on external advisors for the preparation of their annual accounts.

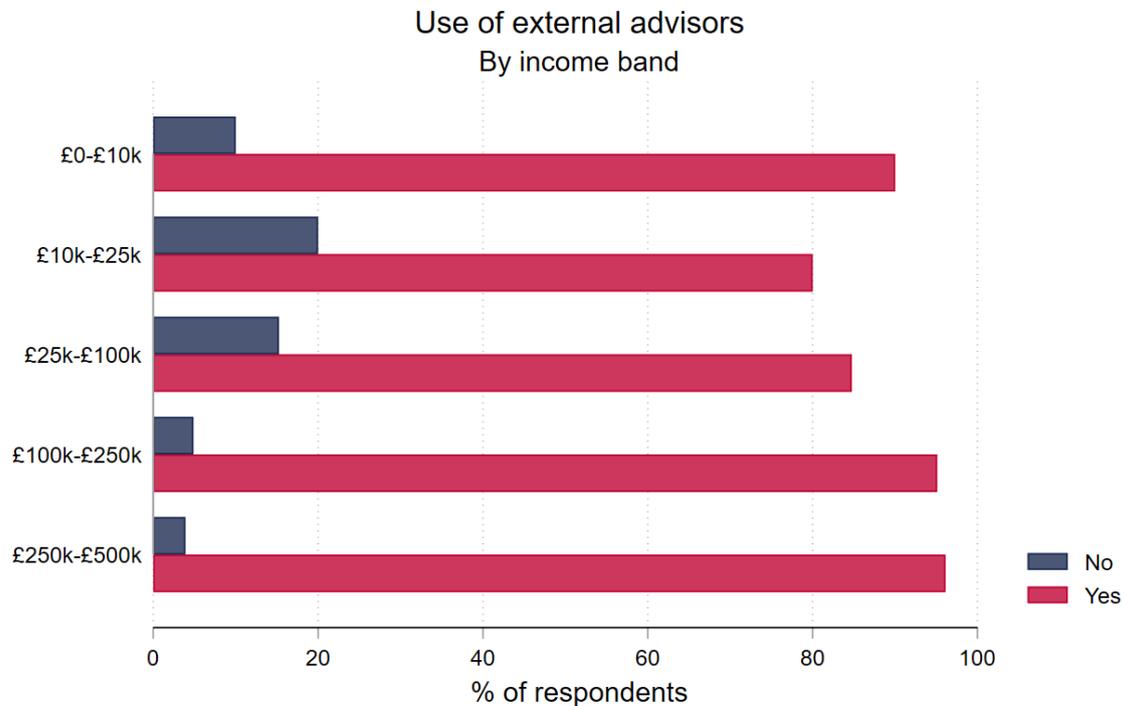
Figure 4.1. Consultation of advisors in preparation of charity accounts



Source: Small charities survey; n=235 usable responses.

We see a slight / moderate association between income band and use of external advisors – figure 4.2. Larger charities are more likely to rely on external advisors than smaller organisations, though all income bands are highly reliant on these stakeholders.

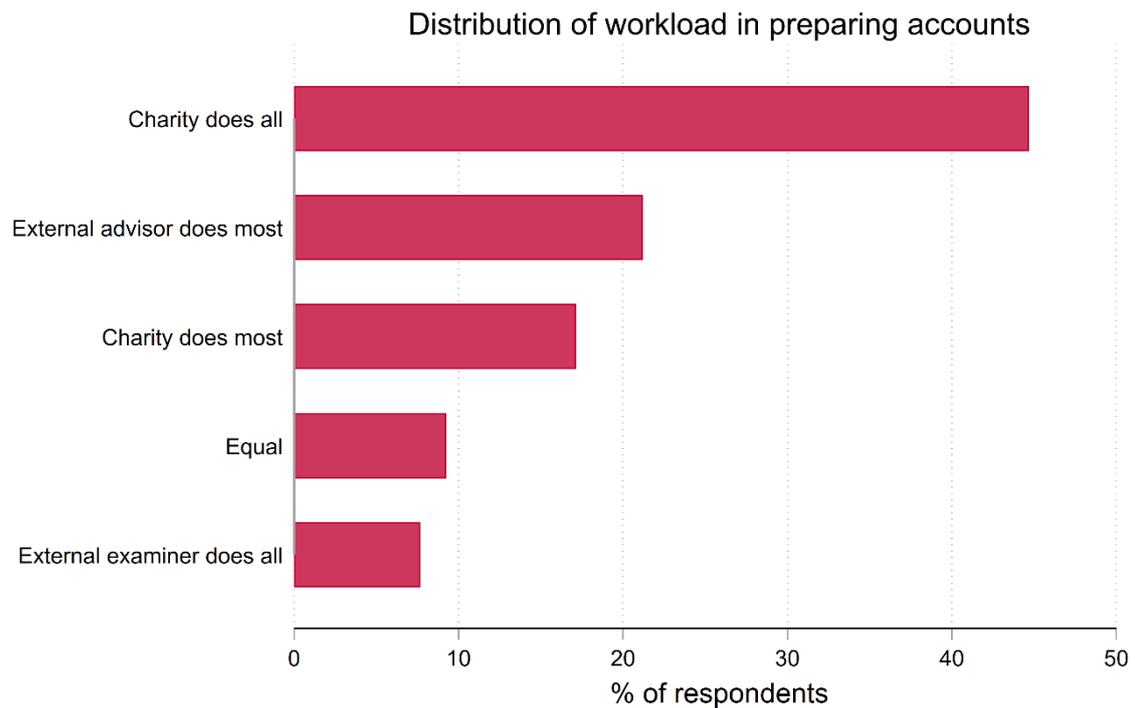
Figure 4.2. Consultation of external advisors in preparation of charity accounts, by income band



Source: Small charities survey; n=233 usable responses.

In addition we asked a complementary question: ‘Who would you say does most of the work in preparing the final layout of your annual accounts?’. This captures the extent to which charities are reliant on external advisors: for example, are Independent Examiners involved in preparation of accounts or just the statutory review of them? 240 respondents from charities using SORP provided answers to this multiple choice question (figure 4.3). The responses suggest charities themselves are doing most of the work in preparing SORP accounts, with c. 30% of respondents stating the external advisors perform most or all of the work (though this differs somewhat from the focus group findings – see section 4.3). There is a clear income band gradient: smaller charities are more likely to do most or all of the accounts preparation themselves (e.g., 69% of £25k-£100k charities compared to 40% of £100k-£250k charities).

