



**CHARITIES SORP COMMITTEE GOVERNANCE REVIEW:  
GUIDING THE DEVELOPMENT OF THE CHARITIES SORP**

**RESPONSE FROM ICAS TO THE  
INDEPENDENT OVERSIGHT PANEL**

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## Background

ICAS is a professional body for more than 21,000 world class business men and women who work in the UK and in more than 100 countries around the world. Our members have all achieved the internationally recognised and respected CA qualification (Chartered Accountant). We are an educator, examiner, regulator, and thought leader.

Almost two thirds of our working membership work in business and in the not for profit sector; many leading some of the UK's and the world's great organisations. The others work in accountancy practices ranging from the Big Four in the City to the small practitioner in rural areas of the country.

We currently have around 3,000 students striving to become the next generation of CAs under the tutelage of our expert staff and members. We regulate our members and their firms. We represent our members on a wide range of issues in accountancy, finance and business and seek to influence policy in the UK and globally, always acting in the public interest.

ICAS was created by Royal Charter in 1854.

## Introduction

The ICAS Charities Panel welcomes the opportunity to comment on the Independent Oversight Panel's consultation 'Charities SORP Committee governance review: Guiding the development of the Charities SORP'.

ICAS has a long history of engagement with the development of the Charities SORP and supports the establishment of the governance review. The Charities Panel recognises that the Charities SORP is valued by the charity sector and charity accountancy advisers.

The arrangements for setting the Charities SORP are consistent with arrangements for the setting of other sector specific SORPs and we do not believe there is an impetus for the structure of the Charities SORP-setting arrangements to depart from the existing model.

We have several key observations about the development of the Charities SORP and related matters, including the effectiveness of aspects of the process, membership of the Charities SORP Committee and other matters the Independent Oversight Panel may wish to consider:

- Improved governance arrangements are needed around the drafting of the Charities SORP (FRS 102). The Charities SORP states that it follows a specific drafting convention, including using the word 'must' to specify requirements. However, the stated drafting convention is not consistently applied within the Charities SORP document. We recommend that procedures should be introduced to check that the stated drafting convention has been applied before consultation drafts are published.
- In broad terms, the Charities SORP Committee has the appropriate range of expertise and representation. However, it could be strengthened by recruiting a voting member from a grant-making organisation, specifically seeking representation from charities with an annual income of £500,000 or less and recruiting a voting member with standard-setting experience.
- The Independent Oversight Body may wish to consider, as part of its review, the governance arrangements around the advocacy and sector representation roles of the Charities SORP-making Body and the Charities SORP Committee and the governance arrangements around the preparation of other guidance published which does not form part of the Charities SORP.

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## Responses to consultation questions

### Question 1

Please explain your role (or the charity or organisation on whose behalf you are responding) including your specific interest in or use of charity accounts.

### Response

The ICAS Charities Panel represents ICAS and its members on matters of government policy, law, regulation, corporate and financial reporting and external scrutiny relevant to UK charities.

The Charities Panel views the Charities SORP (FRS 102) as the vehicle for providing high quality accounting requirements for charities preparing true and fair accounts which are both fit for purpose and clearly comply with the UK Financial Reporting Council's (the FRC's) requirements.

### Question 2

Who do you see as being the main users of charity reports and accounts? To whom are charities being accountable when they prepare their reports and accounts?

### Response

A charity's annual report and accounts are for general purposes and are therefore designed to meet the needs of a wide range of users. This means that they are not designed to meet the needs of one group of users over another and neither should they be.

Charities are largely funded by the public either directly, for example, through individual donations, or indirectly, for example, through government grants or contracts. Their charitable status also gives charities favourable treatment in relation to some aspects of taxation. Charities therefore have a high degree of accountability to the general public.

