

## **SORP and the notes to the accounts - discussion briefing**

**Prepared by: Charities SORP-making body, June 2021**

### **Purpose of the briefing paper**

The aim of this briefing is to assist the engagement strands and SORP Committee working groups to reflect on the current approach to the notes to the accounts within the SORP. The notes to the accounts represent the largest component of the accounts and are a mixture of:

- An explanation of the basis on which the accounts are compiled which assures a reader knowledgeable in accounting practice that the accounts have a sound technical basis with any departures are highlighted and explained;
- Expanded explanations of figures found in the Statement of Financial Activities (SoFA), Balance Sheet or Statement of Cash-flows and, where the SORP permits, items found in the trustees' annual report; and
- Additional information which is either required by the SORP or is provided on a voluntary basis.

To assist the engagement strands undertake this problem solving exercise the recommended approach is to initially consider at a high level each SORP module and whether all charities should provide that detail or only larger charities should provide it or alternatively all charities provide a basic level of information but with less detail required of the small.

If desired, strands and working groups could consider in more detail particular SORP modules considered of most concern to look at the detail of those disclosures. Given the tentative decision for having three tiers for the next SORP, the strands and working groups may wish to comment if disclosure should be reserved for only the largest charities if they so wish.

It is recommended that the feedback and any proposals should not be concerned about a disclosure being required by FRS102 otherwise there is little scope to make changes. Instead, were the FRC to approve a flexible application of section 1A of the standard, the outcome of this exercise will provide the SORP Committee and SORP-making body with recommendations that will help us take advantage of any flexibility given by the FRC in applying Section 1A.

The problem solving exercise needs to identify:

- Whether all the disclosures are necessary;
- Whether disclosures should be enhanced or more detailed;
- Opportunities to simplify the notes to both reduce the burden on preparers and to better focus on the needs of the reader of the accounts;
- Observations on how best to avoid 'boilerplate' reporting in the notes;
- Any opportunities for cross referencing via web links to the information, thereby allowing an item to be disclosed elsewhere rather than in the notes.

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### Reflection - what the SORP requires in the notes to the accounts by module

The table summarises by module the required and voluntary disclosures in the notes to the accounts along with a short commentary. For the detail please refer to the SORP. Where the disclosure issue might be handled as a separate topic and so need not be covered in this exercise this is noted and shown in italics (shaded red text) however it can still be considered if so desired.

In applying FRS102 a disclosure is expected for any 'material' items. The definition of 'materiality' is a separate topic for discussion.

Reference in the table to larger charities reflects that under the SORP there are two tiers where all charities have to disclose certain things but only some disclosures are only required of 'larger charities' which are currently defined as those with income over £/€500,000. The first 14 modules will apply to most charities and all 'larger charities' but subsequent modules will only apply if the item is relevant and material.

Module	Disclosures in the notes to the accounts	Commentary
1 Trustees' Annual Report	None	This module wholly focusses on telling the story through the annual report which draws on the accounts but does not permit TAR items to be included in the notes instead.
<i>2 Fund Accounting</i>	<i>Notes are required on the types of fund held.</i>	<i>This a separate topic for later in the process.</i>
3 Accounting Standards, Policies, Concepts and Principles	The basis on which the accounts are prepared, going concern, departure from the standard or SORP, estimates, correction of errors, and the requirement for comparatives.	Although in the main technical, the disclosures inform the reader about how the accounts were put together and highlight any departures from the standard or SORP.
<i>4 SoFA</i>	<i>Option is given to show detail in the notes rather than on the face of the SoFA. Required note on conversion of endowment to income.</i>	<i>The approach to allowing detail in the notes allows the face of the SoFA to be simpler in presentation.</i>  <i>The presentation of the SoFA is a separate topic for later in the process.</i>

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Module	Disclosures in the notes to the accounts	Commentary
5 Recognition of Income	Particular notes on accounting policies, government grants and deferred income. Any expanded analysis from a SoFA item to use SoFA headings.	The main focus of the module is how to identify income to include in the accounts.
<i>6 Donated Goods, Facilities and Services</i>	<i>Particular notes on accounting policies and nature of donated items.</i>	<i>The focus is on understanding what is donated and how it was valued plus contribution of general volunteers.</i>  <i>This is a separate topic for later in the process.</i>
7 Recognition of Expenditure	Particular notes on provisions and commitments.	The discussion of commitments and provisions enables the reader to appreciate calls on the charity's resources.
<i>8 Allocating Costs by Activity in SoFA</i>	<i>An analysis of support costs with governance costs separately identifiable and basis for their allocation.</i>	<i>The SoFA presents an all inclusive figure and this note provides information about component spend of the reported activities.</i>  <i>Only larger charities have to report on an activity basis.</i>  <i>This is a separate topic for later in the process.</i>
9 Disclosure of Trustee and Staff Remuneration, Related Party and Other Transactions	Particulars of related party transactions with trustee items noted separately. Includes donations by related parties. Details of ex gratia payments, audit and related fees, analysis of staff costs and salaries over £60,000 (€70,000) in bands and key management personnel costs.	Related party transactions are those involving trustees who control the charity or parties related to the trustees or charity.  Ex gratia disclosures provide an insight into how additional discretionary costs have been incurred.  Pay disclosures provide an insight into aspects of spend.