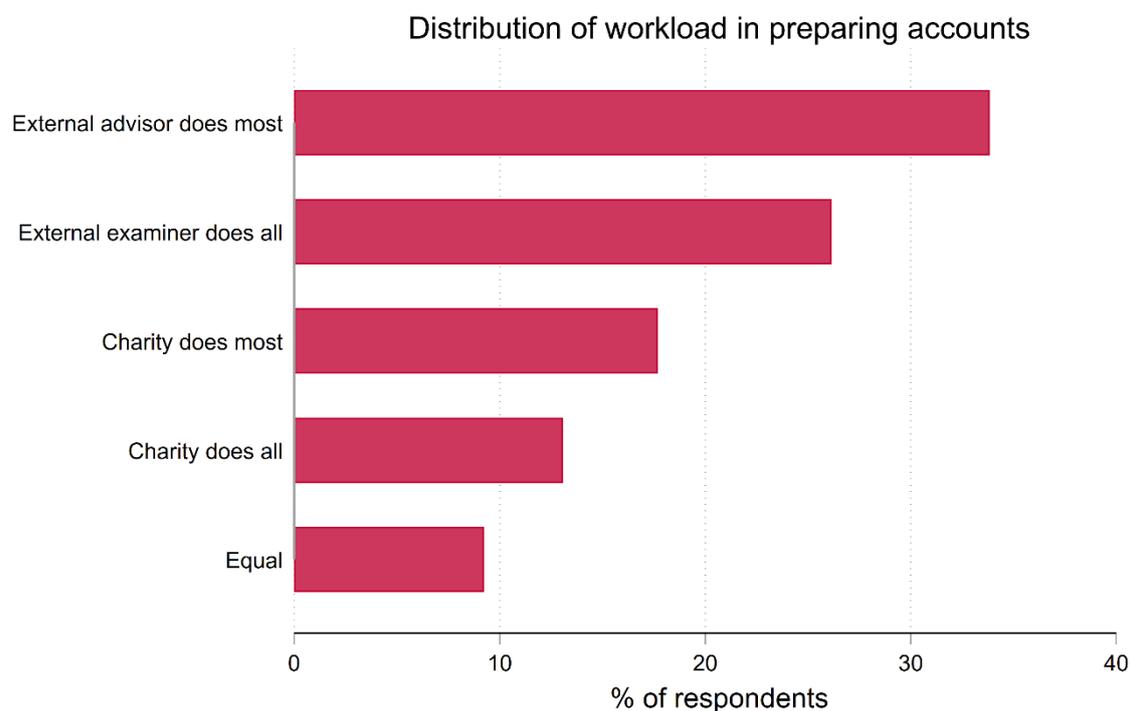
Figure 4.3. Distribution of workload in preparation of accounts, small charity survey



Source: IE/accountants survey; n=240 usable responses.

We asked the same question on the distribution of workload when preparing charity accounts in the Independent Examiners / accountants survey – see figure 4.4. The results differ to those from the small charities survey: external advisors are more likely to report performing most or all of the accounts preparation work. Once again the contrast with the experiences of small charities is not necessarily indicative of unreliable responses: these are different populations and it is likely our results show the breadth of workload distribution among small charities and their external advisors. It may also reflect differences in the perception of the work done by external advisors: for example, the charity may view what the accountant does as very straightforward, while in actuality the accountant conducts a thorough review of the transactions and reporting requirements which can take quite a bit of time and expertise.

Figure 4.4. Distribution of workload in preparation of accounts, Independent Examiners / accountants survey



Source: IE/accountants survey; n=130 usable responses.

4.3 Focus group evidence

One of the first topics explored in the focus groups related to process of accounts preparation. This was raised before we asked about the choice of R&P or SORP (see discussion above) so the responses and insights provided below are not limited to those using SORP.

There was considerable interest in the question of how the participants engage with the process of preparing the statutory report and accounts with virtually all participants commenting.

Several participants mentioned going to considerable trouble to prepared detailed statements from the accounting systems they were using (e.g. QuickBooks, Xero or Excel spreadsheets) which were then sent to external accountants (normally also acting as the charity's Independent Examiner) with outcomes that were frequently not well understood. It was clear from the context that the external accountants were producing SORP accounts, but the rationale for the presentation was not generally appreciated.

One person said:

I file them with the accountants and they press a button to produce the accounts in their layout. All it needs, though, is some common sense to go through them because sometimes they say things or they get things in the wrong place where they don't understand the context. [focus group participant]

Another said:

Bottom line is, I just give them [the accountants] a sheet that has numbers in it, and then they give me back the official financial statement ... I just hand it off to them and then they produce the financial statements. [focus group participant]

Some of the treasurers mentioned that they went to some trouble to distinguish restricted funds before passing information to their accountants: in one focus group more than half the participants confirmed that they were using fund accounting in their own books and records. Some said they included provisions for debtors and creditors (so in these cases the figures sent to the accountants were on an accruals basis). But, even so, it seemed there was little understanding of the rationale for the presentation of the SORP accounts that came back. For the most part there was little evidence of treasurers or other trustees asking for amendments to SORP accounts prepared by external accountants. Many had little appreciation that the SORP presentation involved decisions and judgments by trustees, and it seems few of the external accountants made clear that the trustees should feel free to request changes.

4.4 Conclusion

Many survey and focus group participants reported positive experience of guidance they received, particularly from their accountants and Independent Examiners, and the guidance from charity regulators (especially OSCR) was also mentioned by some. However, awareness of the SORP itself was more limited and whilst most were familiar with the term 'SORP', few if any had used the SORP directly as a source of guidance.

Nevertheless, many wanted to see more simplifications in the SORP for smaller charities, though relatively few were able to raise specifics. The awareness of the specific simplifications already allowed for smaller charities, such as the use of natural classifications on the SoFA, was found to be very low, even amongst professional accountants.

As to whether reliance on external advisors is expected to change in the future, few focus group participants provided responses on this topic and it was not explored in the small charity survey either.

5. Could the SoFA and annual accounts guidelines be improved / simplified to benefit smaller charities? Should the option of using natural classifications in the SoFA be promoted and possibly extended? What other simplifications in the annual accounts should be considered?

5.1 Background

There has been growing concern that accrual accounting under SORP is too complex and time consuming, and the skills required to produce a set of SORP accounts are lacking in smaller charities (Connolly et al 2009, Morgan 2019, Blythe 2021). This is resulting in small charities and their Independent Examiners producing reports and accounts that are poor quality and do not meet the required standards (Morgan 2019 p14). The Charity Commission for England and Wales (CCEW) Accounts Monitoring Reviews have shown that only 37% of charities with turnover under £250k had filed accounts that met the Charity Commission external scrutiny benchmark (CCEW 2019), 28% of the sampled small charities misreported their income and expenditure figures (CCEW 2018a) and 36% of the small charities (income less than £25,000) reports and accounts reviewed did not meet the basic standards (CCEW 2018b) – though it should be noted that these reports did not distinguish between R&P and SORP accounts.