While it is proper that members of the public and a charity's beneficiaries have access to its trustees' annual report and accounts, most will not be read by them. This gives UK charity regulators a specific public interest role in ensuring that charities file their trustees' annual report and accounts with them and that those accounts comply with law and regulation, including as appropriate the Financial Reporting Standard applicable in the UK and Ireland (FRS 102) published by the FRC and the Charities SORP (FRS 102).

In addition to the UK charity regulators, other main users of charity accounts are or should be grant-making trusts and public service commissioners and funders. Also important are major private donors, including those who wish to leave substantial legacies, and providers of finance, such as banks.

While charity trustees are responsible for preparing their charity's trustees' annual report and accounts, they are or should also be users of the accounts. Most will not come from an accountancy background and often view statutory accounts as being quite disconnected from the management information they receive during the year.

Resolving this disconnect has different solutions which don't sit with the Charities SORP Committee to resolve. However, a longer-term project for the Committee could be to consider whether the main statements, including their structure, included in SORP accounts remain the most appropriate for presenting the figures.

### Question 3

What do you see as being the main purpose of the Charities SORP? Do you feel it is effective at meeting that purpose? If not, what changes would you suggest to the processes of developing the SORP to improve its effectiveness for those who prepare and use charity accounts?

### Response

The main purpose of the Charities SORP is to interpret UK accounting standards for the charity sector to assist the sector comply with those standards. The Charities SORP has evolved to include corporate reporting requirements which are underpinned by law rather than by a standard endorsed by the FRC. However, we recognise that the trustees' annual report requirements of the Charities SORP (FRS 102) are designed to enable a charity to tell its story and to enable the charity to better demonstrate its stewardship of charitable assets and to explain its financial performance and financial position. All of these features of the trustees' annual report assist transparency and accountability.

The Charities SORP (FRS 102) goes some way to meeting its purpose but we believe that weaknesses in the governance arrangements around the preparation and the approval of the SORP may be the cause of weaknesses in the drafting of the final SORP document.

***‘Must’, ‘should’ and ‘may’***

The Charities SORP-making body has articulated an approach to this SORP which means it is intended to do more than assist the sector comply with legal requirements and UK accounting standards through providing additional good practice guidance or disclosures or accounting treatments which are allowed but which are not compulsory in a particular circumstance. This means that there is an element of gold-plating in the Charities SORP (FRS 102).

The Charities SORP seeks to deliver this three-tiered approach through using the following drafting convention:

- ‘Must’ to denote requirements;
- ‘Should’ to denote what should be done as a matter of good practice; and
- ‘May’ to denote disclosures or accounting treatments which are allowed.

We have two key observations here:

- ‘Shall’ is the term used by the FRC in the standards it issues to denote requirements and it is not clear why the Charities SORP takes a different approach. However, this could be to avoid confusion between ‘shall’ which is used in FRS 102 and ‘should’.
- Having stated a drafting convention, this is not strictly followed in the Charities SORP. This is largely due to ‘should’ being in such common parlance, its use in the SORP is not reserved solely for its stated purpose. There are similar challenges with the use of ‘may’.

For example, paragraph 5.6 uses both ‘should’ and ‘may’ as these are used in common parlance.

Paragraph 5.6 states: “A donation or grant that can be used for any purpose of the charity is unrestricted income. However, a donation or grant may be restricted to a specific purpose of a charity. A restriction may result from a specific appeal by the charity, or from the decision of the grant-maker or donor to support a specific purpose of the charity rather than making funds available for the charity’s general use. Simply because a grant is restricted to a particular purpose of the recipient charity does not mean it should be recognised as a performance-related grant. Restricted grants that are not subject to performance-related conditions, are included within the SoFA heading ‘Income from donations and legacies’.”

A specific example of this is the following sentence (from paragraph 5.6) where ‘may’ is not being used to suggest an additional disclosure or alternative accounting treatment which is allowed and is, instead, used to state a matter of fact:

- “However, a donation or grant may be restricted to a specific purpose of a charity.”

In addition, paragraph 5.6 includes a requirement in the following sentence which is worded without using a ‘must’:

- “Restricted grants that are not subject to performance-related conditions, are included within the SoFA heading ‘Income from donations and legacies’.”

