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Charity Reporting and Accounting

Taking Stock and Future Reform

QUEEN'S UNIVERSITY MANAGEMENT SCHOOL

SORP JOINT CHARITIES SORP MAKING BODY
CHARITY COMMISSION
OSCR Office of the Scottish Charity Regulator

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Foreword

Charity Reporting and Accounting: A Chance to Shape the Future

The Charity Commission and the Office of the Scottish Charity Regulator, as the joint SORP-making body, welcome this insightful and independent analysis of the SORP research undertaken with the assistance of the SORP Committee and our sector partners.

We would like to thank Professor Noel Hyndman and the team at Queen's University Belfast for their report. We would also like to thank everyone who took part in the initial Stakeholder Forum, the series of roundtable events, and all who contributed to the research by completing questionnaires. This exercise was the largest consultation ever undertaken by the SORP-making body. It encompassed funders, financial supporters, preparers of accounts and their advisers, as well as including the views of charities large and small.

We are pleased to see that the sector appreciates that the SORP is a force for good and for developing and shaping sector practice. We note that beneficial change is needed to meet the needs of smaller charities and to make charity annual reports and financial statements as accessible as they can be. We particularly welcome the emphasis placed on a high-quality trustees' annual report. Sadly, our experience is that trustees far too often neglect to tell their story well. This is a missed opportunity in the internet age where the report and financial statements can be made accessible online to anyone.

We are pleased that funders, in particular the major funders and foundations, value the content and availability of trustees' reports and accounts. We also welcome the consensus on demonstrating good stewardship and accountability for the use of the donations from the public.

This report clearly demonstrates that the SORP, which is unique to the UK charities, is essential to the sector. We will be urging the Accounting Standards Board to take full account of the findings of this report as they develop their plans for the future of UK accounting.

We commend this thoughtful report. As the evidence demonstrates, high-quality charity reporting is essential to maintaining public confidence in the work of charities. Our shared goal is that the future framework for charity reporting and accounting serves the public and donors well in the years to come, meets the needs of charities themselves, and contributes to a flourishing charity sector.



Andrew Hind
Chief Executive, Charity Commission



Jane Ryder
Chief Executive, Office of the Scottish Charity Regulator

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Taking Stock and Future Reform: Key Findings at a Glance

At the request of the research sponsors – the Charity Commission and Office of the Scottish Charity Regulator – a number of the findings that may be of particular interest are highlighted. The findings listed below are not exhaustive and are referenced to the relevant section in the body of the report and the authors commend the reader to invest time in viewing the whole report and to consider all the findings and information presented.

Concerning SORP:

- The SORP is a force for good. Auditors and preparers believed that the SORP should, and was in an ideal position to, shape practices within the sector (2.1bii).
- There was support for the suggestion that the SORP be written for small charities with 'add-ons' for medium and large charities (3.3). (The SORP currently classifies small charities as those below the statutory audit threshold as defined in charity law.)

Concerning the Trustees' Annual Report:

The consensus was that, on balance, funders were the key or primary stakeholders for all charities regardless of their size, jurisdiction and even the nature of their activities (2.1ai).

There is a need for balance in reporting by presenting both successes and failures (2.1aii).

The results of the questionnaire indicate almost total agreement across all groups on the value of reporting achievements (2.1cii).

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There was strong support across all groups for the 'story' approach (whereby narrative explanations are used, drawing on nonfinancial performance information where available, to complement and interpret the financial statements). However there was concern that the need to report static, recurring information was taking away from this approach and diluting the impact of the Trustees' Annual Report (3.2).

Concerning the financial statements:

- Preparers and auditors advocated that the Charity Commission or OSCR and the future SORP needed to develop clear definitions (with examples) of the different types of reserves, especially regarding the calculation of 'free' reserves (2.3d).
- Given that the Statement of Financial Activities (SOFA) has been used for over 10 years and is now established in the sector, there is no widespread desire for reverting to a more business-like format and presentation (3.4).
- The focus on the face of the SOFA should be on distinguishing between restricted and unrestricted funds with any necessary additional detail provided in the notes to the financial statements (3.4).

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Charity Reporting and Accounting: Taking Stock and Future Reform

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Abbreviations

ACCA	Association of Chartered Certified Accountants
ACIE	Association of Charity Independent Examiners
CFDG	Charity Finance Directors' Group
ICAEW	Institute of Chartered Accountants in England and Wales
OSCR	Office of the Scottish Charity Regulator
SOFA	Statement of Financial Activities
SORP	Statement of Recommended Practice
SSAP	Statement of Standard Accounting Practice
TAR	Trustees' Annual Report
UK	United Kingdom
WCVA	Wales Council for Voluntary Action

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1.1 Introduction

Given the size and economic and social impact of the charity sector, the importance of good governance in charities has been widely recognised as a basis for both underpinning effective and efficient performance, and for ensuring that charities meet the legitimate aspirations of key stakeholders. A major aspect of this is high-quality accounting and reporting. To aid this, the October 2007 meeting of the Statement of Recommended Practice (SORP) Committee agreed that a research element needed to be included in its work plan to ensure that the development of the SORP reflected best practice and was relevant to the needs of the key stakeholders in the sector. As a result, a significant consultation process took place lasting well over a year and involving approximately 1,000 individual stakeholders including funders, preparers of financial statements, auditors of financial statements and academics.

1.2 The Research Framework

The structure of the research phase of the SORP's development was agreed at the November 2007 meeting of the SORP Committee. In particular, it was decided that an initial Stakeholder Forum should be held in April 2008 followed by a series of Stakeholder Roundtables to explore identified issues in more detail. Initially only six national roundtable events were planned. However, following significant interest in these events the roundtable programme was expanded considerably in its scope and coverage. This was developed to allow the opportunity for deeper debate and dialogue with stakeholders and so ensure that the SORP development was properly informed by the views and concerns of stakeholders. In addition to the roundtable events, a SORP mailbox facility was available on the Charity Commission's website and publicised on the Office of the Scottish Charity Regulator's (OSCR) website. This permitted individuals (including those who may have been unable to attend a roundtable event) to provide comment on issues of importance to them. Furthermore, funders and beneficiaries were contacted to provide direct input relating to how they use financial statements and reports, together with their most pertinent information needs (the list of funders and intermediaries who provided input is detailed in Appendix 1).

The roundtable format provided a platform for stakeholder input. Among the key stakeholders are: funders and organisations representing funders (including donors and grant makers); preparers of financial statements; auditors; beneficiaries; and academics. In total 28 roundtable events took place, including an academics' symposium which provided an opportunity for those working in the area of charity accounting and reporting to reflect on their research in as much as it related to the revision of the SORP. Table 1.1 details the events, dates and main stakeholder groups inputting to each event. Events are classified in relation to the dominant stakeholder group attending, although, on occasion, individuals from other backgrounds were present. In total, 13 of these events focused on preparers (or all stakeholders), four on funders (both private and government), 10 on auditors[1] and one on academics (although the structure of this event was slightly different from the other roundtable events). It should be noted that beneficiaries are viewed as important stakeholders. As can be seen, such a group could not be assembled to input directly to the process despite considerable effort being made to attempt to arrange a specific 'beneficiary stakeholder event'. This was partly to do with the diverse nature of such stakeholders. Given this, 17 sources of beneficiary input were directly contacted but only three responses were received. Notwithstanding this, it was clear that funders often attempted to take a beneficiary-focused view of events (albeit this was, at best, a somewhat removed view).

[1] The term 'auditors' includes independent examiners when it is used throughout this report.