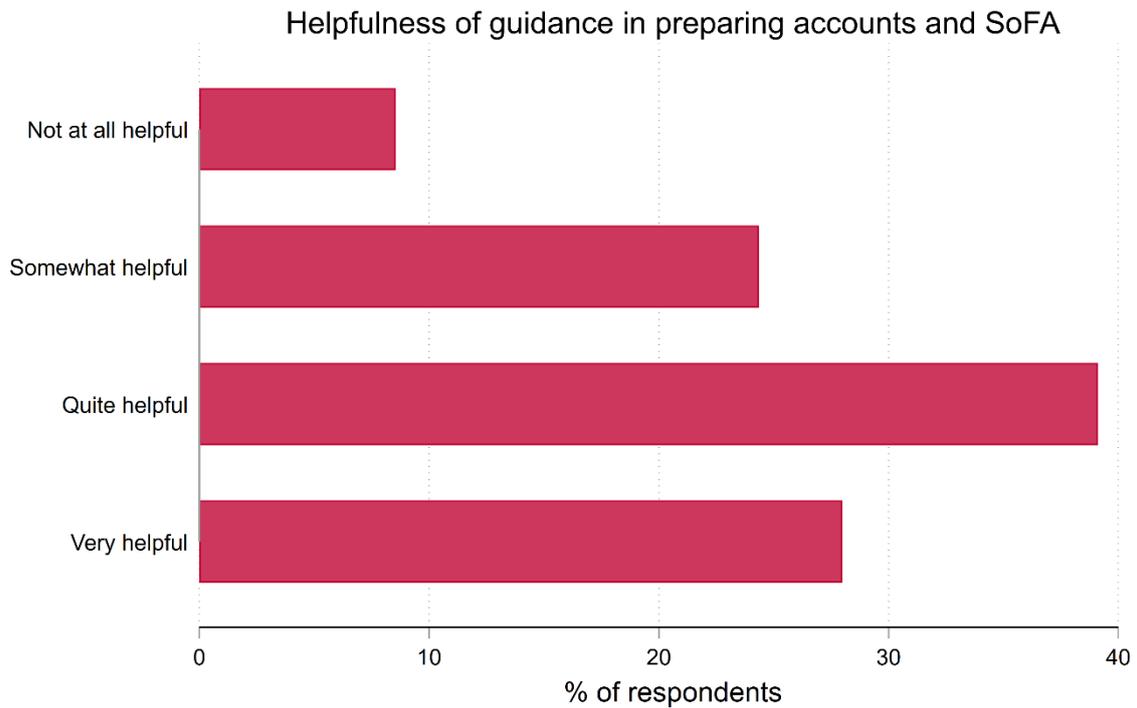
The Scottish Charity Regulator (OSCR) produced a report in 2010 into small charity accounts (no longer available but cited in Cordery 2013) where they found one in six sampled small charity accounts omitted basic headline information such as total income or expenditure, surplus or deficit figures, while one in three small charities filed non-compliant balance sheets (Cordery 2013).

Charity Finance magazine surveyed their readers to understand their attitude towards SORP (Blythe 2021). This research showed that many small charities are discontent with the SORP, believing that it is not 'fit for purpose'. Although 47% of small charities found that it was easy to apply in practice, some considered it was complex, hard to understand, and that they needed to refer to finance experts such as their Independent Examiners. 62% of small charities surveyed found complying with the SORP was too time consuming. One comment articulated that 'for smaller charities a disproportionate amount of time is spent trying to follow the rules rather than delivering the good cause' (Blythe 2021 p23).

5.2 Survey evidence

In the small charity survey we asked the question: 'How helpful is the guidance for preparing annual accounts and the SoFA?' 216 respondents from charities using SORP provided responses to this question – see figure 5.1. c. 60% of respondents found the guidance at least quite helpful for preparing annual accounts and the SoFA; there is a significant minority (10%) who do not find the guidance helpful at all.

Figure 5.1. Helpfulness of guidance for preparing annual accounts and SoFA, small charity survey



Source: Small charities survey; n=216 usable responses.

The guidance is generally considered helpful but respondents also offered a number of suggestions of how it could be improved. We received usable responses from 139 small charity respondents who use SORP and coded these into 15 distinct categories – see table 5.1. The most common response referred to simplifying the language used in the guidance; many respondents noted how either they or their charity’s trustees were unable to understand the guidance, with only those possessing accounting qualifications comfortable with the language used. A significant number of respondents were satisfied with the guidance, while 15% were unsure what or whether improvements were needed. Around 10% of respondents were clear that the availability of templates would be a useful addition to the guidance, especially if they represented a wider array of charities.

Table 5.1. Suggestions for improving annual accounts and SoFA guidance, small charity survey

Suggestion	no. of responses	% of respondents
Simpler, less technical language	34	24
Satisfied with guidance	26	19
Not sure what improvements are needed	21	15
Content should be shortened	17	12
More templates of SORP accounts	14	10
Unfamiliar with guidance	13	9
Regular updates on requirements / changes to	8	6
More online resources e.g., webinars; existing easier to find	6	4
Structured more around needs of small charities	5	4
Structured more around needs of different types of charity	5	4
Better / more guidance on specific topics e.g., fund movement	4	3
More training on using guidance e.g., webinars	4	3
More interactive guidance	2	1
Checklist to follow	1	1
Hardcopies available	1	1

We asked a similar question in the Independent Examiner / accountants survey: ‘How might the guidance be improved to make it more accessible or helpful in preparing annual accounts for small charities?’ (96 responses were received to this question; 74% of respondents). There were a variety of responses and a high degree of overlap with those provided by the small charity survey respondents – see figure 5.2. Nine answers addressed SORP being written in a ‘simpler language’, ‘avoiding accounting jargon’ and ‘complex terminology’. Eight responses requested that SORP is written ‘first for smaller charities’, highlighting what is ‘essential’, then placing ‘esoteric’ requirements for larger charities later. Only one response called for a ‘separate small charities SORP’ (although this may be due to the wording of the question being about the ‘guidance’ rather than the ‘recommended practice’ itself). Another response proposed ‘tiered reporting regulations’. One accountant suggested that when rewriting the SORP the ‘May’ should be removed, giving more clarity to what ‘Should’ be included. Another answer was to create an interactive online SORP that has click through sections and easy to tailor it for the charity’s needs (going further than the ‘customise’ function on the SORP website). There was also a request for a prescribed R&P accounts structure which includes recommendations on the Trustees Annual Report.

Table 5.2. Suggestions for improving annual accounts and SoFA guidance, Independent Examiners / accountants survey

Suggestion	no. of responses
Shorter and simpler format and presentation of SORP guidance	19
Templates and worked examples of SORP accounts	17
No suggestions for improvement	12
Simpler guide for individuals without accounting knowledge in small charities	10
Less technical language and terms	9

5.3 Focus group evidence

In the focus groups we asked those using SORP accounts to what extent participants were aware of the simplifications that the SORP allows for smaller charities, for example the ability to use natural classifications rather than a functional breakdown of expenditure on the SOFA. We also sought to explore whether participants wished to see more simplifications for smaller charities in the SORP.