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Module	Disclosures in the notes to the accounts	Commentary
	Additional disclosure of the particulars of senior staff pay is voluntary but encouraged.	
10 Balance Sheet	The required notes are the accounting policies and often provide an expanded analysis or a reconciliation of movements in the year or basis for valuing an item.	The balance sheet is the position statement of assets, liabilities and funds held.  Specific disclosures are required in the notes for each item shown on the balance sheet.
11 Accounting for Financial Assets and Financial Liabilities	Particulars of accounting policies, measurement and details for each type of instrument are required.	The module distinguishes basic and complex financial instruments.
12 Impairment of Assets	Particulars of the loss and circumstances.	Impairment is to do with the loss of the value of an asset where carrying value falls below its recoverable value.
13 Events after the end of the Reporting Period	Details of non-adjusting events are disclosed.	Distinguishes between events requiring adjustment to the accounts and non-adjusting events of note which provide valuable information to the reader.
14 Statement of Cash Flows	Particulars of cash not readily available for use eg endowment funds. Also a reconciliation to the balance sheet is required if needed.	The cash flow statement looks at how cash balances changed in the year.  Only larger charities have to provide this statement.

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Module	Disclosures in the notes to the accounts	Commentary
15 Charities established under Company Law	Signposts unavoidable company law requirements.	Only charities established as charitable companies are required to apply this module. The particulars are company law requirements.
16 Presentation of Grant-making Activities	<p>Aside from certain exemptions to disclosure, the SORP allows certain particulars to be disclosed elsewhere as long as a link is made in the accounts.</p> <p>An analysis of grants paid is required with details of institutional grants paid.</p>	This module sets out the requirement to report grants made and the particulars of grants paid.
17 Retirement and Post-employment Benefits	Detailed disclosures required by plan. The module cross references to FRS102 section 28 where the particular disclosures are set out.	<p>The treatment of defined benefit plans and defined contribution plans.</p> <p>(See the first submission to the FRC periodic review and a request to reduce the required defined benefit plan disclosures: <a href="https://www.charitysorp.org/about-the-sorp/sorp-committee/">https://www.charitysorp.org/about-the-sorp/sorp-committee/</a> )</p>
18 Accounting for Heritage Assets	Detailed disclosures of the nature of the assets held, preservation and access, measurement, reconciliation and 5 year summary of transactions.	<p>Identification and treatment of 'heritage' assets.</p> <p>(Some details may be given in the annual report instead provided a cross reference is given.)</p>
19 Accounting for Funds Received as Agent or as Custodian Trustee	Information about assets held and balances.	This module deals with where charities hold assets on behalf of others.

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<b>Module</b>	<b>Disclosures in the notes to the accounts</b>	<b>Commentary</b>
20 Total Return (Investments)	Reconciliation of movement in balances held including amount transferred to income to spend.	Accounting approach for charities with permission to invest permanent endowment flexibly on a 'total return basis'.
21 Accounting for Social Investments	Accounting policy and particulars by type of social investment held including details of concessionary loans made or received.	Identification and treatment of 'social investments'.
22 Accounting for Charities Pooling Funds for Investment	Nature of pooling arrangement and particulars of participating charities and reconciliation of fund movements attributable to the interest of each participant charity.	Within a group of charities with common trustees investments may be pooled- the module sets out what how to account for this.
23 Overview of Charity Combinations	None	How to identify a combination and signposts onward to applicable module.
24 Accounting for Groups and the Preparation of Consolidated Accounts	Detailed requirements including accounting policy, nature of subsidiary interests and details relating to acquisitions including goodwill.	Basis for identifying a group and accounting for it including acquisitions.  Only those larger charities above a threshold in each jurisdiction have to prepare group accounts.
25 Branches, Linked or Connected Charities and Joint Arrangements	None	Identification of component branches and joint arrangements and how to include in the accounts.
26 Charities as Subsidiaries	Particulars of the parent entity including how it exercises control.	Applies if a charity is a subsidiary and preparing its own entity accounts for filing.