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Table 1.1 – Details of Roundtable Events

Stakeholder Group	Roundtable Event	Event Date	Reference*
Academics	London Charity Symposium	April 2009	Ac1
Auditors	Association of Charity Independent Examiners (ACIE)/Office of the Scottish Charity Regulator (OSCR), Perth	October 2008	Au1
Auditors	Association of Chartered Certified Accountants (ACCA)/Institute of Chartered Accountants in England and Wales (ICAEW), Cardiff	November 2008	Au2
Auditors	ACCA/ICAEW, London	November 2008	Au3
Auditors	ACCA/ICAEW, Manchester	November 2008	Au4
Auditors	ACCA/OSCR, Perth	November 2008	Au5
Auditors	ACCA/ICAEW, Liverpool	February 2009	Au6
Auditors	ACCA/ICAEW, Newcastle	February 2009	Au7
Auditors	ACCA/ICAEW, London	April 2009	Au8
Auditors	ACCA/ICAEW, Birmingham	May 2009	Au9
Auditors	ACIE, York	June 2009	Au10
Funders	Scottish Funders' Forum/OSCR, Glasgow	December 2008	F1
Funders	New Philanthropy Capital, London	February 2009	F2
Funders	Association of Charitable Foundations, London	March 2009	F3
Funders	Commission for the Compact, London	March 2009	F4
Preparers	Charities Consortia/ Charity Finance Directors' Group (CFDG), London	September 2008	P1
Preparers	Department of Social Development (Northern Ireland)/Queen's University Belfast	September 2008	P2
Preparers	Directory of Social Change, London	October 2008	P3
Preparers	CFDG, Bristol	November 2008	P4

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Stakeholder Group	Roundtable Event	Event Date	Reference*
Preparers	CFDG, Plymouth	November 2008	P5
Preparers	Institute of Chartered Accountants of Scotland/ Scottish Charity Finance Directors' Group /OSCR, Edinburgh	November 2008	P6
Preparers	Scottish Churches' Committee/OSCR, Edinburgh	December 2008	P7
Preparers	CFDG, Birmingham	January 2009	P8
Preparers	CFDG, London	January 2009	P9
Preparers	CFDG, Leeds	February 2009	P10
Preparers	Wales Council for Voluntary Action (WCVA), Cardiff	February 2009	P11
Preparers	WCVA, Rhyl	March 2009	P12
Preparers	OSCR Open Event, Perth	May 2009	P13

* This reference is used when identifying source of quotations used in Section 2 (the Results section).

Individuals who attended these events as well as participating in the debate and discussion were also asked to complete a closed-response-type questionnaire where they were asked to agree/disagree with statements relating to key themes (associated to possibly contentious issues) linked to the trustees' annual report (TAR) or the financial statements. In addition, a small number of other interested individuals (who had not attended the stakeholder events) were invited to complete the questionnaire. In total 685 completed questionnaires were received. It should be noted that everyone who attended a roundtable event was invited to complete a questionnaire but not all did (a completion rate of approximately 70 per cent was estimated). The completed questionnaires, by stakeholder group, are shown in Table 1.2.

Table 1.2 Completed Questionnaires – By Stakeholder Group

	Academics	Auditors	Funders	Preparers	Total
Completed questionnaires	9	364	40	272	685

Other evidence of stakeholder views was provided in the following forms: notes of the discussion emanating from those organising the roundtable events; written comments provided by individuals at the roundtable events; direct input from funders and intermediaries; feedback from a small number of beneficiaries; and e-mail comments received through the SORP mailbox (of which there were 10). In addition, one letter from a 'preparer' relating to the exercise was received.

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1.3 Terms of Reference

Given the amount of data from 28 roundtable events, input from 13 funders and intermediaries, 685 questionnaires, direct comments from three beneficiaries and e-mail and letter input from others, and the need to provide an impartial view, it was agreed by the Charity Commission and OSCR to request a team from Queen's University Belfast to review and report on the data gathered. The task was to:

- review the spreadsheet analysis of the structured questionnaires, the notes of direct input from funders and beneficiaries, the notes of the roundtables, the notes from the initial forum and the additional suggestions via feedback sheets and e-mails to provide a comprehensive overview of the available data (as provided by the Charity Commission and OSCR);
- provide a full research report with a comprehensive analysis for the SORP Committee; and
- provide a short report of key findings.

The target outcomes (the full research report and the short report) are to include analysis that will enable the following questions to be answered:

- Is a SORP product supported or is it not seen as required?
- What are the key suggestions for changes to the existing SORP in terms of the annual report (additions, amendments, subtractions)?
- What were the suggestions for simplifying the framework for smaller charities (incomes below £500,000)?
- Is the SOFA supported or is an income and expenditure account preferred?
- What are the key suggestions for change to the existing SORP in terms of the financial statements, accounting policies and notes to the financial statements (additions, amendments, subtractions)?

1.4 Approach of the Analysis

A 'SORP Stakeholder roundtable briefing pack' (Charity Commission, 2008) was provided to the 'Event Team' in each location in an attempt to ensure a degree of standardisation. However, reflecting the different focus of interest groups, differing sets of sample questions for discrete groups (for example 'funders and donors' and 'preparers and auditors') were made available. While the roundtable events held across the UK therefore followed similar agendas, it is to be expected that certain issues and topics were sometimes debated to a different extent depending upon *inter alia* the interests of the different stakeholder groups and the number of participants. Furthermore, the 'Event Team' at each stakeholder event largely consisted of interested volunteers (supported, as necessary, by Charity Commission or OSCR staff) and the focus of the event, the manner of the debate, and the way in which the notes were written up by each 'Event Team' varied somewhat.

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To analyse the qualitative data (that is, all of the notes emanating from the roundtable events and other input) an analysis sheet of main themes was developed (on the basis of reading the data, reflecting on the questions provided for the roundtables and reviewing the objectives of the research). This was used to analyse the data (categorised by stakeholder group – preparers, auditors, funders, beneficiaries and academics) under three main headings:

- important general themes;
- trustees' annual report (TAR); and
- financial statements (key accounting issues).

The important general themes (which were sub-analysed more specifically in terms of questions that were asked) were: stakeholders (Who are the key stakeholders? What information is important to these different groups?); the SORP (Is the SORP a force for good? Should the SORP stipulate practice? Is the SORP too long and complex, especially for smaller charities?); and discharging charity accountability (What is/should be the role of charity annual reports and financial statements? Does the 'story' approach work? What is the role of the annual review?). With respect to the TAR, the analysis was conducted using four main question headings: what works well and should be retained; what should be removed; what should be added; and what should be amended/revised? In the case of the analysis of views on the financial statements, the data was classified under a range of key accounting issues (including, for example, the understandability of the SOFA and the treatment of grants). The full detail of this framework is produced as Appendix 2.

In analysing the qualitative data (the questionnaire data was analysed as quantitative data – see later) the authors of this report, having developed the framework, then examined the material relating to each of the five stakeholder groups (preparers, auditors, funders, beneficiaries and academics), with the total qualitative data from individual groups being reviewed separately by one member of the team. In doing this the objective was to identify the dominant view (or views) of each stakeholder group with respect to the issues in the framework. Obviously with so many individuals being involved in the process of providing input (in the region of 1,000) there were several situations where specific views were expressed strongly by an individual and were reported in the notes of the stakeholder event. Without judging the merit of stances, these are not included in this report. Having established the main thrusts of the participants with respect to the issues, where appropriate, representative quotations were sought (and are included later in the reporting of the results)[2]. The initial review of each stakeholder group was assessed and revised (if necessary) by the team before being consolidated.

[2] In presenting quotations in Section 2, only direct quotations from the roundtable events (see Table 1.1) are included. This permits the source of the quotations to be identified by event (but not by individual). While extracts from the other inputs are not directly reported, they are in line with the material presented.

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The questionnaire contained 20 statements that the participants were asked to either 'agree' with (scored 2.0), 'neither agree nor disagree' (scored 1.0) or 'disagree' with (scored 0.0). These statements related to key themes linked to the TAR or the financial statements. The responses were analysed in total and by stakeholder group (funders, auditors, preparers and academics) by individual statement to ascertain the dominant view of all participants, the dominant view of each stakeholder group and cases where there was divergence between stakeholder groups. It should be noted that as there was no 'beneficiary' roundtable, no beneficiaries completed the questionnaire. When completing the questionnaire, some delegates chose to leave one or more questions unanswered (possibly because of an inability to understand the full ramifications of the question, or because the issue was not central to their role and interest). Only when a statement was responded to was it scored; average scores (in total and by stakeholder group) were therefore only based on actual numbers responding (in a number of cases fewer than the total number of questionnaires – 685).

It should be noted that a score above 1.0 for a statement denotes agreement with that statement, the more widespread holding of such a view indicated by the closer the number is to 2 (an average at or above 1.5 is perhaps indicative of fairly widespread agreement). The reverse is true of disagreement. A score of lower than 1.0 denotes disagreement, with the closer the number is to 0 indicative of the widespread holding of such a view (with an average at or below 0.5 perhaps indicative of fairly widespread disagreement). In the results section (Section 2) the analysis of individual statements within the questionnaire is integrated (at the appropriate point) into the more discursive presentation of the results of the analysis of the qualitative data. The 20 statements in the questionnaire are provided in Appendix 3 and the overall scores relating to these are presented in Appendix 4. The detail relating to each of these statements is introduced and explained in the results section. Averages for each statement are provided by the four stakeholder groups completing the questionnaire and by all respondents. In addition, a simple average for the four groups is also calculated (being the sum of the averages for the stakeholder groups divided by four) to remove the potentially distorting effect of the relatively high number of preparer and auditor respondents. When an average for all participants is referred to in the discussion below the simple average is used (being a less distorted and more meaningful number). In Appendix 4 where any statement results in widespread agreement (a score of 1.5 or above) or widespread disagreement (score of 0.5 or below) this is highlighted (green agreement; yellow disagreement).