However, apart from the professional accountants with specific SORP experience, most of the other participants found it hard to engage with this issue. For those who just gave their records to an accountant to produce the accounts – even if they understood the principles of fund accounting – there was little or no awareness of choices within the SORP framework. Even amongst the professional accountants, not all were aware that the SORP allowed a simpler presentation for smaller charities.

Some had general complaints about the complexities of SORP accounts and the notes needed, and the difficulties of reading them, though few specific proposals for changes were raised. One person whose charity had a defined benefit pension scheme complained about the extensive disclosures required.

On the broader issues of whether more simplifications for smaller charities would be appropriate, some general points of disagreement with the SORP were made. For example, two participants were unhappy with the rules on recognition of income from multi-year grants, and several mentioned frustration at the increased requirements for prior year comparative figures.

Participants used a wide range of guidance in preparing their accounts (whether on the R&P or SORP basis), though it was clear that many of those preparing accounts using standard templates had not generally sought guidance beyond the templates themselves. Some mentioned guidance from charity regulators (OSCR was mentioned more frequently than CCEW).

Several spoke of guidance from their Independent Examiners. One said:

I have a regular conversation with our Independent Examiner. If anything new comes up, I check with them, they get information they give it to me. It's a year round, communication, the same each year. [focus group participant]

Some referred to guidance provided by their predecessors as the main source of help, but it seems this was often quite limited. One said:

It was just passing it on – the outgoing treasurer to the new one – and I expect I will do the same when time comes. I will just pass the knowledge and templates and whatever we have. [focus group participant]

In some cases guidance from umbrella bodies was mentioned, though this was often linked to use of a specific template rather than broader guidance on charity accounting principles – although one person referred to helpful accounting training sessions on Zoom during the Covid crisis provided specifically by an umbrella body for charities in the sector concerned.

No one made specific reference to using books or workpacks offering guidance on accounting for small charities although some referred to having read guidance but were unsure of its source.

In one group of 11 participants, five said they had at some point looked at the SORP itself (two of these being professional accountants) but no one mentioned using the SORP itself as a regular source of reference.

5.4 Conclusion

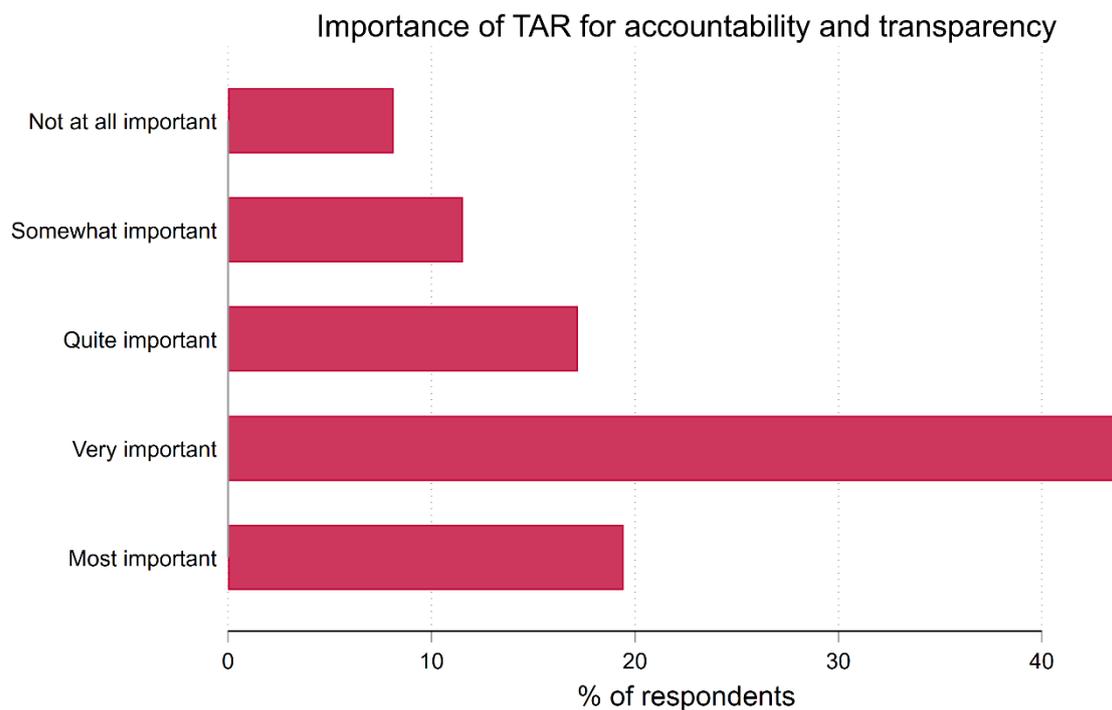
The majority of small charities, irrespective of size, consult external accountants or Independent Examiners when preparing their annual report and accounts. The distribution of the work of accounts preparation is shared, however some small charity treasurers appear unfamiliar with the work involved, SORP requirements and judgments made when preparing and examining a set of accounts. While the demand for external accountants and Independent Examiners is increasing, the number of charity finance support services is in decline (CFG 2017). This supports suggestions that training and education of both trustees and Independent Examiners are needed alongside the SORP revision (CIPFA 2020a).

6. Could the requirements of the TAR be improved / simplified to benefit smaller charities?

6.1 Survey evidence

In the small charities survey we asked the question: 'How important is the Trustees' Annual Report for providing accountability and transparency to your charity's external stakeholders?' 442 respondents provided answers to this question – see figure 6.1. 8 out of 10 respondents claim the TAR is a quite / very / most important means of demonstrating transparency and accountability.