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<b>Module</b>	<b>Disclosures in the notes to the accounts</b>	<b>Commentary</b>
27 Charity Mergers	Particulars for the year of merger and subsequent reporting periods.	Charity mergers are not acquisitions and the module sets out the approach to accounting for these.
28 Accounting for Associates	Accounting policy and particulars of each associate including basis of measurement.	How to identify and account for an entity in which a charity has 'significant influence'.
29 Accounting for Joint Ventures	Accounting policy and particulars of each joint venture and basis of measurement.	Types of joint venture, how to identify them and account for them.

Accounting correctly for an item, including its measurement, will still be required even if no details about it are disclosed in the notes to the accounts. Strands and working groups may therefore wish to distinguish between disclosing details about an item to demonstrate this has been done correctly and disclosing details that are useful to the reader for decision-making.

### What is the reporting difference between 'all' and 'larger' charities?

As outlined above, the SORP requires larger charities to provide a Statement of Cash Flows, activity reporting in the SoFA, and for many larger charities group accounts, where applicable. In respect of some modules larger charities also disclose additional information on certain items, for example module 9. However, in most cases all charities are currently required to provide the same level of disclosure.

### FRS 102 and the scope for changing the content of the notes to accommodate a different approach

A request has been made to modify the current references to referring within FRS102 for additional disclosures when applying Section 1A. The specific disclosures within Section 1A are much reduced compared to the full standard. The bulk of the required notes originate from FRS102.

SORP specific items that do not originate from FRS102 tend to predominate in modules 2, 4, 8, 9, 16, 19, 20, 21, 22 and 25.

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### Engagement strand feedback during the exploration stage

Comments from the engagement strands regarding notes to the financial information were noted mainly from the perspective of a user or reader of the accounts.

There were comments about specific notes for example, reserves, donated goods and services, pensions, executive pay and going concern. With the exception of pensions and executive pay, these items overlap with the listed topics for review.

The more general comments concerned:

- **Removal of comparatives:**  
Comparative figures make the accounts very cluttered and leads to more onerous requirements for charities and challenges in presenting these. Amendments to FRS102 may be required to resolve this issue but the possibility of a SORP-only solution should be investigated (PTS(B))
- **Inconsistency and errors in the notes:**  
There are occasions where the notes do not reflect the main body of the report, or accounts or where the notes are omitted or wrong because the narrative and numerical parts of the document are not joined up well. (T)
- **Decluttering of accounts:**  
Consideration needs to be given as to what disclosures in the current SORP add little value and these could be removed, standards and regulations permitting. Also, what items could be removed from the TAR and replaced by a link to other information produced by the charity (PTS(A))
- **Linking narrative and financial information- a more unified Document**  
The option of having a unified document representing the front and back-end information was discussed. Given the volume of information, this could be difficult to achieve. However, would it be possible to bring some key financial figures into the narrative and /or mandate some financial information in the front-end e.g. funds note or some key elements of the funds' disclosure/net assets notes?" (PTS(A))
- **Order of notes**  
Give greater prominence to the funds note (PTS(B))



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In relation to specific notes not already covered in the discussion of listed topics:

- Pensions  
Highly technical declarations often taken straight from actuarial reports. Often the longest note in the accounts inadvertently implying that this is the most important information. Where a pension deficit is recognised there should be more narrative but this could be tied up with going concern too (MFDGPB).
- Executive pay  
Pay disclosures should be enhanced to provide more transparent information on executive/senior staff pay. Consistent with the needs of charities to be accountable to a wide group of stakeholders (PTS(B)).

Additional notes were also suggested:

- Reserves note- Some strands put forward the idea of having a Reserves note to the accounts with more guidance on how these should be calculated (PTSA and PTSB).
- Improved disclosures relating to going concern- a link between the going concern disclosure to the 'free reserves' calculation was considered (MFDGPB and PTSB).
- Enhanced disclosures for senior executive pay were suggested by one of the seven panels (PTSB).

### Observations from the SORP Committee:

The main discussions of the SORP Committee on this topic related to the removal of comparative information as follows:

- There is an opportunity to explore signposting of other reporting frameworks or reporting requirements – where might this be used. This should be done properly, for example, consideration might be made of cross-referencing pensions information for pensions disclosures from other reports or sources.
- Simplification of requirements and gaining more than simple compliance with them is a desirable aim. Accounts produced under the SORP can be hard for some stakeholders to understand and they are also sometimes considered to be too long
- Having a 'base' position for small charities and the reporting requirements would increase where charities are larger or have more complex transactions
- strands.

