

Charities SORP Aims, Drafting Principles and Objectives: Summary of Feedback

Note that this summary is based on the engagement strands that provided feedback (see main report section 1)

Table 1: Drafting Aims of the SORP	
Drafting Aim 1	<p>The majority of engagement strands provided feedback on the need to give greater consideration to who the users of the accounts are:</p> <ul style="list-style-type: none"> Professional and Technical engagement strand (B) highlighted that not all charities are funded, therefore framing the main users of an annual report in terms of funders/financial supporters is not necessarily helpful. It was highlighted that charities have responsibilities to a wider group of stakeholders than solely funders (examples include suppliers, staff and the charity’s local community), therefore the SORP’s concentration on funders as the main users is not useful. There was concern that this narrow focus may, in turn, amplify use of restricted funding (which would be undesirable). This view was echoed by the Trustees engagement strand, who suggested that greater emphasis should be placed on the needs of trustees (as accounts users) and, to the extent that charities receive support from the taxpayer, the general public. The need to consider beneficiaries when defining the users of an annual report was raised by three different engagement strands (the Large Charities engagement strand, Professional and Technical engagement strand (A) and Professional and Technical engagement strand (B)). Professional and Technical engagement strand (A) suggested some additional disclosures that the SORP might cover to meet a broader range of users’ needs. Such additional disclosures might include environmental and greenhouse gas emissions reporting, gender and ethnicity pay gap reporting, and diversity and inclusion policies reporting. The Trustees engagement strand commented that preparers should receive help in identifying what the requirements are for an annual report and set of accounts, and what would be of prime interest to users, as these are not necessarily the same things. <p>A second common theme from the engagement strands’ feedback was the importance of reporting on a charity’s impact and effectiveness, not just its financial performance. Three Strands (Professional and Technical engagement strand (A), the Trustees engagement strand and Professional and Technical engagement strand (B)) highlighted that there needs to be room to focus on a</p>

	<p>charity's performance on delivering its objectives; a narrow focus on expenditure risks overlooking a charity's impact and effectiveness. Professional and Technical engagement strand (A) suggested that the trustees' report could be used to link to the activities carried out in order to achieve the charity's objectives for the public benefit.</p> <p>Finally, the Trustees engagement strand suggested that there needs to be greater clarity as to who the SORP is aimed at with respect to the technicality of language adopted in the SORP.</p>
Drafting Aim 2	<p>The Smaller Charities and Independent Examiners engagement strand suggested expanding Aim 2 to include influencing the FRC in its revision of FRS 102, so, for example that more of the flexibilities within FRS 102 are available to smaller charities.</p>
Drafting Aim 3	<p>Two engagement strands (the Trustees engagement strand and Professional and Technical engagement strand (B)) commented that the SORP should provide clarity on whether its recommendations relate to application of FRC guidance, or whether the contents go beyond application of FRC guidance.</p> <p>Where recommendations do go beyond FRC guidance, Professional and Technical engagement strand (B) expressed that justification would be needed as to why. For example, justification would be needed for additional disclosure, given the accounts can already be long.</p> <p>Professional and Technical engagement strand (A) commented that flexibility and accounting choice can compromise consistency, suggesting that a unified approach might be considered.</p> <p>The Smaller Charities and Independent Examiners engagement strand suggested expanding this Aim to include a reference to giving examples.</p>
Drafting Aim 4	<p>Professional and Technical engagement strand (A) commented that once changes have been made to the SORP, education and training is required to disseminate the changes.</p> <p>The Smaller Charities and Independent Examiners engagement strand commented that the practical impact of Aim 4 is not immediately obvious.</p>