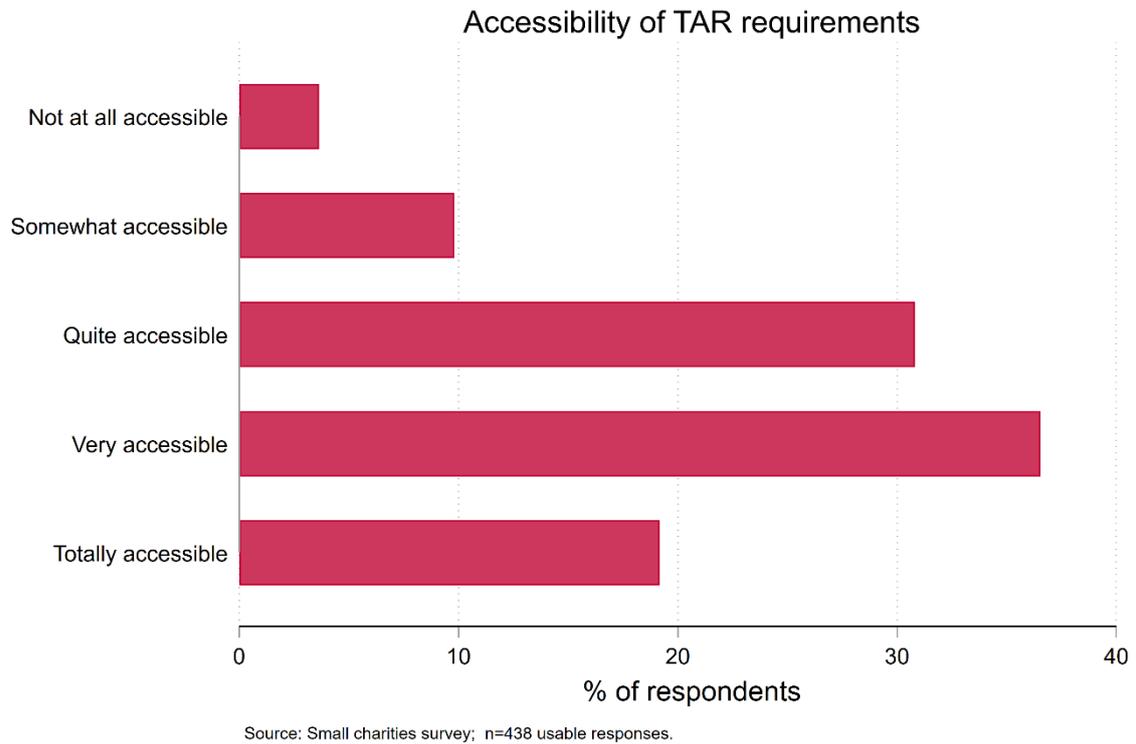
Figure 6.1. Importance of TAR for accountability and transparency, small charity survey



Source: Small charities survey; n=442 usable responses.

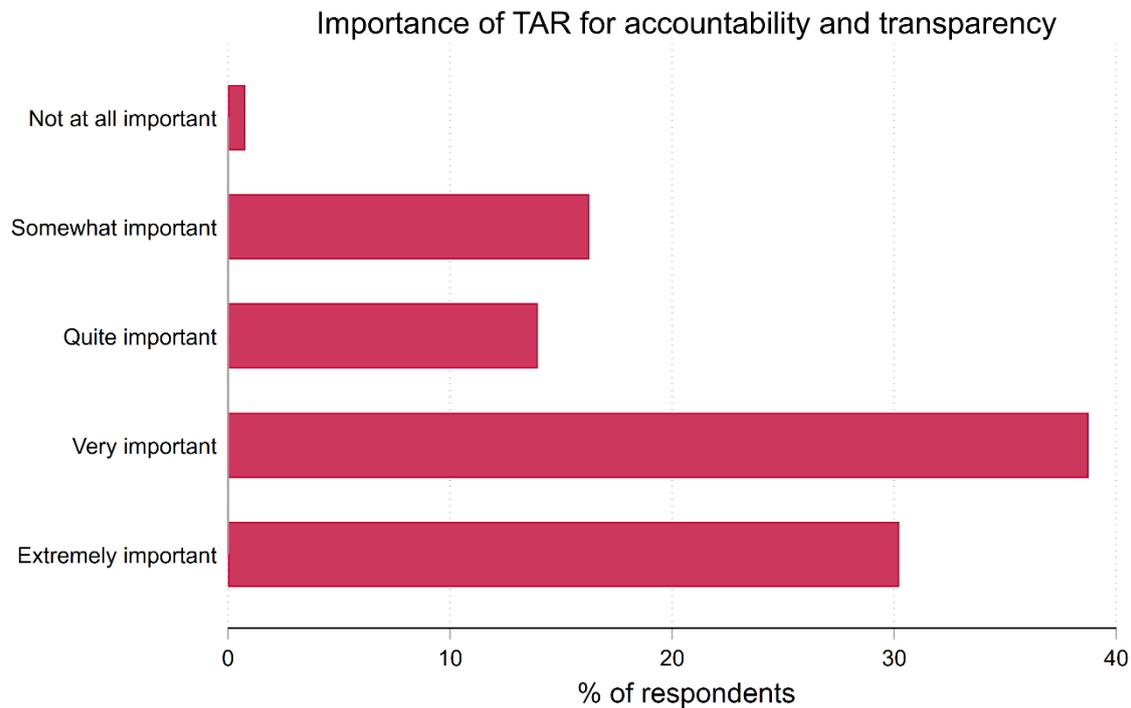
In light of its importance, we then consider how accessible the TAR requirements are for small charities – figure 6.2. Respondents were clear that TAR requirements are accessible, with over 80% stating they were quite / very / totally accessible. There was no association between accessibility and income band, and only a slight one with accounts basis (i.e., charities using R&P were slightly more likely to find the requirements less accessible).

Figure 6.2. Accessibility of TAR requirements, small charity survey



Similar questions were asked in the Independent Examiner / accountants survey regarding the importance of the TAR for transparency and accountability, and where there are any improvements or simplifications that could be made. The external advisors agreed that the TAR is very important for demonstrating transparency and accountability – figure 6.3.

Figure 6.3. Importance of TAR for accountability and transparency, Independent Examiner / accountants survey



Source: IE/accountants survey; n=129 usable responses.

On the question of identifying difficulties dealing with TAR requirements, 23% of external advisors said that they couldn't identify any particular difficulties for small charities when writing their TAR and no additional information should be included.

Many identified 'Trustees engagement and understanding of the TAR' as an issue. Ten responses noted that trustees of small charities often see the TAR as a 'compliance exercise - they do not always give the adequate time to it and alternative documents are produced to promote the charities work'. Five answers reflected that trustees were 'disengaged with the process'. Seven answers talked of trustees being 'unfamiliar with guidance', and do not realise what is involved in writing the TAR. Nine suggested that Trustees should be encouraged to 'tell their story', 'be creative with pictures and graphs', they should see it as 'a shop window for their donors and grant making bodies'. It was also noted that the TAR is often 'written for internal stakeholder's, not for the wider audience; 'prepared for the trustees rather than on behalf of the trustees.'

A number of specific requirements of the TAR were mentioned as causing difficulties for small charities; the largest common response was their understanding of how to report their reserves – 'small charities struggle to set a meaningful target range'. Reporting on performance and achievements, public benefit reporting, writing the financial review, reporting on volunteers and considering if the charity is a going concern were also raised as particular difficulties for small charities.

A common thread in the answers spoke of the TAR holding too much content – placing an administrative burden on small charities – 'which possibly no one will ever read'.

Again, there were comments about these reports not being sufficiently regulated. It was argued that with little or no feedback, charities may not know when they are not compliant.

There were suggestions from two accountants that a pre-set questionnaire or interactive PDF could be created for trustees to complete which would populate the TAR.

Only three answers reflected additional information to be included in the TAR, these were environmental reporting (although this was suggested for larger charities), reporting an outlook for next 12 months, and reporting on funding paid to third parties overseas.

6.2 Focus group evidence

Although several participants had already mentioned the TAR in other sections of the focus groups, we specifically asked participants about their understanding of the TAR in relation to the accounts.