Difficulties with the structure of the drafting convention and also with the process for checking that the convention has been followed impacts on the clarity of the SORP.

***The next revision of the SORP***

We would recommend that for the next revision of the SORP, that the SORP-making Body considers whether it wishes to continue with the three-tiered approach or moves to a two or one-tiered approach. Whichever option is chosen, the Charities SORP Committee should ensure that the approach is strictly followed. More robust procedures should be introduced to ensure that this is the case before a consultation draft is published.

Since the Charities SORP (FRS 102) was published, two Update Bulletins which amend it have been published. It would have greatly assisted charities if these two Bulletins had been incorporated in a revised SORP document. As things stand, the Charities SORP now consists of three separate documents. We recommend that in future the Charities SORP is re-published when there are changes to the text for ease of reference and to reduce the risk of errors being made.

#### **Question 4**

Do you agree that having an advisory SORP Committee is the best way of ensuring stakeholder engagement with the development of the SORP? If not, what alternative arrangements would you recommend and why?

#### **Response**

We agree that having an advisory SORP Committee with representation from a range of stakeholders across the charity law jurisdictions which apply the SORP is an effective way of ensuring stakeholder engagement. We do not have a better alternative to propose.

We recognise the additional outreach work undertaken by the Charities SORP-making Body and the SORP Committee to engage face to face with charities and their advisers. ICAS has been pleased to assist in jointly hosting consultation events about the Charities SORP over the years.

#### **Question 5**

Do you consider that the composition of the current SORP Committee is appropriate both:

- (a) to provide the necessary expertise in charity accounting; and
- (b) to reflect the range of stakeholders who use charity accounts and reports?

If not, what changes are necessary to the membership of the Committee and why? For example, if you feel more representation is needed from beneficiaries or from donors, or from particular types or sizes of charities, please give details.

#### **Response**

In broad terms we agree that the SORP Committee has the appropriate range of expertise and representation. We also have the following comments on areas where the Committee could be strengthened:

- Input to the Committee from a grant-making perspective comes from an observer member. Stakeholder representation could be strengthened by having grant-makers represented by a voting member.
- There is representation from accounts preparers, including a charity trustee and we acknowledge that some of the auditors and independent examiners on the Committee will have trustee roles. However, stakeholder representation could be further strengthened by specifically seeking representation from trustees of charities, who have an accountancy background, with an annual income of £500,000 or less. Having representation of this nature would recognise the necessary technical nature of the discussions but also provide a proxy for the representation of beneficiaries.
- The FRC has observer representation on the Committee and we believe that this continues to be appropriate. However, the Committee may benefit from having a voting member with standard-setting experience to assist with the drafting of the next edition of the SORP.

#### **Question 6**

Do you consider that the work of the SORP Committee is overly technical in its approach? If so, what changes should be made? (In your answer you may wish to reflect on how the work of the SORP Committee could be made less technical, whilst still ensuring the SORP reflects the requirements of general purpose accounting standards and the requirements of charity law.)

#### **Response**

The work of the SORP Committee is technical by nature and should remain so. This is necessary to ensure the Charities SORP meets its purpose of being the interpretation of accounting standards for charities. There are aspects of accounting which are complex and the Committee needs to be sufficiently knowledgeable and experienced as a group to tackle this.

As mentioned previously, the weaknesses in the Charities SORP may reflect the need for more extensive input from someone with standard setting experience. There is scope for the Charities SORP to be drafted with more precision to bring a greater degree of clarity. This change of drafting style may also reduce the length of the SORP which charities may find helpful.

We also consider this question in the context of the SORP reflecting the requirements of general purpose annual reports. We believe that there is scope for improved impact reporting by charities in the 'Achievements and performance section' of the trustees' annual report. Better impact reporting would likely have a positive impact on stakeholder trust in the sector. Given the diversity of the sector, providing meaningful guidance while at the same time not being too prescriptive is a huge challenge. However, we would support enhanced requirements on impact reporting being included within the trustees' annual report module of a future SORP, if a suitable principles-based framework could be developed.

