

## Feedback from Engagement Strands on Presentation of the Statement of Financial Activities

<ul style="list-style-type: none"> <li>• <b>Engagement Strand: Trustees</b></li> </ul>
<p><b>A. Options Considered by the Engagement Strand</b></p>
<ul style="list-style-type: none"> <li>• Option 1 – Adopt an upside-down Statement of Financial Activities (SoFA) so that the headline figures relate to what the charity does, how much that costs and where the money comes from. This might lead to a better link between the figures and the narrative reporting within the annual reports and accounts.</li> <li>• Option 2 – Three tier approach to a SoFA - a revised SoFA which requires a minimum level of information from small charities with additional requirements for the larger two tiers. Provide a simpler presentation of financial information linked to the provision of charitable activities in the first instance with more complex/nuanced data required of larger charities.</li> <li>• Option 3 – use a 'natural' classification of funds and expenditure for smaller charities. Suggested alternative approach: <ul style="list-style-type: none"> <li>○ SoFA table to include a subtotal net income before investment gains / (losses)</li> <li>○ The "natural" method of analysing expenditure should be the default method for smaller charities.</li> </ul> </li> <li>• Option 4 – link the SoFA to the balance sheet</li> <li>• Option 5 – other options were discussed.</li> </ul>
<p><b>B. Advantages/Disadvantages of Options Considered</b></p>
<ul style="list-style-type: none"> <li>• There was no support for the option to introduce an 'upside down' SoFA, with comments relating to the familiarity with the existing approach and a lack of understanding of the benefits of such a proposal.</li> <li>• There was general agreement to the suggestion of a tiered approach to the SoFA, but further information would be required to fully understand how it would work in practice. Adopting this would reflect previous recommendations of the engagement strand to 'think small first' with all charities reporting the same information in the same format and to adopt a building block framework to tiered disclosures and reporting</li> <li>• There was also general agreement for the use of 'natural' classifications to help promote clarity of reporting and understanding.</li> <li>• Finally, there was also support for the SoFA to include a subtotal of net income before investment gains/losses</li> </ul>
<p><b>C. Conclusions</b></p>
<p>See Advantages/Disadvantages outlined in B.</p>
<p><b>D. Other comments</b></p>
<ul style="list-style-type: none"> <li>• The use of plain English and the limited use of technical jargon in order to promote better understanding.</li> </ul>

- To agree and consistently apply SoFA headings and terms, with clear definitions for each within the SORP (or the use of hyperlinks if an online version).
- There needs to be a clearer and better presentation of 'paper' and 'real' movements in income/profits and on fixed asset balances as a 'paper' increase could mislead readers into thinking a charity is in a financially healthier position than is the case.
- This could link to previous recommendations for trustees to report more clearly on the charity's liquidity.
- Previous discussions about reserves did suggest clearer linking of the reporting of reserves to the balance sheet. This would mean demonstrating how different categories of reserves are held. However, this could be better demonstrated by an additional column within the SoFA.
- There was a detailed discussion as to the benefits and drawbacks of adding extra columns to the SoFA. There were examples of accounts with an extra column that could be helpful, but there was a desire to ensure the SoFA did not become cluttered in the presentation of the data required.
- There were also commentaries on the recognition of revaluation gains and how these should be presented.

## • Larger Charities

### A. Options Considered by the Engagement Strand

- See B below

### B. Advantages/Disadvantages of Options Considered

- The engagement strand was sympathetic to a natural classification approach. However, the engagement strand expressed the view that it was helpful to readers of the accounts to have the categories as they are currently reported in the SoFA as this helps with the understanding especially if tied into the trustee's annual report. It was also noted that the regulators use information from the SoFA to inform the register display.
- Charities often record the income and expenditure differently to the SoFA/SORP categories which means a lot of work at year end.
- The engagement stand did not support the 'upside-down' SOFA approach. This would 'go against the grain of income and expenditure/ P&L reporting', would cause confusion and provide less information.
- The engagement strand was largely content with the SOFA format as it stands.
- Comparatives – the engagement strand felt it was helpful to have just one total for comparatives and was 'strongly' of the view that if readers wish to gain more detail on prior year figures, then the previous year's accounts are an available resource.

### C. Conclusions

- In summary, the Larger Charities engagement strand did not recommend any changes to the presentation of the SOFA. The strongest point made was not to 'clutter' the SOFA and presenting a breakdown of income and expenditure in the current year, with one **(and only one)** total column for comparison.

**D. Other Comments**

- NA

**• Engagement Strand: Major Funders & Donors and Government & Public Bodies****A. Options Considered by the Engagement Strand**

- Structure of the SOFA – all charities
- Structure of the SOFA – smaller charities
- Structure of the SOFA – all charities reporting on an activity basis
- FRS 102 and the scope for changing the SORP to remove comparatives

**B. Advantages/Disadvantages of Options Considered***Structure of the SoFA – All Charities*

- Engagement strand members strongly agreed that they saw no benefits in any changes to the layout of the SoFA as prescribed by the current SORP. The current columnar format (if adopted by a charity on the face of the SoFA) works well. All engagement strand members supported just one column for comparatives.
- Funders will often look at several years' accounts to learn trends and progress within the charity. Consequently, splitting the comparatives would not be helpful. Similarly, the engagement strand saw no benefit of full comparative information being provided instead as a note.
- The engagement strand was of the view that confusion that might occur if, a set of charity accounts that were subject to incorporated consolidation rules were to have non charitable incorporated entities within that group reporting under FRS102 with a different layout available to the charity itself under the SORP

*Structure of the SOFA – Smaller Charities:*

- Any changes to the SOFA are less useful to smaller charities. It would lead to more confusion and a need for re-education. With similar issues being faced by trustees and independent examiners.