Several saw the TAR as an important document to tell the charity's story and some were well aware of guidance from OSCR, in particular, on the importance of the TAR and the encouragement to include pictures etc where appropriate.

Most saw the TAR as reasonably important and no one said they left the TAR purely to their accountants, but the processes of preparing the TAR varied widely. More than one said that the CEO drafts the report and the treasurer prepares the accounts, but a number of participants mentioned a specific role for the treasurer in making the final adjustments to the TAR to link with the accounts, for example in terms of reserves. Several respondents mentioned quite elaborate collaborative processes:

We hold a board meeting and write it together as a committee. [focus group participant]

Another said:

Trustees are responsible for different areas – each drafts a section, then the chair pulls it together, then it is read and approved by the board as a whole. [focus group participant]

However, no participants raised any specific comments on the role of the TAR and accounts together in terms of accountability.

6.3 Conclusion

The TAR is seen by both charities and their advisors as being very important for accountability and transparency. Despite this, in some charities, trustees were disengaged from the process of drafting the TAR, seeing it as an exercise in compliance. In some cases, the TAR was produced primarily for trustees rather than by them, and had too much of an internal focus. Others emphasised the role of the TAR in telling the charity's story, though there was some concern that the TAR holds too much content to make this straightforward. Overall small charities seemed comfortable with preparing the TAR, but did identify some issues in presenting more technical information such as reserves levels and issues of going concern, and there was some call for tighter guidance on what should be included.

7. Could the quality and consistency of support from external accountants / Independent Examiners be improved?

7.1 Background

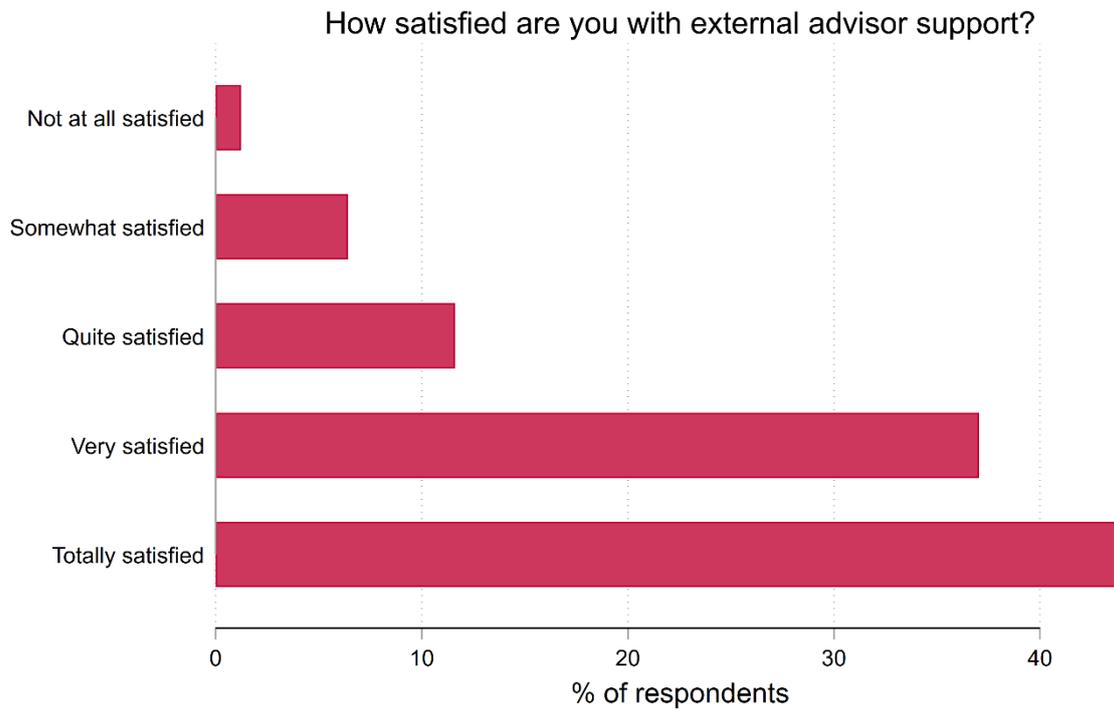
A 2019 CCEW report found that many of the individuals preparing small charity accounts find it challenging to follow all the recommendations in the Charities SORP and **this includes cases where professional accountants are involved** (CCEW 2019). There is recognition that support and training is required. In a 2020 SORP committee meeting there was discussion of website improvements to ‘assist smaller charities with examples, webinars and signposting training and support for smaller charities, volunteer examiners and practitioners’ (CIPFA 2020b). It has also been widely suggested that training and education of trustees and Independent Examiners are needed alongside the SORP revision (e.g. CIPFA 2020a).

When considered in the context of the results presented in section 4 – that external advisors are commonly consulted and play at least some role in preparing charity accounts –, it is clear that a fuller understanding of how helpful external advisors are to their small charity clients is warranted.

7.2 Survey evidence

In the small charity survey we asked the question: ‘If you consult an external accountant or Independent Examiner, how satisfied are you with the support they provide for preparing your charity’s accounts?’ 405 respondents provided answers to this question – see figure 7.1. Satisfaction with external advisors is very high, with 80% of respondents stating they were either very or totally satisfied with their support.

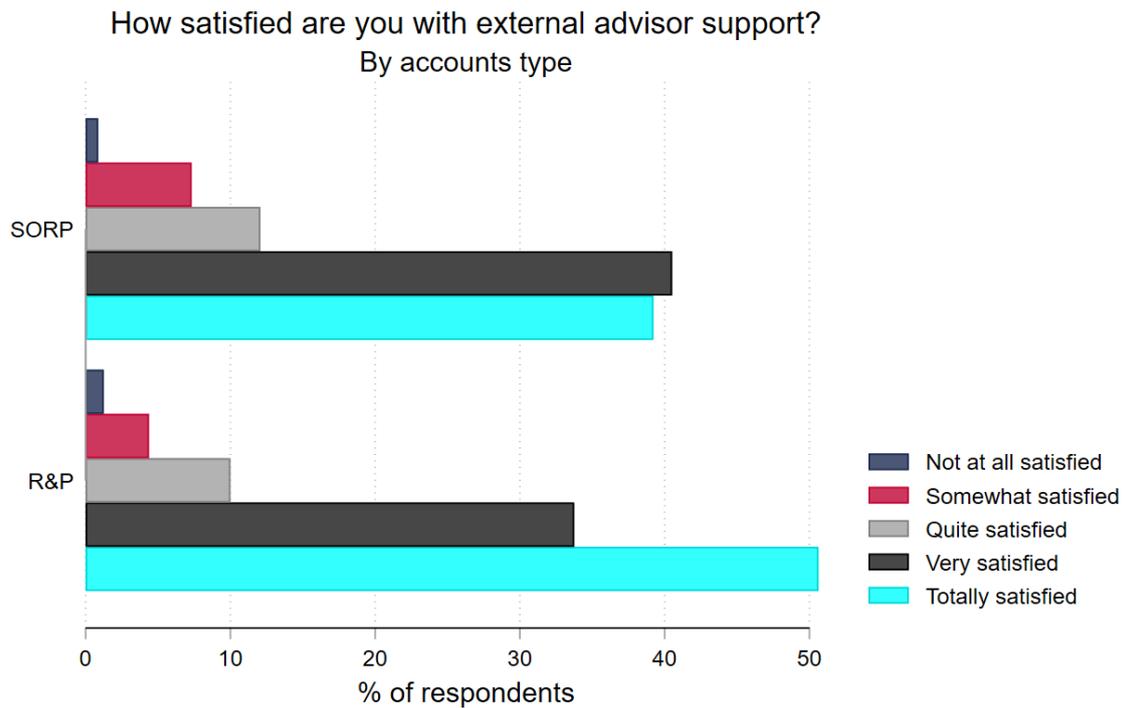
Figure 7.1. Satisfaction with support provided by external advisors in preparation of charity accounts, small charity survey



