



Johnston Carmichael LLP response to the Independent Oversight Panel invitation to comment on “Guiding the Development of the Charities SORP”

Background

Johnston Carmichael LLP are Scotland's largest independent firm of chartered accountants and a UK top-20 firm. We are also a member of PKF International, a global family of legally independent firms bound together by a shared commitment to quality, integrity and the creation of clarity in a complex regulatory environment. Our PKF network consists of over 400 offices, operating in 150 countries across five regions.

Q.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. (However, please do not include any personal information in your formal response which you do not wish to be published.)

Johnston Carmichael LLP is a leading provider of audit and independent examinations to the third sector in Scotland, covering charities, community and voluntary groups and social enterprises. We contribute to the debate on charity financial reporting through our membership of ICAS and firm representative on the ICAS Charities Panel.

Q.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?

The main users of charity report and accounts, to whom charities are accountable through the preparation of their report and accounts, are:

- Donors and prospective donors;
- Other funders and potential funders;
- Regulators;
- beneficiaries of the charitable purpose of the charity;
- creditors and lenders;
- employees and other interested parties; and
- the wider public, especially where public funds are a primary source of a charity's funding.

Q.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?

The main purpose of the Charities SORP is to interpret the financial reporting principles of FRS 102 in a manner that supports consistent, high-quality financial reporting by the charity sector. This takes account of the fact that there are activities and transactions which are specific to how charities operate which are either not covered by FRS 102 or require additional explanation and interpretation for the charity sector.

In delivering on the above purpose, the Charities SORP needs to support trustees in meeting their legal responsibility to prepare accounts which give a true and fair view.

The Charities SORP is a comprehensive document, based on the recognition of the charity sector as a highly diverse sector which requires significant additional guidance to support consistency of reporting. The scope and application section states that "Preparers should refer to FRS 102 as the disclosures listed in this SORP are not exhaustive" and that "The phrase 'this SORP requires' is used to distinguish the additional disclosures required by the SORP which are not specifically required by FRS 102."

For smaller charities, we believe it can become onerous on finance staff and / or trustees to understand and deal with both the Charities SORP and FRS 102. While we understand that it is difficult to be comprehensive across all areas of accounting, we would recommend that in the process of developing the next SORP, a decision is taken as to whether for modules covered by the SORP, either:

1. the disclosures listed should either be exhaustive and reproduce those required by FRS 102, or
2. should be restricted only to the areas where the SORP specifies charity-specific disclosures with cross-references inserted to the relevant paragraphs of FRS 102 for the standard disclosure requirements.

Option 1 has the benefit of providing a comprehensive SORP in respect of all modules covered within it. However, if a practitioner is expected to consult both documents in any event, then Option 2 may enable the SORP to be reduced in length and aid readability.

We would also recommend that, where possible, the Charities SORP is prepared as a stand-alone document and that the practice of introducing one, let alone two, Update Bulletins should be avoided where possible. The use of an Update Bulletin should be restricted to situations where there is a specific single-issue amendment to the SORP.

Charity surveys indicate that the public and beneficiaries gain confidence in charities if they know they are well governed and if it is clear what is achieved with the money provided to the charity.

In our view, in the development of the SORP, there is scope to direct users of the accounts to key information in a more open, transparent and plain English manner. For example, while in the Trustees Report, there is a lot of required information on the structure, management and governance arrangements, branding this together into a sub-section "How the charity is governed?" The Trustees report requirements risk becoming interpreted as a checklist of headings and items to cover and while some charities work well to make the Report engaging and interesting, there is a risk that the checklist approach discourages charities from a more free-form response which may be written in language more appealing to the reader.

Q.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?

We agree that having an advisory SORP Committee should be the means through which the SORP-making bodies ensure that the FRC's requirements on effective participation by stakeholders (set out in their Policy on Developing SORPs – October 2018) are met.

Q.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.

In our view, the current composition of the SORP Committee provides the necessary expertise in charity accounting.