CIPFA noted that from a technical perspective it would be very difficult to depart from FRS 102. It may be useful to consider where comparative information might obscure the key messages in the accounts, for example, this might be with the presentation of comparative information for the SOFA, where, if sufficient evidence were

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available, there may be a case for departure if this made the key messages of charity accounts harder to read.

The SORP Committee will be having its own discussion about what needs to be done and taking the evidence and views from the process as a whole, the Committee will settle on a recommended approach for drafting the SORP based on the evidence presented.

### Relevant SORP research findings

The SORP research exercise undertaken by the SORP-making body in 2016 ([Analysis of research exercise-responses-22](#)) invited respondents to identify those elements of the existing trustees' annual report and accounts that might be dropped or amended to improve the focus on information most relevant to users or readers of the report and accounts.

The most common areas identified by respondents to the 2016 exercise for removal were:

- Aggregate disclosure of the total amount of donations donated by trustees or other related parties without conditions (Paragraph 9.18)
- The requirement for comparatives to be provided for all amounts presented in the SoFA (Paragraph 4.2)
- Disclosures to be made in the notes to the accounts in respect basic financial instruments (Paragraph 11.35)
- Disclosures in the notes to the accounts of defined benefit plans (Paragraph 17.24)

The full list of suggested removals of elements relating to the notes to the accounts is reproduced in Appendix 1. The most common reason given for removal of these items was that the information was not considered useful the users of the accounts or is of little interest to them, as suggested in the consultation document itself.

Respondents were also asked of any items they would like to add into the report or accounts and if so, what are these items and how would their inclusion help the user of the report and accounts? The majority of respondents were against any new items being included in the report or accounts. The most common reason given by respondents was that the SORP was sufficiently detailed and charity reports were already too long for any additional disclosures.

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### What needs to be done now?

#### **Step 1- Making the case for change - a ‘basis for conclusions’**

A need for change in relation to simplifying for smaller charities in particular the disclosures required in the notes to the accounts has come through clearly from the engagement strand feedback and SORP Committee discussions to date and from the findings of the 2016 research. At this stage, clarity is required as to what changes are actually required and the reasons that support these changes. Without a case for change, no change will be considered because its rationale cannot be explained to those affected.

#### **Step 2 - Advising the change required to the SORP**

Having made the case for change, the detailed changes required to the SORP need to be set out. Consideration should be given in as much detail as possible for the simplifications proposed for smaller charities and other simplifications that might benefit all charities along with any additional disclosures that might be needed in the accounts. If no detail is given, the conclusion drawn is that the detail is left wholly to the discretion of the SORP Committee and SORP-making body.

#### **Undertaking an assessment of the impact (savings or costs on the preparer and benefits or disadvantages to the reader)**

The FRC will require an impact assessment but until the implications of change are worked through the SORP framework, the impact is unlikely to be clear and so this will be considered at the drafting stage of the process.

#### **Step 3 - Recommendation**

The case made by each strand or combination of strands will inform the deliberations of the SORP Committee and so there needs to be a clear recommendation.

The SORP Committee will be having its own discussion about what needs to be done and taking the evidence and views from the process as a whole, the Committee will settle on a recommended approach for drafting the SORP based on the evidence presented.

#### Engagement strand abbreviations

Smaller charities and independent examiners	S&IE
Larger charities	L
Charity trustees	T
Academics and regulators and proxies for public interest	A&R&PPI
Professional, audit and technical strand A	PTS(A)
Professional, audit and technical strand B	PTS(B)
Major funders, donors and government and public bodies	MFDGPB

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### Appendix 1: Previously suggested items for removal

<b>Suggested item or disclosure to be dropped</b>	<b>Relevant section</b>	<b>SORP Ref</b>	<b>No. of respondents</b>
Aggregate disclosure of the total amount of donations donated by trustees or other related parties without conditions	Notes to the accounts	9.18	17
The requirement for comparative to be provided for all amounts presented in the SoFA	Accounts	4.2	14
Disclosures to be made in the notes to the accounts in respect basic financial instruments	Notes to the accounts	11.35	10
Disclosures in the notes to the accounts of defined benefit plans	Notes to the accounts	17.24	10
Requirement for a statement of cash flow	Accounts	14.1	5
Disclosure of redundancy or termination payments relating to the reporting period	Notes to the accounts	9.27	4
The recognition of a liability for paid annual leave and paid sick leave	Accounts	7.41	4
Salary banding disclosure (the number of employees whose total employee benefits fell within each band of £10,000 (€10,000) from £60,000 (€70,000) upwards)	Notes to the accounts	9.30	3
The judgements management has made in the process of applying the entity's accounting policies that have the most significant effect on the amounts recognised in the accounts	Accounting policies	3.40	3
Discounting obligations to their present value	Accounts	7.8	3