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As outlined in Section 1, both the qualitative and quantitative data were analysed under the three main headings (important general themes, trustees' annual report (TAR) and financial statements), distinguishing between stakeholder group. The framework described in Appendix 2 is used as a basis for presenting the results. Specific quotations used are categorised by stakeholder group (preparers, auditors, funders, beneficiaries and academics), as are the results of the analysis of the questionnaire (notwithstanding that no beneficiaries completed the questionnaire), and can be tracked to individual roundtable events through the reference used in Table 1.1.

2.1 Important General Themes

(a) Stakeholders

(i) Who are the key stakeholders/users of charity annual reports and financial statements?

While it was acknowledged at each of the roundtable events that charities had a wide range of stakeholders (including beneficiaries, employees, funders, government, the public and volunteers), each with different information needs, the consensus was that, on balance, 'funders' were the key or primary stakeholders for all charities regardless of their size, jurisdiction and even the nature of their activities. For example:

The funder to me – and it is a debatable point – is the one where the greatest degree of accountability is owed because they give money with no direct economic benefit to themselves. (Ac1)

Funders clearly. (P4)

The fact that funders provided the major financial support for charities without any direct economic return to themselves was believed to place this group in a significant position in terms of being a recipient of accountability information.

It's not the charities' money, all charities deal with donors' money. (Au3)

However, while funders were clearly perceived to be the primary stakeholder at each of the roundtable events other stakeholders were also mentioned. Academics in particular suggested that the public are key stakeholders, especially given the tax benefits afforded to charities; although it was contended that a significant drawback was that the majority of the financial statements provided for them were not understood.

My view is that the users of charity accounts are the public, but they do not use them because they cannot understand them. I think that 99.9 per cent of the public cannot use these very highly sophisticated reports and accounts. (Ac1)

Furthermore, auditors, perhaps reflecting their role, identified the 'regulator' (ie Charity Commission or the Office of the Scottish Charity Regulator – OSCR) as an important stakeholder. By contrast, some funders, whilst acknowledging their own specific information needs, recognised the needs of beneficiaries, saw them as being related to their own information needs and reflected on the view that they saw their role as championing beneficiaries' interests. Beneficiaries were also highlighted by academics as being important (albeit that identifying and involving them was problematical) who suggested that the 'spirit of the age' had elevated the significance of this group as users of charity TARs and financial statements.

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(ii) What information matters/is important to these different groups?

A number of the statements in the questionnaire (see Appendix 4) addressed this issue (Statements 1 to 3, see Table 2.1). As can be seen, participants in the roundtables were asked to respond to three questions relating to the information in the TAR and financial statements of a charity that is considered important to users. These explored the issue in terms of: how money was spent; the significance of impact reporting; and the willingness of trustees to be candid in terms of reporting. As detailed in Section 1.4, respondents scored each statement with either agree (scored 2.0), neither agree nor disagree (scored 1.0) or disagree (scored 0.0). A score above 1.0 denotes agreement with that statement (at or above 1.5 indicates fairly widespread agreement – highlighted in green in the tables); a score of lower than 1.0 denotes disagreement (at or below 0.5 indicative of fairly widespread disagreement – highlighted in yellow in the tables).

Table 2.1 Important Information – Responses by Stakeholder Group

	Academics	Auditors	Funders	Preparers	Overall Average	Simple Average
1. Explaining how a charity has spent its money is the most important information.	0.9	1.6	1.3	1.4	1.5	1.3
2. More emphasis on explaining outcomes and impacts would be the most valuable improvement to charity reporting.	1.6	1.3	1.5	1.4	1.4	1.5
3. Trustees should be more balanced in their reporting and tell of both successes and failures.	1.8	1.7	1.6	1.6	1.7	1.7

Broadly, each of these statements was agreed with (with simple average scores of 1.3, 1.5 and 1.7). Interestingly academics placed less importance (score less than 1.0) on explaining how money was spent (Statement 1) but much greater emphasis on impact and balanced reporting (Statements 2 and 3). This perhaps reflects the view that how money is spent, in terms possibly of the projects to which it is directed, is significantly less important than reporting on what has been achieved. The need for balance in reporting by exploring both successes and failures, perhaps indicative of the desire for an honest and reflective TAR, was supported widely by all groups (simple average score 1.7).

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'Large' funders more likely to use the TAR and financial statements

With respect to the qualitative data, and given that the main stakeholders are perceived to be funders, much of the information needs discussion at the roundtable events focused on this user group. In relation to making funding decisions, 75 per cent of funders were of the opinion that the TAR and financial statements were 'very' or 'fairly' important (response from F4 – where the event organisers had the technology to directly elicit views on this issue from participants). While generally supporting this view, preparers drew a distinction between large and small funders, believing that 'large' funders relied more heavily on, and were more likely to use, the TAR and financial statements because these funders were likely to be more sophisticated, with in-house expertise and a strong preference for standardised documents being prepared by charities.

Other stakeholders rarely ask for a copy. (P8)

Preparers were of the view that for charities with a large number of small funders the financial statements were of little relevance as such funders were unlikely to understand (and therefore rely on) these documents.

85% of my funders give money each month but are not interested in the accounts. (P8)

Depressing to think more people read the accounts in their drafting than on publication in the final form. (P1)

Furthermore, while preparers accepted that some small funders might read the TAR, it was argued that this document contains a considerable amount of dry, static information and is therefore not an attractive source of information for many small funders. In a similar vein, funders referred to the problem of information overload, where too much, often unnecessarily detailed, information is provided in the TAR and financial statements resulting in these documents being unwieldy and uninteresting for many.

SORP-compliant accounts expected by all stakeholders

Notwithstanding the above, and almost paradoxically, preparers and auditors understood that, regardless of the deficiencies of the TAR and financial statements, and regardless of the fact that many users cannot understand much of the detail, SORP-compliant TAR and financial statements were expected by all stakeholders (including small funders). An aspect of this was that small funders (who may not read the TAR and financial statements) assume the charity's validity (as evidenced by well-prepared and compliant documents) was being checked by someone else, for example, external auditors or the Charity Commission (although this is not the role of the Charity Commission). This appears to be related to a 'legitimation' process on the part of the funder. Indeed, for a number of funders the provision of 'good accounts' was a prerequisite for the awarding of a grant.

If we are unhappy with the accounts we send them feedback and sometimes they resubmit with the accounts in order. (F3)

We will not generally refuse to fund if the accounts are poor, but we will make it a condition of the grant that they are brought up to scratch. (F3)

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This issue was developed by academics who argued that the provision of SORP-compliant information is important even though most users do not understand it. It was suggested that this is similar to the business environment where it may be in the interests of all stakeholders that a small group of users understand and review the financial performance of the entity as contained in the financial statements. Such scrutiny acts as a disciplining mechanism.

In the commercial sector, it is exactly the same. Your investors mainly are not interested in reading the very technical reports and accounts that have to comply with standards. They rely on analysts and in the charity world the public relies on the regulators and major funders. So, we do have a similar situation. (Ac1)

Good financial statements and good performance reporting are both important

It is interesting to compare auditors and preparers with academics and funders in relation to their discussions on 'what information matters'. The debate among auditors and preparers tended to be general/broad and focus almost solely on complying with the SORP rather than referring to specific information. Indeed, these discussions rarely mentioned the provision of performance-type information, despite empirical research by a number of academic participants indicating that preparers were more aware than ever of the importance of it. The fact that when asked about what information was important to disclose (as seen above in the questionnaire responses – Table 2.1, Statement 2), both auditors and preparers agreed that outcome and impact information was important, but there was limited detailed discussion of this in the auditor and preparer roundtables. Such events tended to focus on technical accounting and compliance issues (possibly reflecting their core training and interest).