Source: Small charities survey; n=405 usable responses.

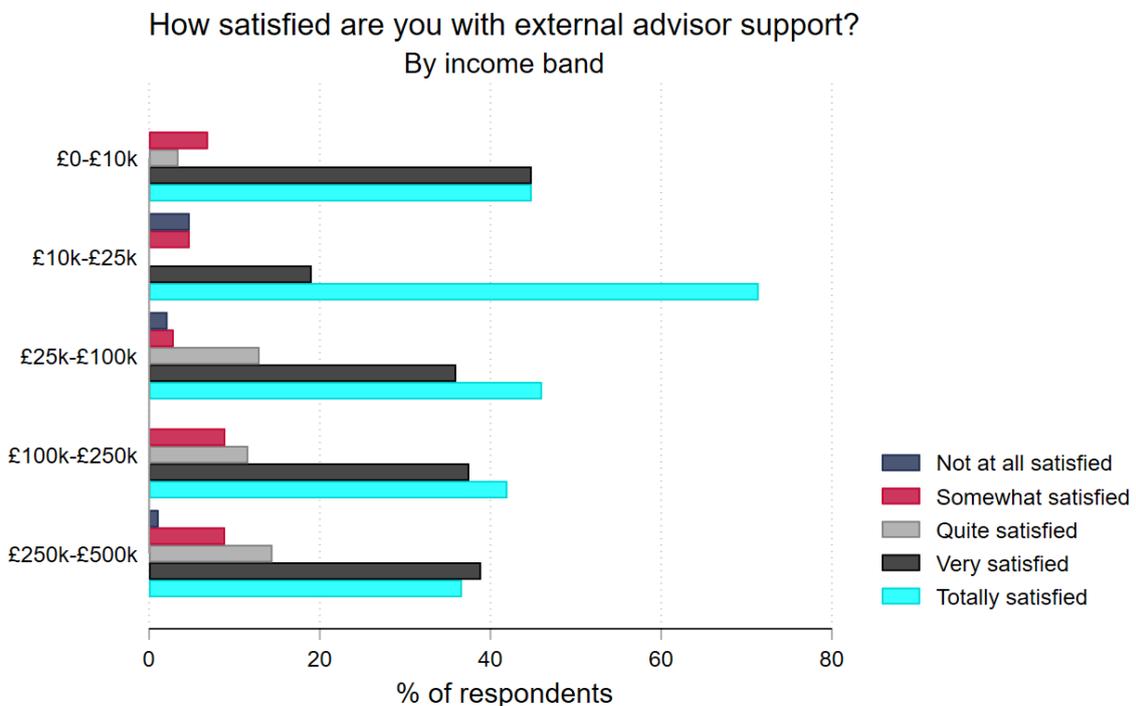
We see no clear differences in satisfaction by whether a charity prepares SORP or R&P accounts – see figure 7.2. There are also no major differences by income band (figure 7.3), with similar percentages of respondents stating they were either very or totally satisfied.

Figure 7.2. Satisfaction with support provided by external advisors in preparation of charity accounts, by accounts type, small charity survey



Source: Small charities survey; n=392 usable responses.

Figure 7.3. Satisfaction with support provided by external advisors in preparation of charity accounts, by income band, small charity survey



Source: Small charities survey; n=391 usable responses.

Satisfaction is generally high but respondents also offered a number of suggestions of how the support provided by external advisors could be improved. We received usable responses from 229 respondents who also answered the question ‘If you consult an external accountant or Independent Examiner, how satisfied are you with the support they provide for preparing your charity’s accounts?’, and coded these into 14 distinct categories – see table 7.1. Perhaps encouragingly, the most common response was to express satisfaction with the support provided by external advisors. Understandably, concerns were expressed about the costs of external advisor support. The next most common suggestions related to wanting a more tailored, frequent relationship with the external advisor. Many respondents were clear in their need for external advisors to display greater interest in or knowledge of the charity’s specific circumstances:

They need to have understanding of volunteers doing these accounts, using basic software and computer facilities. [survey respondent]

We have just hired a new firm to take over our accounting as our previous accountant was not very responsive to our needs. We have gone to a community accounting provider which is much more geared towards our needs as a charity. If I was to suggest the improvements that could be made by our previous accountants, it is that they are more responsive and active in their willingness to share their knowledge and reasoning behind certain decisions and processes. It helps me a lot as a finance officer to know what will help our accountants prepare our accounts at the end of the year, rather than be left to fill in the gaps after the financial year has passed. [survey respondent]

Table 7.1. Suggestions for improving support provided by external advisors, small charity survey

Suggestion	no. of responses	% of respondents
Satisfied with Independent Examination service	96	42
Lower cost	32	14
Greater interest / knowledge in specific activities of the charity	25	11
More contact during accounts preparation and review	20	9
Not sure what improvements are needed	17	7
Provide more timely service	16	7
More details on contents of accounts e.g., complex transactions	13	6
Inform charities of updates to SORP	7	3
Conduct Independent Examination process online	5	2
Greater access to local external advisors	4	2
Charity has means to assess quality of Independent Examiner / accountant service	3	1
More training on SORP requirements and accounts preparation	2	1
Perform wider range of tasks	2	1
Same external advisor over time	1	0

A common theme developed across responses to various questions in the Independent Examiners / accountants survey: that other accountants and examiners were 'giving poor advice' and that it is a challenge for small charities to 'find a good examiner'. Some respondents asked for more regulation and feedback from charity regulators when accounts are not compliant, as 'many remain ignorant', and Independent Examiners are 'not challenged for non-compliance'.

