

By email:

4 February 2019

Dear Mr Davies,

Consultation on Guiding the Development of the Charities SORP

On behalf of ICSA: The Governance Institute, I am pleased to respond to your consultation on the development of the Charities SORP.

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.

ICSA: The Governance Institute is the professional body for governance. We have members in all sectors and our Royal Charter purpose is to lead 'effective governance and efficient administration of commerce, industry and public affairs'. With 125 years' experience, we work with regulators and policy-makers to champion high standards of governance and provide qualifications, training and guidance.

We are the professional body qualifying and supporting chartered secretaries and governance, risk and compliance professionals in all sectors of the UK economy. Members are educated in a range of topics including finance, company law, administration and governance, which enables them to add value to any organisation. Our members occupy roles in charitable organisations, both as governance professionals and trustees. They might also act as independent examiners. As such, ICSA members have exposure to charity reporting as both producers and users of charity reports and accounts.

ICSA has an extensive pedigree in the governance arena, advising governments and regulators on company law, charity law and governance issues. The breadth and experience of our membership enables ICSA to access a variety of applied experience in order to provide insights into effective practices across a range of organisations. Our members' wealth of expertise and experience, together with their detailed understanding of charity and company legislation and regulation, has informed our response to this consultation.

Q.2 Who do you see as being the main users of charity annual reports and accounts? To whom are charities being accountable when they prepare their annual reports and accounts?

In our experience, the principal users of charity reports and accounts are current and prospective funders, donors, regulators, and charity professionals, or those working or seeking to work in the sector or with a particular charity. To this list may perhaps be added the media, particularly when they are researching or responding to a story. It is fair to say that the wider



public is not so interested in detailed, technical accounts, which can be viewed as opaque and impenetrable. While these undoubtedly serve an important purpose – presenting the financial health of a charity and the application of charitable funds – many users find more value in narratives of impact reporting. This, however, is an area which is not without its difficulties and one with which charities can struggle.

When charities prepare their reports and accounts, they should be doing so to ensure that they are accountable to all their stakeholders. These will vary, but might include: funders; donors; beneficiaries; staff and volunteers; regulators; taxpayers (if the charity is in receipt of public funds through grants or contracts or distributes aid monies); and the public generally. However, variations in the quality of reporting can lead to a deficit as regards some of these stakeholder groups. Some charities may adopt a compliance mind-set and focus on what is legally required to be reported, or may prioritise reporting which satisfies their principal sources of income at the expense of communicating their work to a wider audience.

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 provide a consistency of standard in the reporting of financial and accounting information. It assists preparers of charity accounts and reports to meet statutory obligations. These may be professionals – accountants, auditors, independent examiners – with a high degree of financial literacy. They may also be trustees with a limited level of financial or accounting expertise. As such, the Charities SORP as a single format needs to be at once comprehensive and accessible, catering for a range of charities and users with different levels of ability as well as varying degrees of sophistication of the accounts and activities of organisations.

It is noted that the SORP document anticipates that ‘users of the SORP will be familiar with accounting concepts, principles and terminology and possess a reasonable knowledge of accounting practice’. This is by no means always the case, particularly for those involved in the preparation of the accounts of smaller charities.

Part of the SORP’s purpose is to ensure that charities report their application of charitable funds. As indicated, we consider that it may be appropriate for a serious discussion to take place as to whether the correct balance has been struck between the presentation of purely financial data and the impact which each charity delivers. This is of great interest to many stakeholders and is an area deserving of attention and one in which charities would benefit from assistance.

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?

Having an advisory committee which is appropriately representative is an effective method for ensuring the best stakeholder engagement possible. However, it is key that the representation is drawn not just from those with specific technical expertise, but covers the broadest range of stakeholder groups and the breadth of charity sizes and activities.

We also consider it important that this representation is complemented by an effective two-way communication, enabling appropriate dialogue as changes in legislation and the accounting landscape more generally develop.

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.

a) The present composition of the SORP Committee does provide the necessary expertise in charity accounting from a technical perspective.

b) However, we are of the view that the Committee could better reflect certain users of charity reports and accounts, and we include in this those who are responsible for preparing these documents. The Committee might consider, for example, increased representation of those from non-technical backgrounds and from smaller charities. We acknowledge the note in the consultation document that the Charities SORP does not apply to accounts prepared on a receipts and payments basis, which covers many of the smallest organisations. However, some categories of small charities – where they are charitable companies, for example – are covered by the Charities SORP and it is important that their interests and viewpoints are represented on the SORP Committee. Accounting literacy among some members of the trustee community has been found to be lacking, and it is crucial that the Committee is sensitive to their strengths and weaknesses. It might be that the most appropriate route to obtaining the input of smaller charities is through a representative on the Committee from one of the sector's umbrella bodies. Currently, only one sector body – Charity Finance Group – is represented in a full capacity.

The consultation document identifies preparers of accounts, funders and donors as groups which are most likely to use the SORP. With this in mind, we would raise the question of whether there is sufficient representation on the Committee of donors and funders. Again, this presently stands at one member.

It would be useful, when considering the composition of the SORP Committee, if greater detail were available about the process by which its members are appointed. At present, only a general person specification for Committee members and a list of current occupants is given on the website. Further details were found in the literature from the recruitment process in 2014. In the interests of openness and transparency, as well as good practice, this could be more readily available.