#### **Question 7**

Do you have any comments on the balance of the membership of the SORP Committee?

#### **Response**

See our response to question 5.

#### **Question 8**

Do you have any suggestions as to how the SORP-making body might improve the consultation process – either at the research stage or at the exposure draft stage?

#### **Response**

We have no specific comments on how to improve the consultation process. In our experience this generally works well.

We welcome the 12 week consultation periods for consultations on Charity SORP matters. This approach adheres to the consultation principles published by the Cabinet Office.

The majority of responses to Charity SORP consultations are from organisations rather than individuals, including member bodies like ICAS and charity sector umbrella bodies. A 12 week consultation period makes it feasible for organisations to gather views internally, including hosting internal discussions, and to provide high quality responses.

A 12 week consultation period also enables the Charities SORP-making body and Charities SORP Committee time to organise face to face consultation events with stakeholders. We are supportive of an approach to consultations which involves both formal responses and provides different stakeholders the opportunity to share their views with each other and with consultation organisers.

#### **Question 9**

Can you suggest any particular organisations (in particular, those that may not have taken part in past SORP consultations) that you consider it would be useful for the SORP-making body to consult?

#### **Response**

We do not have any specific suggestions for other organisations to include in Charities SORP-related consultations.

#### **Question 10**

Do you think that the balance given to various groups during consultations concerning the development of the SORP should change? For example, do you consider that more or less weight should be given to any of the following groups:

- (a) beneficiaries
- (b) the donating public
- (c) representatives of smaller funders
- (d) representatives of larger funders
- (e) representatives of smaller charities
- (f) representatives of larger charities
- (g) the accountancy profession
- (h) commentators on the sector and journalists
- (i) any other categories you consider relevant?

**Response**

We believe that responses should be considered on their own merits but comments from representative bodies could in reality carry more weight. Common themes and common views expressed by several contributors may also be a helpful way of identifying amendments which are needed.

**Question11**

If you felt in Question 10 that more weight should be given to one or more groups listed, what are your suggestions as to how these views can be obtained?

**Response**

Organisations which are key stakeholders will mostly likely respond in writing to consultations. It should be possible to reach most key stakeholders through alerts from charity regulators, the charity press and through press releases from the FRC.

If the Charities SORP-making Body or the Charities SORP Committee identifies organisations which don't routinely respond to consultations making a direct approach may be fruitful.

**Question12**

Do you have any other suggestions for improvements that can be made to the consultation process in the development of the Charities SORP?

**Response**

Illustrative trustees' annual reports and accounts are published to accompany the extant Charities SORP. One way of achieving wider participation in consultations, for example, by engaging charities with income of £500,000 or less could be to publish an illustrative report and accounts example alongside the consultation draft of the SORP. This would give the trustees of smaller charities the opportunity to compare their own annual report and accounts or an extant illustrative report and accounts with the proposals. Being able to see how a revised SORP may impact on their charity may encourage greater participation.

Preparing illustrative annual reports and accounts is very resource intensive and the SORP-making Body and the Charities SORP Committee would need to consider the cost versus benefit of preparing an illustrative document based on a draft SORP document.

**Question13**

Do you think that the SORP development process should cover all forms of financial reporting by charities – both those required by charity law (or company law) and other financial communications issued by charities – for example in a non-statutory annual review, summary financial reports, or visual summaries of a charity's finances?

**Response**

The Charities SORP (FRS 102) must be the core work of Charities SORP Committee. Where guidance relates directly to the scope of the SORP, it would make sense for this to be prepared, approved and issued through SORP-making mechanisms. For example, this is already the case for Information Sheets, Helpsheets and Bulletins. We believe that the legal framework which underpins the trustees' annual report and annual accounts requirements of charities which apply the Charities SORP fall within the remit of the Charities SORP-making structures.