Table 2: SORP Drafting Principles	
General comments about the Principles	<p>Further to the aforementioned (see Table 2, Aim 1) comments on clarity over who the users of the annual report and accounts are, the Trustees engagement strand commented on the need for clarity over the intended user of the SORP. Specifically, there is no reference to trustees as accounts preparers. The engagement strand expressed the view that the SORP should be written in a manner that is accessible to readers who may have limited technical knowledge (i.e. more simple language, tighter use of terminology). Supplemental guidance can then be prepared as relevant (for example, if more detailed guidance is required).</p> <p>Two Strands (the Trustees engagement strand and Professional and Technical engagement strand (B)) commented that use of “practitioners” throughout the Principles is unhelpful as it suggests the preparers need to be in practice (which trustees may not be). It was suggested that it would be more helpful to refer to “preparers” rather than “practitioners”.</p> <p>The Smaller Charities and Independent Examiners engagement strand suggested that the Principles should be re-ordered to give more emphasis to the key principles, which it saw as 1, 3, 5, 6 and 8.</p> <p>The Trustees engagement strand recommended adopting drafting principles for the SORP that would reflect the diverse nature of the sector and the way it operates, such as ‘small first’, proportionate, effective and evidence-based. This engagement strand also indicated that the principles do not explain how the principles intend to improve the sector which speaks to the audience of the SORP.</p>
Drafting Principle 1	<p>Professional and Technical engagement strand (A) expressed general agreement with this principle. However, the strand expressed concern that the current SORP is better suited to larger charities. The Smaller Charities and Independent Examiners engagement strand suggested amending this principle to make it more positive and refer to ‘putting the needs of smaller charities first’.</p>
Drafting Principle 2	<p>One respondent from Professional and Technical engagement strand (B) expressed concern that this Principle could be seen to imply that the SORP will not ask for information which could be damaging if in the public domain.</p>
Drafting Principle 3	<p>Professional and Technical engagement strand (A) raised the question on what type of guidance is being referred to in this Principle (i.e. would the guidance constitute interpretation or examples).</p>

	The Smaller Charities and Independent Examiners engagement strand recommended that Principle 3 should refer to the provision of examples. Further, the engagement strand suggested the principle should be expanded to give guidance on inclusion of an index.
Drafting Principle 4	Feedback on this Principle was linked to concern about which groups were defined as "users". Please see comments on Aim 1 above.
Drafting Principle 5	No specific feedback was provided.
Drafting Principle 6	Professional and Technical engagement strand (A) commented that dissemination might be via articles, education and training, not just through the provision of a new SORP.
Drafting Principle 7	No specific feedback was provided.
Drafting Principle 8	<p>The Smaller Charities and Independent Examiners engagement strand suggested re-ordering the principles so Principle 8 followed Principle 5. Additionally, the strand suggesting amending Principle 8 to embrace all aspects of a regulatory impact assessment, thereby incorporating issues covered under Principle 2.</p> <p>Professional and Technical engagement strand (A) commented on the need to differentiate between changes that would provide a benefit to the sector as a whole and those that would not.</p>

Table 3: Objectives of the SORP	
Feedback mapped to the draft objectives considered by the SORP Committee at its March meeting.	
General comments about the Objectives	<p>Two strands suggested an alternative form of wording for the objectives, shown in Appendix 1 to this Annex below.</p> <p>It was noted by three strands (Professional and Technical engagement strand (A), the Trustee engagement strand and the Smaller Charities and Independent Examiners engagement strand) that the Objectives do not cover narrative reporting and the interaction between the Trustees' annual report and the accounts. Feedback was that the annual report and accounts would be more useful and could better tell the charity's story if more links were to be drawn between the trustees' report and the accounts. The Smaller Charities and Independent Examiners engagement strand suggested adding a fifth Aim [objective] to this end.</p> <p>Professional and Technical engagement strand (A) indicated that "transparency" would be a useful addition to the objectives.</p> <p>Professional and Technical engagement strand (A) commented that the objectives should consider the needs of the users of the charity accounts as well as the different types of charities there are.</p>
Objective (a)	The Smaller Charities and Independent Examiners engagement strand commented that it was arguable whether public trust is garnered by high-quality financial reporting rather than by financial management and management issues, therefore suggested further consideration of this proposed objective.
Objective (b)	<p>With respect to providing concise information, please see comments made regarding Aim 3 (see previous in table 1) in which feedback highlighted the importance of justifying SORP recommendations for additional disclosure beyond that required by FRC guidance.</p> <p>The issue of excessive disclosure requirements several times, with Professional and Technical Strand (B) highlighting that overly-long annual reports containing excessive disclosure can threaten transparency, understandability and relevance.</p> <p>Professional and Technical engagement strand (A) called for the existing objective around quality of financial reporting to be extended, suggesting a wording that is similar to that contained in draft Objective (b) ("to improve the quality of financial reporting by charities, considering the charity size, complexity, and the users' information needs.").</p>