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?

The challenge which the SORP-making body and the SORP Committee face is that of producing a SORP which covers all the legal and accounting requirements applicable to large, complex charities with complicated finances, significant workforces and possibly overseas operations, but which is also relevant and accessible to those with much simpler finances and fewer accounting and administrative resources at their disposal. This may raise the question of whether there ought to be a more structured, tiered approach to reporting, enabling the provision of guidelines more focused to a particular charity's circumstances.

Q.7 Do you have any other comments on the structure, size or membership of the SORP Committee?

Further to our comments in response to Q5, we believe it is important that the SORP Committee follows established good practice in its composition. This would include, amongst

other factors, skills-based recruitment, diversity in the widest sense, and appropriate and planned turnover of its membership. The utilisation of advisory sub-groups, for example to provide input on specific issues or to gather the views of particular stakeholders, may be of benefit to the Committee. The need for access to such input might be more keenly felt should the Committee decide against broadening its membership, but could be advantageous regardless.

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?

In our experience of responding to consultations, receiving almost 200 written responses (as indicated in the figures provided) represents a healthy interest.

It is noted that engagement tends to be lower among beneficiaries, the donating public, sector commentators, smaller funders and some government funders. One factor behind this trend – at least among some of those categories – is that charities' accounts can be viewed as somewhat inaccessible, detached from the reader's relationship with a charity or from the charity's relationship with its beneficiaries. This can be the case particularly where insufficient attention is paid in reporting to the impact which a charity has, or to providing an accessible narrative of the charity's work.

Clearly, improved engagement with financial reporting is not something which can be achieved by the SORP Committee alone. Rather, it requires a sector response to promote the relevance of reporting to stakeholder groups which may at present feel removed from the material. The SORP Committee has a role to play in this, however, both in terms of shaping the content of the SORP and in the engagement it has with stakeholder groups. Our responses to Q10 and Q11 also refer.

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?

In the absence of knowledge of which organisations have taken part in previous consultations, we refer to the responses given previously and to Q10 aimed at encouraging the Committee to seek representation and input from a range of bodies more reflective of the breadth of charities and the users of their reports and accounts. This may be most effectively addressed through engagement with umbrella bodies such as ICSA, Acevo, NCVO and the Small Charities Coalition.

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?

We are of the opinion that the balance and weight apportioned to particular groups during consultations ought to depend on the changes being considered and the impact they are likely to have on different categories of stakeholders. A less equitable weighting may be more appropriate when specific changes are under consideration. This may be due to their

applicability to charities with more complex accounts, for example. In consultations where more general or universally applicable changes are under consideration, perspectives from a broader sample of stakeholders will be desirable. Indeed, in such circumstances it might be appropriate to seek to ensure that groups are heard which are currently underrepresented in terms of having their views communicated.

Given concerns about the degree to which certain groups are underrepresented in the development of the SORP and groups which also fail to engage with the final outcome (charities' reports and accounts), it might be prudent to receive greater input from categories a)-c), e) and possibly h).

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?

As noted above, thought should be given – on a sector-wide basis – to how reporting can be shown to be relevant to wider stakeholder groups.

The principal means by which the views of wider stakeholder groups can be obtained will be through increased exposure for the consultation process through media channels. A greater emphasis on two-way dialogue with participating groups may also help to improve engagement. This might include, for example, providing a summary of responses and how they have affected proposed changes going forward. Where appropriate, taking advantage of opportunities to engage with groups on a face-to-face basis might also facilitate constructive dialogue with the categories of stakeholder which the Committee is seeking to reach. The practicality and desirability of this may depend on the scale and frequency of consultation and the process can, of course, be tailored according to the topics and changes being considered. Some changes will inevitably impact certain groups over others, making their input in a consultation more necessary.

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?

We refer to the answer given to Q11. Improving the level of dialogue ought to benefit both the process and outcome of consultation exercises.

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's finances?

We suggest that there is a case for the SORP-making body to take up a more central role, overseeing and providing guidance on all aspects of financial reporting. Within this role it might serve two distinct functions. The first, as at present, would cover statutory reporting, in line with the views we have already expressed about having regard to a broader range of charities and the users of their accounts. The second function would be to promote a greater degree of standardisation in the quality of financial reporting in a wider range of formats and to provide slightly 'softer' good practice guidance on the presentation of financial data in non-statutory communications. As many stakeholders' contact with charities' financial reporting will be via less formal channels than the annual report and accounts, a significant impact could thus be made in both their comprehension of and confidence in the data presented to them.

Q.14 If you think 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?

Of greatest benefit would be the issuing of guidance covering good practice for charities producing a range of financial communications. This might comprise common principles and examples of how those can be applied in practice. The use of worked examples by way of illustration would help to make the guidance accessible to producers of the reports.

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?

In line with our comments above, the most advantageous changes would be to ensure representation and input from a broader range of stakeholders, including those offering a non-accounting perspective and that from outside of the regulators. This applies both to the composition of the SORP Committee and to those whose views are heard as part of any consultation processes.

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 do not have any comments further to those already offered.

I hope that our comments and suggestions are useful to the Committee as they consider the development of the SORP. Should you wish to discuss them further or require any clarification, please feel free to contact me.

Yours sincerely,

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