In contrast, funders appeared less anxious about compliance with the letter of the SORP, and suggested that while the narrative and performance-related aspects of the SORP could be viewed in terms of 'tick box' requirements, this was detrimental to good overall reporting and accounting. A much more imaginative, and less rigid, approach was suggested as being more effective. The following illustrates this thrust:

Good charities give a good narrative that backs up the accounts and notes. Those that can't be bothered get away with it as SORP guidance on the TAR is quite short whereas guidance on the accounts and notes is more comprehensive. (F2)

The debate at the roundtable events attended by academics and funders frequently explored in detail specific information types relating to governance (in an array of conceptions reflecting the diverse nature of such a concept) and performance, rather than focusing on technical accounting and compliance issues. The following comments are typical:

Performance reporting, which was rather emphasised in the new SORP [SORP 2005], does seem to be something that people are quite keen on. (Ac1)

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We need convincing evidence that the organisation can achieve the goals the funder is trying to achieve; evidence that the organisation is well managed; a good risk. Has the organisation done what it set out to do? Is the organisation competent at managing funds? Can they handle a larger investment? What are elements of capacity, such as human resource in financial management? (F4)

While the importance of performance reporting was stressed by academics and funders, the difficulty of doing it well was acknowledged. Indeed, one of the roundtables (F2) had a significant debate on the need to develop, and report on, performance outcomes rather than merely outputs or achievements. While these participants appeared to support performance reporting strongly, there was disagreement as to whether it was advisable to move beyond achievement reporting, with problems being identified in terms of feasibility and cost/benefit considerations. Despite the measurement difficulties, funders, unlike auditors and preparers, stressed the importance of justifying the need for requests for funding in terms of what is to be achieved. For example, when responding to a question relating to the most important information in the TAR, the following was highly rated:

Governance structure; evidence of what has worked before; aims and objectives and activities; service users' views of outcomes. (F4)

Funders often require supplementary information

Although the debate among preparers referred almost exclusively to the TAR and financial statements as the most important sources of information, perhaps not surprisingly it was clear that many funders also relied upon other sources when making a funding decision. Some auditors suggested this might be because:

Funders often misinterpret accounts and do not understand them so they ask for the information in their own format. (Au6)

However funders expressed the view that while the financial statement aspects of SORP provide key supplementary, and in many cases complementary, information, other information not included in SORP-compliant documents was important. For example:

There are other things that you want to know which lie outside of the scope of report and accounts. (F4)

From a funder's view, they look at the funding application intensely and the annual accounts less so. (F4)

Two types of information that were perceived as important by funders, but yet did not really form part of the debate among preparers, were solvency and efficiency. Views on the former (ie the ability of an organisation to have enough assets to cover its liabilities) were expressed in a range of ways:

Need to know that the charity is solvent now and financially sustainable; solvency and assets information is useful, we need to look at the balance sheet as much as the income and expenditure statement. (F4)

Solvency is the first thing that funders look at when assessing an application. (F1)

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With respect to efficiency, sometimes referred to in relation to administration costs or fundraising costs (although the manner in which the topic was raised varied), this was most clearly expressed in:

We need information about running costs ... how efficiently they work ... proportion spent on users versus proportion spent on the organisation ... costs of generating income. (F4)

It was also argued by a number of funders that although it is recognised that there may be an element of gaming in its calculation, such ratios are important and it was up to charities to provide (or enable the calculation of) such numbers. In addition, it was suggested that SORP 2005 was less helpful than earlier SORPs in allowing the calculation of such ratios. One participant commented:

The lay user wants to know about overheads, fundraising cost ratios. The previous SORP was better at this. Funders want their money to go to the programmes ... You might argue that fundraising and administrative cost ratios are the wrong questions but this is what the public want to know ... it would do some good if we helped charities communicate and understand the back office reality ... a problem is that there is gaming to create reasonable numbers for the public. (F2)

(b) The SORP

(i) Is the SORP useful/a force for good?

SORP 2005 recommends particular accounting treatments and guidance on the application of accounting standards. Its status is underpinned by legislation, UK generally accepted accounting principles (GAAP) and stakeholder expectations. Normally, compliance with its tenets is necessary to meet the legal requirement to give a true and fair view. Statement 4 in the questionnaire (Appendix 4) garnered views as to whether a rules-based approach serves the sector well. The responses, as shown in Table 2.2., indicate widespread agreement across all groups (particularly by academics and funders with scores of 1.9 and 1.8).

Table 2.2 Importance of Rules – Responses by Stakeholder Group

	Academics	Auditors	Funders	Preparers	Overall Average	Simple Average
4. Rules on what must be included in the report help donors and financial supporters to make informed decisions.	1.9	1.6	1.8	1.7	1.6	1.7

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In terms of the qualitative data from the roundtable events, it was unequivocal that the vast majority of academics, auditors, funders and preparers believed that the SORP was a force for good and that a robust framework was vital for ensuring continuing support and confidence in both individual charities and the sector. Informal votes at the various roundtable events typically returned a unanimous 'yes' to the question of 'whether the SORP was a good thing'. Typical positive comments were:

The diversity of the sector creates issues, but SORP is more important because of this as it provides a framework. SORP gives a form of comparability. (Au6)

Is SORP a good thing? Keep it, keep it, keep it! What would you replace it with? (F3)

I would weep if it was removed. (F2)

Both preparers and funders specifically mentioned that they believed that the various iterations of the SORP had progressively created a necessary structure and discipline for charities, and helped to focus the attention of trustees on key issues (although some funders suggested that problems remain with smaller charities with respect to following it).

The current SORP framework is good but at the smaller end it would be good if charities started doing it. (F3)

Moreover, there was broad acceptance of the importance of the SORP in maintaining consistency and quality in financial reporting. While some suggested that the SORP could possibly be improved (for example, in terms of the format of SOFA, treatment of capital grants and multi-period funding, and clarity between different types of reserves – see later), most preparers supported the intentions of the SORP and broadly acknowledged that a laissez-faire approach would be detrimental for the sector.

The SORP drives improvements in standards which would be lost if charities had total freedom. (P1)

It focuses the minds of trustees. (P10)

Not everyone loves the SORP but most people love what the SORP is trying to do. (P9)

Notwithstanding any deficiencies, and recognising the significant changes that had occurred in the SORP in its various incarnations (through the ongoing review process), few auditors and preparers wanted radical changes to the current SORP.

I think the SORP has made a huge difference to charity reporting over the last 13 years. However, now I would not like to see extensive changes in the next SORP. Don't change just because the committee exists. If it works leave it. But if it needs to change do so, especially terminology which is far from clear. (Au3)

We have now got used to the latest SORP ... and generally understand it ... There are areas that do not work so well in practice, like reserves which is a difficult area for many small charities that in practice operate on something of a hand-to-mouth basis ... Generally the latest SORP works well. (P1)

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(ii) Should the SORP influence/stipulate practice? For example, with respect to board membership, risk, ethical investments, trustee induction, etc.

This issue appeared to be of more concern to auditors and preparers than academics and funders. Consistent with the view that the SORP was a force for good, auditors and preparers believed that the SORP should, and was in an ideal position to, shape practices within the sector.

Asking people to report encourages best practice, a well trodden path. If just left to a reference on a website or the Charity Commission annual return it will be an afterthought. (Au3)

SORP by its existence shapes practice. Tell me how you measure me and I'll perform. (P4)

Auditors and preparers made a clear distinction between shaping and prescribing practice, with support for the former but not the latter. However, most preparers acknowledged that, realistically, a light touch approach is unlikely to work. They also expressed the view that the Charity Commission or OSCR should encourage debate and consideration of important issues (that might otherwise be ignored). Such an approach would support charities in considering and developing good reporting practices.

The Charity Commission must take the lead on accountability and transparency. (P4)

The press quote SORP 2005; the charity sector is an example where compliance can be good for you. I relate to and agree with it. (P12)

However, it was believed that charities and users were only now coming to terms with SORP 2005 and, while changes were not inappropriate in certain areas, it was equally important to give the SORP further time to bed down. A number of auditors called for more extensive and explicit guidance on good practice (with the use of examples) from the Charity Commission (Au2, Au7 and Au4); however, there was often no consensus on what form that guidance should take or even if it was needed.

You do not need detailed guidance on risk; trustees just need to think, would I do this if it were my money? (Au4)

(iii) Is the SORP too long and complex, especially for smaller charities?

As noted above, the majority of charities in the UK are small. Views have been expressed that the demands of the SORP are onerous for charities with limited financial and technical resources. In addition, the manner in which the SORP is structured may mean that it works better for larger charities and it may be rather intimidating for smaller charities. Given this, views regarding the length and complexity of the SORP were sought both through the questionnaire and the roundtable discussion. Statements 5 and 6 in the questionnaire (Appendix 4) garnered views as to whether small charities (defined for these purposes as a charity with an income of less than £500,000) should be free to tell their own 'story', and not be bound by rules, in both the TAR (Statement 5) and the financial statements (Statement 6).

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Table 2.3 Smaller Charities – Responses by Stakeholder Group

	Academics	Auditors	Funders	Preparers	Overall Average	Simple Average
5. Smaller charities should be free to tell their own 'story' without any rules on what must be included in their annual report.	0.3	0.7	0.5	0.5	0.6	0.5
6. Smaller charities should be free to show their income and expenditure any way they choose without any rules being set by SORP.	0.3	0.7	0.1	0.5	0.6	0.4

Table 2.3 indicates fairly widespread disagreement with calls for a more relaxed approach to reporting across all stakeholder groups. Of particular note is the almost total disagreement by funders with the statement (score 0.1) that smaller charities should be free to show their income and expenditure any way they wish. This is despite the fact that this group is often in a position to demand such information separately. Of interest is the fact that auditors, whilst disagreeing with a laissez-faire approach for small charities, returned the highest scores for Statements 5 and 6 (indicating less general disagreement with the statements by auditors).