7.3 Focus group evidence

Participants did not specifically address this topic in the focus groups (as we already captured detailed qualitative data in the small charity survey). However there are some insights worth reflecting on that touch on this topic. When discussing the role of guidance in preparing charity accounts, several participants spoke of the role of their external advisors. One said:

I attended a training day (when we could do things like that) with our auditors on the annual accounts and also a huge section on writing the trustees reports, which was for me absolutely fascinating and so I have the job to draft it. [focus group participant]

7.4 Conclusion

Small charity respondents generally showed high satisfaction with external advisors when preparing their annual report and accounts, however the relative high cost and lack of understanding the charity's context was noted. By contrast, Independent Examiners and accountants appeared dissatisfied with their fellow accountants' advice and SORP compliance, and asked for more training, regulation and accountability of their sector.

8. What changes would you like to see to the charity accounting and reporting requirements that would make them more effective or more appropriate for small charities?

8.1 Survey evidence

The final substantive question in the small charity survey explored suggestions for changes to current charity accounting and reporting requirements. We received usable responses from 276 respondents from charities using SORP or R&P basis. The most common response was that the current charity accounting and reporting requirements are fine, with no need for changes:

I cannot think that the process can be made any easier, as it is important that the charity accounts are independently checked by a qualified, external service. [survey respondent]

I am happy with the timeframe and think having a TAR is extremely important. [survey respondent]

For the remaining 65% of respondents, the most common suggestion was to simplify one or more of a) the requirements; b) the guidance; c) the presentation of the accounts:

Just to make it easier for non financial people, so better explanations of how to do the accounts and better explanations about income and expenditure. [survey respondent]

Being able to issue a summarised and simplified version so more people actually read them. The full accounts could be available on request. [survey respondent]

A reduced disclosure alternative/option would greatly encourage better understanding by users as well as aid preparation and assist in dialogue with Independent Examiners and their recruitment for micro charities. [survey respondent]

Make them easier to understand and carry out so that we don't have to pay an accountant to do it all. [survey respondent]

Wording that more clearly explained why accounting treatment and disclosures were required. For example, personally, I see no point in fixed asset accounting unless there is a clear usage of the asset and not 'maybe it will last 10 years'. Fixed Asset accounting is logical but almost always unhelpful. I also think that it needs to be made crystal clear that the Balance Sheet does not represent the value or worth of the charity. [survey respondent]

Over ten percent of respondents asked for more templates, case studies and training that are tailored to a broad array of charities:

Closer alignment between the financial package that we use (Xero) and the format required for the TAR. For the Charities Commission to specify output reports / templates that we could use to generate the required information from packages and specifically Xero. [survey respondent]

Clear and accessible information explaining SORP, TAR, various requirements, how and where to submit annual accounts to Charities Commission [sic] and Companies House (which address should I use) etc. [survey respondent]

Pro forma approach and a simplified requirements list for a small charity like ours.
[survey respondent]

Finally 7% of respondents thought that the requirements should be simplified for small charities specifically (in addition to the responses relating to simplifying the requirements more generally). Many of these respondents were from small charitable companies (< £100k):

Exemption for small charitable companies to use receipts and payments accounting rather than legal requirement to use accruals accounting. [survey respondent]

Raise the exemption level for small charities perhaps to £100k. They should still have an independent examination to confirm income, expenditure and reserves but this could be done perhaps by another charity treasurer rather than professionally. Trustees could still choose to do this professionally but should have the option for smaller charities. [survey respondent]

In my case, making it clear that the 'receipts and payments' format can be used even though accruals for invoices not yet received and deferrals for income relevant to the next financial year have been incorporated to ensure that the accounts present a correct picture of activity relevant to the financial year in question. [survey respondent]

Table 8.1. Suggestions for changes to charity accounting and reporting requirements, small charity survey

Suggestion	no. of responses	% of respondents
No suggestion / requirements are fine	94	35
Simpler requirements / guidance / presentation	72	27
Provide tailored templates, case studies and training	30	11
Technical suggestion e.g., matching principle	21	8
Simpler requirements / higher threshold for small charities	20	7
Reduce costs e.g., of accountants	14	5
Other suggestion e.g., align with HMRC deadlines and formats	13	5
Flexibility in presentation of accounts	9	3
Regular updates on requirements / reporting deadlines	7	3
Interactive guidance	7	3
Better links between software and required formats	3	1

Finally, we asked a similar question in the Independent Examiners / accountants survey: 'What changes would you like to see to the charity accounting and reporting requirements that would make them more effective or more appropriate for small charities?' 87 responses were received to this question (67% of respondents). The most common response was that they wanted a 'simplification' of the charity accounting and reporting requirements. While seven responses didn't want to see any changes; advising 'If you make it easier you will lose transparency' and 'R&P accounts give a simplified option if wanted. SORP for smaller charities is pared down enough to be relevant to small charities.'

Six responses recommended SORP being written first for small charities, and larger charities have the extras added on, 'so the minimum requirements are clear'. No one proposed a separate SORP for smaller charities in this question. Accountants requested more templates and example accounts (e.g., of a charitable company below £100,000 that are using natural headings with an example TAR). There was also a suggestion of a 'dashboard of key information of a standardised nature' bringing consistency / comparability between charity reports.

A few responses mentioned training: specifically for small charities, for new charities, for trustees and treasurers, or to be sent with the annual return reminder and targeted to the size of the charity.

Responses to this question that addressed the threshold for SORP accounts suggested that it should be increased, so 'more charities had the R&P option'. Furthermore others asked for a change to company law, so that all small charities (regardless of incorporation) could apply R&P accounting. One suggested that exemptions could be made for small charities whose income fluctuates around the £250k threshold due to a 1 or 2-year grant. Indeed one accountant asked for formalised R&P accounts to follow this structure, adding a few basic mandatory disclosure requirements to R&P accounts to make them more meaningful.

Some specific areas of the SORP were addressed:

- remove / reduce the requirement for comparative prior year accounts,
- simplifying the headings (to be understood by non-accountants),
- reduce the notes e.g. movement in fund notes,
- relaxation of some of the disclosure requirements e.g. staff pay,
- ability to tailor the headings in the SoFA,
- income recognition: allow charities to spread multi-year grants over the years the income is intended
- remove regulatory requirements from the accounts that could be obtained via the online annual return.
- more clarity about use of simplifications: in particular natural categories verses charitable activities breakdown.

There were differing opinions involving the threshold for Independent Examination. Some requested that 'only qualified accountants who have charity accounts experience to be Independent Examiners to ensure quality of the accounts is maintained', while others preferred for the threshold of Independent Examination to increase as it is 'too costly for small charities'.

8.2 Conclusion

The final substantive question in the small charity survey explored suggestions for changes to current charity accounting and reporting requirements. The most common response was that the current charity accounting and reporting requirements are fine, with no need for changes. Where suggestions for changes were made, the most common was to simplify one or more of a) the requirements; b) the guidance; c) the presentation of the accounts.

There was also strong sentiment – echoed elsewhere in the small charity survey – that more and better training and guidance materials were needed, in particular templates and case studies covering a broad array of small charities and their activities / transactions.

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Any remaining errors or inconsistencies are the responsibility of the authors, and questions/comments can be addressed to diarmuid@brawdadata.com.

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