*Structure of the SOFA – all charities reporting on an activity basis:*

- This is an area where there may be 'pushbacks' from auditors. The engagement strand commented that the auditors 'don't like' the analysis on the [face of the] SoFA but prefer it in the Notes. No changes were suggested to the SORP's provisions.
- With regards to the suggestion that income should be related to costs the engagement strand was of the view that that association is already achieved in the Note to the Accounts that deals with movement in Reserves. The engagement strand commented that this type of reporting is 'perfectly adequate for funders' and to try and add more lines to the SOFA would just create more clutter and confusion.

*FRS 102 and the scope for changing the SORP to remove comparatives*

<ul style="list-style-type: none"> <li>The engagement strand supported the retention of comparatives in the SOFA because not only does this allow an uninitiated reader to have an instantaneous comparison to the previous year, it is also a useful tool for any preparer of a set of accounts insofar as, if large discrepancies show up between current year totals under any line on the SOFA and the comparative, it is 'a flag' for the preparer to review the data that has been entered. However, there is scope for a relaxation of comparatives in some of the Notes to the Accounts, as the inclusion of comparatives can create clutter and also confusion.</li> </ul>
<b>C. Conclusions</b>
The strand strongly supports no change be made to the current SORP with regard to presentation.
<b>D. Other Comments</b>
NA

<ul style="list-style-type: none"> <li><b>Engagement Strand: Academics and regulators and proxies for the public interest (note: only one strand member (a regulator) provided commentaries on the SOFA format)</b></li> </ul>
<b>A. Options Considered by the Engagement Strand</b>
<ul style="list-style-type: none"> <li>NA – See B</li> </ul>
<b>B. Advantages/Disadvantages of Options Considered</b>
<ul style="list-style-type: none"> <li>The view was expressed that an upside-down SoFA would be very confusing for both general readers of the accounts and charity trustees themselves. Charity accounts are already different from business accounts to reflect the differences from charities to profit making organisations. Introducing an upside-down SOFA may be a step too far.</li> <li>Many charity trustees or members of the public will have some limited experience of looking at accounts for businesses, either their own or businesses they are involved, or interested, in. If charity accounts are made so different then it could make things more confusing.</li> <li>It is also likely that even those with limited or no experience of looking at accounts would still think about things in simple terms of 'money in' and 'money out' and understand it better in that order in a set of accounts.</li> </ul>
<b>C. Conclusions</b>
<ul style="list-style-type: none"> <li>NA -See B</li> </ul>
<b>D. Other comments:</b>
<ul style="list-style-type: none"> <li>NA -See B</li> </ul>

<ul style="list-style-type: none"> <li>Engagement Strand: <b>Professional and Technical Engagement Strand (B)</b></li> </ul>
<b>A. Options Considered by the Engagement Strand</b>
<ul style="list-style-type: none"> <li>Option 1: Changes to Comparatives</li> <li>Option 2: Inverted SoFA</li> </ul>
<b>B. Advantages/Disadvantages of Options Considered</b>
<p><i>Option 1: Comparatives</i></p> <ul style="list-style-type: none"> <li>The engagement strand expressed the view that the SoFA is too cluttered when comparatives for each class of fund are included within the primary statement. However, engagement strand members considered that comparative information can be separately disclosed in a note to the financial statements.</li> <li>The fund accounting note needs comparatives, and having group rather than parent only accounts has highlighted a material issue for an engagement strand member's client recently.</li> <li>Members of the engagement strand acknowledged that there has been an initial submission to the FRC, arising from its call for input to inform the periodic review of FRS102, requesting that the Charities SORP determines when comparatives are required for SORP specific items and also to allow discretion as to how the SoFA is presented.</li> </ul> <p><i>Option 2: Inverted SOFA</i></p> <ul style="list-style-type: none"> <li>Most engagement strand members were of the view that it would be too confusing for the SoFA to be inverted due to users of financial statements being used to reading the SoFA in its current format. The engagement strand also commented on raising awareness and the cost of change.</li> <li>Some engagement strand members did see the value in changing the focus of the SoFA and thought it should be explored further.</li> </ul>
<b>C. Conclusions</b>
<ul style="list-style-type: none"> <li>The engagement strand would not support a change to an upside-down SoFA. Some engagement strand members can see the benefit in changing the focus. Further research would be needed to provide evidence for a change of such significance.</li> <li>The engagement strand recommended the removal of the requirement for comparatives for each classification of fund both on the face of the SoFA or in a separate SoFA note. The engagement strand commented that this requirement should be reduced to a 'may'.</li> </ul>
<b>D. Other comments</b>
<ul style="list-style-type: none"> <li>NA.</li> </ul>