Write the SORP for small charities (with add-ons for other charities)

One obvious issue with discussions regarding differing reporting requirements for differing sizes of charities is with the definition of 'small' (notwithstanding the fact that for the purposes of completing the questionnaire a working definition was provided). This issue emerged in the qualitative feedback. Auditors in particular (Au2, Au4 and Au5) urged for consistency between the SORP and company law.

Auditors and preparers, especially those associated with smaller charities, suggested that if the TAR and the SOFA could be simplified for small charities, this would help enormously.

The SORP is written for charities above the audit threshold, most charities are below the threshold and I think that it could be more clearly explained what small charities have to do. (Au4)

Funders also acknowledged that the SORP was quite complex and technical (chiefly with respect to financial statements), with some aspects of it not being particularly relevant to smaller charities. Aspects of this thrust were captured in the following comment:

SORP is so off-putting since it is in legalistic language. (F4)

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The extant SORP (and previous versions) have tended to focus on the requirements for large charities, with exemptions for smaller charities often outlined later and less conspicuously. A number of auditors and preparers felt that such a 'top-down' approach was inappropriate given that the vast majority of UK charities (by number) are small. A common suggestion was that future SORPs should be written for small charities with 'add-ons' for medium and large charities.

Since overwhelmingly charities are small, the SORP should be designed 'small first' with additional appendices for large charities. (P13)

Think small charities first and then build up; at the moment you must trawl through the SORP if you are a small charity to find out. (Au2)

We should prepare a separate document for smaller charities so they do not have to read the whole thing, or should design it like the Companies Act 2006 so that it starts from what applies to all charities and then add on the additional disclosure required for larger charities. (Au4)

In addition, auditors and preparers in particular believed that the SORP, despite the title suggesting that all the contents of the document are merely recommendations, needed to be clearer in terms of what is actually 'required' and what is actually 'recommended'. However, a typical, although by no means universal, response by funders was that under SORP 2005 the balance between prescription and choice was about right.

We have an enormous sector doing different things and one framework would possibly be counterproductive if it were over rigid. The present SORP gets it [the balance between required and recommended] about right. It is hard to see how it can be significantly improved. (F2)

Small charities should comply with the SORP

Auditors and preparers overwhelmingly agreed that small charities should comply with the SORP to maintain standards and confidence in the sector.

If too lax a framework, trustees won't bother. They ought to follow the SORP whether big or small with just less to write if small. (Au3)

There has to be transparency, what has gone on has to be clear to people looking at the accounts. There needs to be enough so that the user can see that money has been spent appropriately. (Au7)

It was believed that those charities who cannot cope with the SORP would likely struggle even under a more simplified framework, as these would most probably be small charities with little or no in-house expertise. In addition, auditors and preparers accepted that without a strong framework funders would not be able to distinguish between those charities that were doing their best to comply and those who were trying to hide something.

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In a similar vein, while the issue of proportionality in reporting was accepted by all (including funders) as being advisable, with it being acknowledged that smaller charities should be subject to requirements appropriate to their size and structure, basic compliance with the SORP was viewed as a necessary prerequisite to funding. One funder argued that the preparation of SORP-compliant TAR and financial statements by charities of all sizes offered a degree of legitimation.

If they can't get the accounts right it reflects on the way the organisation is run. (F3)

Moreover, it was suggested by a number of funders that there might be adverse consequences of a more liberal regime for smaller charities because the discipline provided by a strict accounting and reporting regime was important.

If you simplify too much important data might not be available. So the discipline of detailed accounts is useful; how money is accounted for in the books is important. (F4)

The discussion among funders suggests that, even if permitted, it might not be in the best interests of smaller charities to use a simpler format of reporting if seeking funds from funding agencies. At one of the roundtable events (F4 – where the event organisers had the technology to elicit views on this issue directly from the participants), 85 per cent of funders felt that this would disadvantage small charities to a 'great extent' or to 'some extent' in completing monitoring reports and the vast majority of funders thought it would disadvantage small charities when seeking funding. However, based upon research presented (Ac1), small charities appear to be aware of this and even when they have the option of preparing receipts and payments accounts they often choose to prepare accruals accounts. This is assumed to be because of preferences by funders (particularly in jurisdictions where there is no standard format for receipts and payments accounts). For example:

There are funders out there who, even if they are making grants to a small charity under £100,000 income where they know the trustees have limited accounting experience, they are still saying that they would rather have SORP-compliant accounts, which is quite an onerous burden in some ways to put on them; but at least they are being honest about their feelings. (Ac1)

While it was suggested (Ac1) that much stronger 'receipts and payments' guidance for small charities (possibly as part of a revised SORP and with statutory backing) would increase their usage by small charities and their acceptability by funders, some were of the opinion that accruals accounts, regardless of the size of a charity, were just 'better accounts'.

(c) Discharging Charity Accountability

(i) What is/should be the role (ie stewardship/backward looking v future information) of charity trustee annual reports and financial statements?

Opinion is divided as to whether the annual report and financial statements of an organisation should focus primarily on past events, or a mixture of backward and forward information. Stewardship reporting is a term often used in the voluntary sector to refer to the responsibility an organisation has to inform donors of the manner in which their donations were used. It focuses on the past. Modern views of accounting advocate a much more prominent role for future information (information on what is planned/anticipated) and a possible relative decline in the importance of stewardship information. Views regarding the importance of stewardship information in charity reporting were sought. Statement 7 in the questionnaire (Appendix 4) asked participants for their views on this.

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Table 2.4 Stewardship Reporting – Responses by Stakeholder Group

	Academics	Auditors	Funders	Preparers	Overall Average	Simple Average
7. Stewardship reporting about past events is no longer important and reports should look mainly to what the future holds.	0.7	0.3	0.3	0.4	0.4	0.4

The questionnaire results (Table 2.4) indicate that each of the respondent groups disagree, although to a lesser extent academics, with the statement that stewardship reporting about past events is no longer important and reports should look mainly to what the future holds. In other words, stewardship reporting is important. With respect to the roundtable events, few academics and funders commented at length on the role of the TAR and financial statements; although, of those who did, it was felt that the TAR and financial statements should contain a mixture of backward looking and future information. A representative comment was:

The SORP needs some fundamental reporting elements – legal and administration, objectives and report on the year past (75 per cent) and plans for future (25 per cent). (F3)

Perhaps surprisingly given their role, auditors also widely supported the reporting of both forward and backward looking information (as is seen in their questionnaire responses to Statement 7 – score 0.3). This was further emphasised at the roundtables:

Why either/or? Not mutually exclusive, both are important. Reporting about the future is also a feature of stewardship. (Au2)

I think it is helpful to require information on what the charity has done and plans for the future, it gives a good feel for what is going on. (Au7)

In a related vein, given the historical nature of traditional financial statements and the time that has elapsed when eventually published, a few funders, while extensively supporting the disclosure of past information, also highlighted the necessity for future information, often in excess of that disclosed in the TAR and the financial statements, of both a financial and nonfinancial nature. One funder commented:

The accounts can be up to 14 months old as information; or 22 months if they take a full 10 months to file. We ask for budget information. (F3)

The broad thrust of comments from preparers was that, particularly in the current climate, stewardship should be the dominant consideration. It was believed that the TAR should: discuss clearly the activities of the charity during the year; explain how it had met its objectives; and give details of successes and failures.

Funders, they build on stewardship, this is the basic building block. Ask Lehman Brothers if past events impact! Future plans and aims are not facts. Stewardship is where and how we got here today. (P4)

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Not sure accounts can and even should tell you about the future. Past is what you said you'd do and what you did. This can be used to inform views about the future. (P10)

People are primarily concerned with knowing that money has been spent properly – they want to be assured of good stewardship. (P5)

While there was agreement that future information was important and should be reported in the TAR, difficulties regarding this were highlighted. For example: the subjective nature of future information; competitive pressures with both other charities and the private sector providing similar services; and pressure to achieve the published plans at the expense of more sensible activities that take account of changed circumstances.

Reporting on the future is too subjective. (P5)

By describing plans in too much detail you give valuable information to competitors. (P3)

Funders like to see a track record. Future plans are subjective and can change quickly. (P11)

Overall, the broad view was that the TAR should discuss the activities of the charity in the context of its objectives and the reported financial information.

The key to a good annual report is explaining what you have done and what you have achieved in the context of your objectives. (P9)

Consequently, in order to enable this to occur in an interesting and informative manner, it was suggested that the static, non-changing disclosures should be relegated to the back of the report, the annual review or the internet so as not to detract from the TAR.