However, there may be other guidance the charity regulators wish to issue jointly which is not appropriate to issue through SORP-making arrangements. It may not necessarily be clear where the boundary lies and the FRC may have a view on whether a particular piece of guidance falls within the scope of the SORP-making process: FRC priorities may have a bearing on this. Where guidance related to corporate or historic financial information falls outside this process, the charity regulators could issue guidance separately: there is already precedent for this through the publication of joint guidance from the UK charity regulators on "Matters of material significance reportable to UK charity regulators: A guide for auditors and independent examiners" (November 2017).

**Question14**

If you agreed that the SORP Committee should issue guidance on non-statutory financial reporting by charities, what form do you feel such guidance should take, bearing in mind that (without a change in the law) it would not be mandatory?

**Response**

Guidance issued through the SORP-making process which does not relate to amendments to the Charities SORP could only have the status of good practice.

**Question15**

If you considered that the SORP process should cover all forms of financial reporting by charities, what changes to the SORP Committee and SORP consultation process would you recommend and why?

**Response**

If guidance on the topics referred to in question 13 was to be issued through the SORP process, it may be helpful to have input from people who have commercial sector experience in producing similar information or statements and have experience of providing a third party report thereon, i.e. a company auditor.

**Question16**

Do you have any other comments on how the SORP is developed, the SORP-making body, the advisory SORP Committee or the SORP consultation process?

**Response**

The Independent Oversight Body may wish to consider the following aspects of the Charities SORP-making Body and the Charities SORP Committee as part of its review which are not mentioned in its consultation paper:

- The governance arrangements around the advocacy and sector representation roles of both entities.
- The governance arrangements around the preparation of other guidance published on the SORP-microsite.

***Advocacy and sector representation***

We are aware that the Charities SORP-making Body responds to FRC consultations on financial reporting matters and the SORP Committee has several working groups looking at reporting by smaller charities and the challenges they face. Therefore, the SORP-making Body and the Committee have roles as advocates for the sector with the aim of improving reporting by the sector and ensuring it is proportionate.

We are mindful that the SORP-making Body consists of the organisations responsible for regulating rather than representing the sector. However, UK charity regulators have a history of supporting the sector through providing additional good practice guidance and that members of the SORP-making Body and the Charities SORP Committee have extensive knowledge and experience of the corporate and financial reporting challenges faced by charities.

***Other guidance***

Guidance is published on the SORP-microsite other than the Charities SORP and material which forms part of the SORP, i.e. Bulletins. At the moment there are two Information Sheets, four Help Sheets and illustrative reports and accounts.

An Information Sheet on 'Accounting for gift aid payments made by a subsidiary to its parent charity where no legal obligation to make a payment exists' was published in January 2019. This is an example of guidance being issued to address a matter specifically impacting on the charity sector which is not specifically addressed by UK GAAP. It is also difficult to address this issue in its entirety within the scope of the Charities SORP as trading subsidiaries are not charities and therefore do not apply the SORP.



In developing FRS 102, the FRC did have regard to some accounting matters relevant to public benefit entities and public benefit entity groups. However, in addition to the challenges around accounting for corporate gift aid, there is an issue which disproportionately impacts on public benefit entities including charities where there are significant gaps in FRS 102: accounting for multi-employer pension schemes.

The FRC is currently consulting on proposals to amend FRS 102 to address one of these gaps: presenting the impact of transition from defined contribution accounting to defined benefit accounting.

However, we believe that there are other gaps in FRS 102 in relation to accounting for multi-employer schemes where the employer's circumstances change. Therefore, there may be a need for the Charities SORP Committee to develop further guidance on this topic, perhaps in conjunction with the FRC.

In view of the above, it may be helpful for the Charities SORP-making Body and the Charities SORP Committee to establish more formal governance arrangements around the development and publication of guidance which does not form part of the SORP and where FRS 102 may not provide sufficient clarity.