	The Smaller Charities and Independent Examiners engagement strand commented that proposed Objective (b) provides clarity over the outcomes being sought and perhaps could be the first Objective rather than the second.
Objective (c)	Two strands (the Large Charities engagement strand and Professional and Technical engagement strand (B)) made similar comments regarding comparability. Both strands argued that the emphasis should be on comparability of a charity's accounts over time. For the Large Charities engagement strand, this was due to differences in charities' operating models leading to difficulties comparing charities' annual reports. From here, the strand argued that "consistency" may be more important than "comparability".
Objective (d)	No specific feedback was provided.
Objective (e)	Professional and Technical engagement strand (A) expressed general agreement with the wording of draft objective (e), in particular for the inclusion of the phrase "tell the story" and the implied link between the account and the "front half" narrative information about the charity.

Table 4: General Comments
<p>Several comments related to the need to clarify what purpose the SORP serves. The Larger Charities engagement strand highlighted that the SORP cannot be all things to all people. They were of the view that there is a need to be able to say what the SORP is and what it is not. Related to this, Professional and Technical engagement strand (A) expressed the view that clarity is needed over the purpose of the SORP (i.e. whether the SORP aims to provide guidance on producing the annual report and accounts, or whether the SORP is primarily and interpretation of FRS 102 for charities).</p>
<p>The Trustees engagement strand commented on the fact that charities may not have access to a finance specialist so the SORP needs to be written with this in mind. It was suggested that simplifying the language, reducing the use of overly technical terms or jargon and creating a comprehensive and consistent glossary of definitions in a shorter more concise document would help. In particular, the need for consistent use of terminology to avoid unnecessary confusion was stressed. The strand summed this up as 'think non-financial expert first'.</p>
<p>With a view to a post-implementation review of the SORP, the Trustees engagement strand suggested identifying key indicators to allow an assessment of the 'success' of the SORP to be made.</p>
<p>The Smaller Charities and Independent Examiners engagement strand commented that the guidance for those drafting the SORP should distinguish between outcomes, constraints, and the purpose of the SORP.</p>
<p>The Trustees engagement strand expressed that the thresholds for when charities must apply the SORP should be reviewed, especially where company law currently requires small corporate charities to prepare accruals accounts. This review should be supported by research into the impact of different thresholds on smaller charities.</p>
<p>Several strands mentioned the tiering discussion as linked to the discussion of Aims, Objectives and Principles. For example, it was highlighted by two separate strands that that it would be difficult to set a single objective around consistency/comparability for such a large, multi-faceted sector.</p>
<p>As tiering is the focus of a separate report, comments have not been included here.</p>

Appendix 1 to Annex

Suggested alternative wording for the objectives submitted by Professional and Technical strand B:

The recommendations of the SORP are intended to achieve the following objectives:

- enable users of accounts to receive high-quality transparent and understandable trustees' annual reports and accounts proportionate to the size and complexity of the charity and users' information needs.
- enhance the relevance, comparability and understandability of the information presented in charity accounts by clarifying, explaining and interpreting accounting standards in relation to sector specific transactions and other items recognised or disclosed in the accounts;
- assist those who prepare the trustees' annual report and accounts of the charity to tell its story through the narrative and financial reporting requirements.

The objectives of the SORP support the objectives of charity accounts:

- Charity accounts, supported by the trustees' annual report, show the results of the stewardship of trustees.
- Charity accounts provide information about the financial position, performance and cash flows of the charity that is necessary for the charity's trustees to meet their obligation to prepare accounts which give a 'true and fair view'. This information is also relevant to a broad range of users who are not in a position to demand reports tailored to meet their particular information needs.

Professional and Technical strand A agreed with the suggested wording of the first, fourth and fifth of the above, suggesting alternative wording for the second and third objectives:

- enhance the relevance, comparability and understandability of the information presented in charity accounts by clarifying, explaining and interpreting accounting standards for application to charities, to sector specific transactions and other items recognised or disclosed in the accounts, thereby assisting the preparers of those accounts.
- assist those who prepare the trustees' annual report
 - to clearly report on the activities carried out in order to achieve the charity's objectives for the public benefit
 - to demonstrate visibility on governance
 - to tell its story through having synergy between the narrative and financial reporting requirements