(ii) Does the 'story' approach work?

Increasingly there has been an emphasis on the importance of providing narrative explanations to complement and interpret the financial statements. For example in the business sector this is seen in the introduction and development of the Operating and Financial Review. Given that in charities, and other not-for-profit organisations, the 'financial result' is less central as an indicator of performance, the need to tell the organisational 'story' demands much greater focus on the nonfinancial impacts of organisational performance. This is seen in a range of sector-related publications (Charity Commission, 2004; Connolly and Hyndman, 2005; Opinion Leader Research, 2005) that encourage a 'story' approach to reporting. Given this, Statement 8 sought the views of stakeholders on the importance of charities explaining their achievements (Table 2.5). The results of the questionnaire indicate almost total agreement across all groups on the value of reporting achievements. Indeed, of all the statements in the questionnaire, this had the highest consensus (score of 1.9 across all groups).

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Table 2.5 'Story' Reporting – Responses by Stakeholder Group

	Academics	Auditors	Funders	Preparers	Overall Average	Simple Average
8. Charities should explain clearly what they actually achieve.	1.9	1.9	1.9	1.9	1.9	1.9

These results relating to 'story' reporting were consistent with the qualitative data from the roundtables. Many stakeholders, across all groups, expressed the view that work should be done to improve the quantity and quality of such reporting. For example, funders, a group viewed by most as the key stakeholder with respect to reporting and accounting, acknowledging the limited nature of the financial statements in conveying the most important information, highlighted the critical importance of the charity 'story' (where the financial numbers are linked to the nonfinancial performance information). For example:

A charity needs to tell the story of the organisation, with the figures side by side ... There is a need for a much more intimate story in the trustees' report, because accounts may not actually tell you very much. (F4)

Auditors were also very positive about the 'story' approach in the TAR, and related this to the progressive development of charity reporting through the SORP. For example:

Twelve to 15 years ago charity reports and accounts were poor and bland .... Telling the story works well. (Au9)

Academic roundtable participants concurred with the above views that generally the information contained in the TAR was significantly more important to most stakeholders than the financial statements because it told the 'story' of the charity (what it was seeking to do and what it had achieved) and it was often more easily understood. Again, the positive influence of the SORP was mentioned. For example, in referring to the TAR it was contended that:

We have to recognise that it is one thing to have technical standards, it is another thing to have understandability; and what the SORP does is to collect together into the narrative reporting a set of rules which go a long way to allowing users to understand what is going on, even if they do not quite understand the accounts. (Ac1)

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Across each of the preparer-focused roundtable events, debate over the disclosure of performance-related information focused on explaining activities undertaken (mainly on a narrative basis without the use of quantitative nonfinancial performance figures) during the reporting period, rather than on efficiency and effectiveness/outcome-type information. Indeed, these terms did not form part of the discussions. A consensus among preparers, and to some extent auditors, was that if much of the standing information that changes little over time could be removed from the TAR (and made available elsewhere) then this:

... would leave the TAR free to concentrate on the story of the charity – what its activities were, its impact and its plans for the future. (Au8)

Similarly, preparers argued that because the TAR had become cluttered (with static information that changed little) and lost focus, then the 'story' approach, while potentially extremely meaningful to stakeholders, had significantly less impact amidst a growing 'grey' TAR. Auditors expressed concern that the potential benefits of the 'story' approach were being lost due to the complexity and length of what is written, leading in some cases to 'meaningless boilerplate narrative' (Au6).

People are unclear who their audience is. Many charities see the TAR as a compliance document. (Au3)

(iii) What is the role of the annual review?

With respect to reporting and accounting, charities may engage with their external stakeholders through a variety of different channels (including, among others, annual reports and financial statements, and annual reviews). While the TAR and the financial statements is the only mandatory document published, some charities also produce annual reviews, which are often perceived as a more flexible and user-friendly means of discharging accountability. Consistent with the broad thrust of their comments reported above, preparers thought that the growth in the popularity of the annual review (which is often a much shorter and less technical document than the TAR and the financial statements) was being fuelled by the need for a more interesting, 'story-based' document that is of particular interest to 'smaller' funders (including the public).

The annual review is in a more digestible and interesting format, a glossy. (P8)

Most charities tell their story in their annual review in a shorter space. (P1)

The majority of auditors supported keeping the TAR and the annual review separate on the basis that the two reports have a fundamentally different audience.

There is a conflict of roles in reporting. Larger charities produce annual reviews for fundraising. There is a temptation to try to make one document do two jobs. Very few people independently want to look at a published set of accounts. We should focus the reports on genuine users. (Au4)

There was also significant debate amongst academic participants as to the possible role of the annual review. Small sample research presented indicated that the TAR and financial statements was so dominated by technicalities and regulations that it was of limited interest to its potential readership (particularly unsophisticated readers). Preparers also supported this view, adding that the annual review duplicated aspects of the TAR.

We do things twice, an annual review as a marketing document with fundraising input, then a less accessible trustees' report. Funding comes via the annual review and marketing, not the annual report. (P8)

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While there was agreement that producing two documents could be an onerous task, there was no consensus on how to avoid unnecessary duplication. However, there was a call by preparers in particular for a body such as the Charity Commission or OSCR to initiate a debate, or even stipulate, the different mechanisms (for example, TAR and financial statements, annual review and annual return) through which certain information should be disclosed so as to reduce the amount of duplication. This would enable the TAR to be a more effective document.

We need to think about avoiding putting the same data in different places. The Charity Commission should think about giving guidance on this. (P8)

Given that the role of the annual review was not debated at the roundtable events organised for funders, this may suggest that this stakeholder group is content with the current role of the document, or alternatively it is not a source of information that they rely upon.

2.2 Trustees' Annual Report

(a) What works well and should be retained? Why?

Auditors and preparers consistently expressed the view that they considered the TAR to be an important and useful document/vehicle that allowed the trustees to explain how the charity had tried to fulfil its objectives during the year. It was believed that the TAR should provide the narrative link between the aims and objectives of the charity and the financial statements.

Although there is a lack of trustee expertise on accounting, most trustees understand what their charity is about and what it is trying to achieve. The TAR is a great opportunity to present to who you believe is the user, say grant maker, and the contents will differ from school or hospice. I'm a fan of SORP as far as the TAR is concerned as it is not prescriptive but advisory. (Au3)

99 per cent of the general public are not interested in the figures and therefore the Trustees' Report is the most important as it is the selling tool showing the impact of the charity. (P7)

While both funders and preparers supported the standardisation of the TAR, inasmuch as they felt the broad headings in the TAR were appropriate (albeit that they had concerns that the static standing information often detracted from the potential impact of the TAR – see comments above), funders in particular expressed unease that there was often little change from year to year in the manner the TAR was used to tell the 'story' (especially by small charities). Similarly, of concern to a number of preparers was that the TAR was too long and unfocused, mainly due to the substantial disclosure requirements stipulated in the SORP and the fact that many charities tried to use the TAR to fit the information requirements of all users. These forces led to TARs that were often bland and uninteresting, with few changes year-on-year.

Many charities need to start again. The TAR should explain: what did we say we would do; what did we do; what did we do that we said we would not do; what will we do in the future? (P8)

Difficulty is the report has become unfocused – too long and all things to all people. (P4)

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While many preparers agreed that the SORP was moving charities in the appropriate direction, it was believed that charities needed time to adopt its principles.

One of the reasons why a lot of us feel that the trustees' annual report is complicated is because we never give them [the changes] time to bed in. We change the structure of the SORP. We get the hang of how to write an annual report and then a new set of rules comes in and we have to rethink how we do our reports. (P10)

Most of us, when we are writing our first or second annual report, are so anxious to dot all the 'i's and cross all the 't's that we end up with a big cumbersome report which does not say what we really want to say. When we come to be writing our fifth or sixth, if we ever get that far in the same format, then we would feel comfortable to say what we are saying. It is the continual changing and tinkering with the definitions and the format that makes these documents become so cumbersome and so unusable. (P9)

(b) What should be removed? Why?

Academics and funders did not highlight anything in particular that should be removed. Overall, preparers acknowledged the importance and value of TAR but expressed a desire that it be simplified.

While recognising that the SORP has played a useful educative role in driving up standards by forcing charities to report on governance, key policies etc, the result over time is that the trustees' report has become clogged up with rather dry disclosures of doubtful ongoing interest to users of the accounts. Perhaps more of this information could be made available online via the Register of Charities, updated as necessary through the annual return, leaving the trustees' report free to concentrate on what has changed and on what is of most interest to users. (P1)

I find that there is a tremendous amount of information that goes into the trustees' report. There is too much volume. What we should really be aiming is to write a report that explains what has happened in the accounts. I think the trustees' report is becoming too heavy for anybody to absorb what is actually happening. (P9)

At present, auditors and, in particular, preparers believe that there is too much overlap/duplication between the TAR and financial statements, annual review, annual return and summary information return. Most preparers advocated that static or recurring information be disclosed outside of the TAR so as not to detract from the value and impact of the TAR. Examples of such information include details of advisors, auditors, bankers, the nature of the governing document and trustees (where there are no changes year-on-year).