At this time, we consider that there is scope to increase the representation from smaller charities, particularly as preparer/practitioner representatives. There is also scope to consider in this grouping (preparer/practitioners) whether there should be certain representation from different geographies, given the different statutory financial reporting requirements.

We are not aware of the process for selecting members of the SORP Committee, what is the desired representation from the different users of charity accounts (see Question 2), and for how long individuals serve on the SORP Committee.

We believe there is scope for greater transparency on this and for providing a means to refresh membership on a rotational basis, by inviting applications from different user groups.

We would note that, for example, overall the current SORP Committee provides an adequate geographical representation however, with the exception of the Joint Chair, all of the Scotland representation is skewed to auditor/independent examiner representation without any charity finance representation.

Consideration could also be made as to scope to invite a representative from a suitable charity/third sector 'umbrella organisation' which could provide a linkage to the views of its members.

Q.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.)

The work of the SORP Committee is necessarily technical in a number of areas, in particular as it addresses the financial reporting needs of all sizes of charities across separate legal jurisdictions.

Q.7 Do you have any other comments on the balance of the membership of the SORP Committee?

Please see our response to Question 5.

Q.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?

The consultation process has been successful in generating significant responses in prior years. In terms of obtaining further response from charity beneficiaries and/or donors to charities, we suggest consideration could be made on targeting the consultation questions

into areas that may be of most interest to particular stakeholders / users of the accounts (per Question 2).

For example, if a change was to affect the charitable expenditure note disclosure in the accounts, describing this as "consultation question on how a charity tells you about what it has done with your donations" may be an appropriate way to bring donors into the consultation and equally focus their attention perhaps on only the few questions that really matter to them.

Similar structure can be applied for other consultation questions, including for example questions that may be more applicable to finance, accounting and audit professionals.

We recognise that a detailed consultation process was undertaken in 2016, however, we wondered what consideration had been made of other forms of engagement with users of charity accounts – for example, the charity regulators conduct public surveys on charities and could these be used to ask about charity accounts and how many donors / beneficiaries of charities use the accounts to obtain information.

Q.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?

There are no particular organisations notably missing from previous consultations that we consider it would be useful for the SORP-making body to consult. The majority of respondents to the research exercise came from charity finance staff although the summary analysis referred to in the Invitation to Comment did not break this down by size of charity. Knowing whether smaller organisations are contributing would be useful to understand.

Q.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?

Obtaining more insight in respect of charity accounts from categories (a) and (b) would be of value. We are not convinced that the best way to achieve this is through a formal consultation on the technical SORP development rather than a separate exercise targeted to understanding what is important to these groups.

Similarly, the accounts require several notes around charitable expenditure / allocation of support funds / analysis of funds – encouraging and allowing charities to explain what the purpose of these notes are and what they show the reader would perhaps encourage and assist the understanding of the non-expert user of the accounts.

Q.11 If you felt in Q10 that more weight should be given to one or more groups listed, what are your suggestions as to how these views can be obtained?

We do not believe that more weight should be given to one or more groups listed. We do see an advantage in reaching out in particular to categories (a) and (b) – see our response to Question 10 – and also, per our response to Question 5, in obtaining greater engagement from smaller charities.

Q.12 Do you have any other suggestions for improvements that can be made to the consultation process in the development of the Charities SORP?

No further suggestions for improvements are made.

Q.13 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 finances?

No. The SORP Development process relates to the requirement to prepare annual accounts which provide a true and fair view. While the Invitation to Comment notes that SORP 2005 included guidance on summary financial information, this guidance was heavily caveated in SORP 2005 by stating "it is not practicable to give detailed recommendations on the content of summary financial information or summarised financial statements". In our view this limitation was recognised in the subsequent SORP and hence removed. We see no reason to reinstate this.

Q.14 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?

N/a, per our answer to Question 13.

Q.15 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?

N/a, per our answer to Question 13.

Q.16 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?

We have no additional comments.

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