The bits that do matter get swamped, ie what we did, what we are planning and how we are going to do it. (Au2)

Get rid of all the legal jargon and standard governance stuff from the trustees' report. Instead, just put in more about what we have done and achieved. (P8)

Drop all the standing data that is repeated year after year. This could be published elsewhere so you don't lose the key messages for stakeholders. (P1)

I agree entirely with the idea that the information should be available. But it does feel to me that by including it in the trustees' report it gives the impression of it being a very statutory and dry document. If we want to use it [TAR] to explain the impact that we are having, then possibly removing some of the drier elements which can be accessed elsewhere would help in that perception. (P5)

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The governance information would be best relegated to the notes or shunted to the back, how useful is it? (P3)

There was widespread support among auditors and preparers for the need to provide disclosures on risk.

Risk is part of good governance, going right back to the Cadbury Report, you need to know what the risks are. Only way though is if trustees are forced to say something. If not forced they don't bother. Risk is important and charities need to know and have a risk register. (Au3)

However concern was expressed by auditors in particular that the 'SORP's bland statement is worthless' (Au3) and did not encourage charities to engage with the issues.

This whole question of risk management I feel has been taken much more as a compliance issue. The statement is included because of the requirement rather than to give any qualitative assessment for the purpose of the reader as to exactly how the organisation is putting risk management in practice and, as you quite rightly say, how it dovetails in with the other things such as reserves and governance itself. (P9)

(c) What should be added? Why?

Given that the purpose of the roundtable events was to ensure that the development of the SORP reflected best practice and was relevant to the needs of the key stakeholders in the sector, stakeholders were directly asked about what, if anything, should be added to the SORP (similar questions were asked about what works well and what should be removed – see above). With respect to this question, which was explored in the roundtable discussions, a specific statement on the questionnaire (Statement 9) made reference to the issue of valuing volunteers. It should be recognised that, irrespective of the questionnaire, this issue was overwhelmingly the main subject that arose in discussions regarding what might be added to the SORP. Many charities rely heavily on the input of volunteers (for both administrative support and direct delivery of charitable activities) but their contribution, due to measurement difficulties, is not normally included in the financial statements or the TAR. This may possibly result in significant understating of both incoming resources and resources expended (and therefore undermine the completeness of the financial statements). Table 2.6 shows the responses to Statement 9 by stakeholder group. As can be seen there was widespread agreement (simple average score 1.6) with the suggestion that volunteers should not be valued in the financial statements but rather mentioned in the annual report.

Table 2.6 Volunteer Reporting – Responses by Stakeholder Group

	Academics	Auditors	Funders	Preparers	Overall Average	Simple Average
9. Volunteers should not be valued in the financial statements and their contribution is best shown by a mention in the annual report.	1.4	1.7	1.6	1.7	1.7	1.6

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In terms of the qualitative data, the debate among auditors and preparers tended to focus on whether volunteers should be valued in money terms in either the TAR or the financial statements. While there was almost no desire for including a monetary valuation in the financial statements, and only very limited support for including such a valuation in the TAR, there was agreement that in most cases more than a 'thank you' was required in the TAR.

Valuation of volunteers is a total waste of time. ... It is impossible to capture this information when charities have many volunteers. For example, how could the Catholic Church value the services of the altar boys? It sounds sensible until you try to apply it. (Au6)

Volunteers should not be formally valued but just mentioned in the annual report. (P8)

Narrative is best way of explaining the contribution of volunteers. (P5)

Do not include volunteers in the financial statements but make the acknowledgment in the narrative. There is no reason to put a value in the accounts. (P3)

During the roundtable events, many preparers, while against valuation, realised the importance of reporting on volunteer input and some outlined the possibility of reporting on volunteer hours utilising the main resources expended headings of the SOFA. Although this is permitted, and encouraged, in the present SORP few charities do this (Connolly and Dhanani, 2009). Several roundtable participants expressed the view that specific Charity Commission or OSCR guidance on how to do this would encourage disclosure.

No suggestions regarding what should be added to the SORP were put forward by academic and auditor participants; however a number of funders expressed a desire for more detailed information on trustees and directors (as a basis for assessing the skills and experience within the organisation). For example, one funder suggested that:

Summary information on the backgrounds of the trustees/directors and what active involvement they have in relation to the running of the charity should be provided. Is there a lack of management or financial expertise within the charity? (F1)

(d) What should be amended/revised? Why?

Preparers felt that whilst the TAR was important, it had become cautious and boring, and that this had led to the 'glossy' annual review being a better document for communicating with the public.

The TAR is now mainly for the trustees, the charity's members and for significant funders; and for those who've read the annual review first and want to find out more about what the charity is doing. (P11)

Consistent with responses in support of the 'story' approach to reporting (and against the cluttering up of the TAR with static standing information), auditors and preparers advocated compliance-type disclosures being included outside the TAR, possibly in the annual return. Preparers in particular called for greater focus in the TAR on discussing and explaining the financial statements in the context of the charity's aims, objectives and activities. They believed that charities should be encouraged to concentrate on explaining what happened during the year. At present, the TAR was perceived to be largely a compliance exercise and that charities were hesitant in using the guidance contained in the SORP in a flexible and creative manner.

The headings and current order work reasonably well. The problem is people write too much trying to make sure they comply with everything. Then you end up with 10 pages of report in a strange language that has been created over the past 10 years and is not attractive. (P8)

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Charities should be encouraged to write a three to four page report just explaining the accounts in relation to what they did during the year. Otherwise, it is waffling. (P8)

The TAR has an important role to play in striking the balance between words and numbers. (P11)

It is interesting that a majority of auditors highlighted concerns over a lack of ownership of the TAR by trustees, especially in small charities.

The accountant completes the TAR for them. Trustees say it's your report. Trustees are not as informed as they should be yet they must sign it. (Au2)

In most cases, the concern was that trustees were overly reliant on their auditors and accountants to comply with the necessary regulations, with some also suggesting that trustees did not know how to complete the TAR.

Small charities do not have the back office resources to cope with writing a detailed report. The charity does not take ownership of the report and it is often cut and pasted from last year. (Au6)

A few funders expressed concern at the lack of application of certain aspects of the SORP, with respect to information considered important by them, by accountants and auditors.

Large areas of SORP, for example with respect to trustee remuneration, aren't enforced and auditors allow charities to get away with it. (F2)

Another suggestion in relation to this question, and alluded to by funders in different ways, was the advisability of devising a base set of recommendations that should be used by all charities and a higher set (possibly containing greater detail and complexity) that would complement the base recommendations (possibly to be used by charities who were particularly driven by needs or desires to achieve the highest quality in reporting; or possibly to be used on the basis of size-related considerations). This was consistent to the views reported above in relation to the needs of smaller charities. One funder stated:

There should be a minimum set of accounting and reporting standards plus an ideal set of standards to drive practice. Need to separate 'must' from 'should'. (F2)

2.3 Financial Statements

The majority of the statements in the questionnaire related to current issues in respect of the financial statements of charities (Appendix 4, Statements 10 to 20). Many of these statements relate to 'contentious' accounting issues arising from debate within the sector and of which the SORP committee were aware. The discussion of these detailed issues by academics and funders at the roundtables was relatively limited, possibly reflecting their particular interest and expertise. A number of other accounting issues, not specifically addressed in the questionnaire, were raised and debated at the roundtables, largely by auditors and preparers. While preparers from all charities reported difficulties with various accounting-related issues (as would be expected), it was evident that those from larger charities found it easier coping with the terminology and the practical aspects of preparing the financial statements. Indeed, many preparers believed that small charities were likely to struggle regardless of the reporting mechanism.

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(a) SOFA

Four statements (Statements 10 to 13) related specifically to the SOFA (Table 2.7). These addressed: the preferred way of presenting the financial numbers; following commercial accounting principles; standard headings being useful to donors; and the need to revise the SOFA. As can be seen in Table 2.7 (Statements 10 and 11), there was agreement that the SOFA was the best way of illustrating the financial numbers (Statement 10 – simple average 1.4) and acceptance that commercial style presentations relating to income and expenditure were not appropriate (Statement 11 – simple average 0.8). In addition, there was widespread agreement across all stakeholder groups that the consistent use of categories and headings in the SOFA helps donors and financial supporters to make informed decisions (Statement 12 – simple average 1.8). Moreover, there was limited appetite for change in the existing requirements relating to financial statements by all stakeholder groups (Statement 13 – simple average 1.2).

Table 2.7 SOFA Statements – Responses by Stakeholder Group

	Academics	Auditors	Funders	Preparers	Overall Average	Simple Average
10. Reporting activities in the SOFA is the best way of explaining in numbers what a charity did.	1.7	1.3	1.4	1.2	1.2	1.4
11. Where possible the information given and layout of charity financial statements should be the same as that of small commercial companies.	0.6	0.8	1.0	0.8	0.8	0.8
12. Consistent use of categories and headings in the SOFA helps donors and financial supporters to make informed decisions.	1.9	1.5	1.9	1.7	1.6	1.8
13. Where possible things are best left as they are in the SOFA and balance sheet.	1.0	1.2	1.4	1.2	1.2	1.2

With respect to the qualitative data from the roundtables, and considering the title 'SOFA' given to a charity's income statement, there were mixed views as to how appropriate this was. Some preparers, particularly those from 'smaller' charities, advocated a change; for example, by adopting a perceived more user-friendly term of income and expenditure statement (in a few cases the title 'profit and loss account' was even mentioned).

Review the format and re-label as income and expenditure account. (P1)

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Too much clutter on the face of the SOFA

In the case of form and content, although the SOFA was viewed as an appropriate financial statement for charities by academics, most auditors and preparers reported that users struggled with both the columnar approach of the SOFA and the terminology used. In addition, auditors, funders and preparers believed that there was too much information on the face of the SOFA and advocated that much of it be 'relegated' to the notes (but not discarded). For example, it was suggested that a re-titled and revised SOFA should merely distinguish between restricted and unrestricted funds on the face of the document, with additional details provided in the notes. Overall most comments made related to difficulties in understanding the detail in the SOFA.

Many charities don't understand their own accounts. Many trustees do not understand the accounts; the balance sheet is ok but the SOFA not so. (F1)

My trustees want it simple. The SOFA goes over their heads. (P8)

Coming from a commercial background, I found the SOFA difficult and I can see why it is unintelligible to anyone but an accountant. We have to do a layman's summary in our financial review. (P4)

The SOFA as it stands is incredibly busy. (P1)

I can assure you our trustees struggle with it. (P10)

While there was no agreement on the way forward, some auditors and preparers discussed whether the format of the SOFA could be radically changed, with expenditure coming before income. It was contended that this would recognise that, unlike commercial companies, charities exist to spend money. Auditors and preparers frequently referred to the language and terminology used in SOFA as being incomprehensible. For example, a show of hands at one roundtable event for preparers indicated 100 per cent agreement with this (P5).

It's not the concepts within the SOFA headings that do not work but the terminology used that causes most problems. (P5)

Perhaps unsurprisingly, many auditors suggested a first step to increasing the understandability of the SOFA was to revert to 'known terms' (Au8) such as income and expenditure (as suggested above in relation to the appropriateness of the title 'SOFA'). Similarly, there was widespread auditor support for a return to the disclosure of expenses by 'natural categories' (Au7) such as administrative expenses, management costs and salaries and wages in contrast to the current allocation of such costs to activities. Two arguments were advanced for this, firstly that users of the financial statements understand and want to see items such as administrative expenses, and that there are significant difficulties with the current basis for allocating costs. Auditors also identified difficulties with allocating costs to activities, such as support costs ('support costs as a concept creates confusion' (Au7)), restricted funds and governance costs.

It is OK to disclose the audit costs, but how do you allocate staff costs [to] governance? It rapidly becomes irrelevant. (Au7)

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A lack of useful guidance was highlighted by auditors, resulting in the allocation being left to the accountants/auditors, raising concerns that 'if clients can't understand it, it defeats the object of the process' (Au7). Other auditors suggested that there was widespread mistrust of allocations from the public and particularly funders. In addition to calls to report costs by natural categories, there was a request for guidance on how to split costs across activities and between fundraising, support and governance.

(b) Income classification/recognition

Income recognition and the matching of income and expenditure were frequently discussed by preparers and to a lesser extent by auditors, particularly with respect to the problems relating to the matching of income and expenditure.

It is difficult to know how to distinguish voluntary income from activities for generating funds from grants where the documentation is unclear and some have performance conditions. (Au9)

In particular the fact that some incoming resources are recognised in full in the year of receipt or award (including capital grants) but the related expenditure may be incurred in future years, was viewed as especially problematical. Some saw it as distorting the annual financial performance of the charity as reported in the SOFA, and often confusing users of financial statements.

The matching of restricted funds to spend is a problem because the timing means some years show all the income and then the next year is a loss. This is especially a problem with capital projects. (P1)

The SORP currently hides the underlying reality. (P2)

Similar concerns were expressed by auditors and preparers that had to deal with government contracts.

Voluntary income and income from activities are not meaningful [headings] for government funds. (Au2)

Statutory income and government income and contracts are a great problem; more guidance on treatment would help. (P1)

Contracts are a nightmare area. You often find agreements vary so you have to review them case by case to distinguish contracts and grants. Some Local Authorities try to insist on contracts being counted as restricted funds. (P3)

While most auditors and preparers advocated the matching of income and expenditure,

The matching principle was thrown out when the SORP came in. I want it back. (Au4)

some argued that:

If a charity has been successful in raising funds then this needs to be shown as part of what happened in the year. The charity should reflect what has happened in the year. (Au7)

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(c) Grants

At present, generally under SORP, grants are recognised in full as incoming resources in the SOFA in the period of receipt or entitlement. Two of the statements in the questionnaire specifically dealt with this issue. These related to: whether a capital grant should be matched to the life of an asset (in accordance with Statement of Standard Accounting Practice (SSAP) 4 *Accounting for Government Grants*) or recognised in full (the present SORP position) (Statement 14 – Table 2.8); and the treatment of multi-period funding by a receiving charity (Statement 15 – Table 2.8). With respect to capital grants (Statement 14) the results of the questionnaire suggest that opinions were rather evenly split with a simple average score of 1.1. Interestingly funders, who possibly were least likely to fully understand the technicalities of the accounting choice, were more liable to view matching as a distorting influence (score 1.4). With respect to awards of multi-year grants, there was widespread support for matching across all stakeholder groups (simple average 1.7), contrary to the present SORP requirement.

Table 2.8 Grants – Responses by Stakeholder Group

	Academics	Auditors	Funders	Preparers	Overall Average	Simple Average
14. Where a charity gets a capital grant (for example to buy a building) matching the grant to the life of the capital asset acquired distorts the charity's income.	0.9	1.0	1.4	1.0	1.0	1.1
15. Where a charity awards multi-year grants to another charity this is best shown by matching the grant to the period over which it is paid.	1.9	1.6	1.7	1.6	1.6	1.7

Accounting for capital and multi-year grants dominated the discussions among preparers at the roundtable events. In the case of capital grants, the majority of auditors and preparers were of the opinion that the present SORP treatment often leads to a distortion of the figures with widespread support for the SSAP 4 treatment (capital grants should not be taken directly to the SOFA).[3] Some saw the present treatment having a continuing distorting effect.

[3] It should be noted that the questionnaire results relating to Statement 14 (which appear to indicate that respondents are neutral with respect to the alternative accounting treatments relating to capital grants) seem at odds with the strong support for SSAP 4 treatment expressed in the qualitative data. Perhaps this may have been due to misinterpretation by respondents as a consequence of the alternate wording used in Statements 14 and 15 (which covered similar ground but required respondents to answer from different perspectives).

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I would like to match/defer income from capital grants, not distort the SOFA for years to come. (Au7)

A big grant currently shows in-year; it is not matching and I struggle with this approach. (P8)

Capital grants are a concern. SSAP 4 needs to apply to both government and private grants when assets are purchased. (P4)

Capital grants received should be treated in accordance with SSAP 4. Recognising them in the SOFA in full completely distorts the annual income and may hide other problems. (P9)

Recognising a capital grant all in one year looks odd and it distorts operating results. (P5)

Some funders also acknowledged that there was an issue with grants; although their concern tended to be that some charity financial statements are prepared and audited by accountants who do not fully appreciate the intricacies of matters relating to charity accounting (possibly because the majority of their client base is from the business sector). This related particularly to contracts and grants and the changes introduced in SORP 2005. For example it was suggested that:

Paragraphs 100 to 110 of SORP and the distinguishing between contracts and grants are problems. These are sometimes recorded in income from charitable activities, and sometimes not. It was clearer before. Sometimes deferred, sometimes not where the grant period straddles the year-end. The problem is commercial accountants don't seem to understand or even know the SORP. (F3)

At the roundtable events, preparers argued that the SORP policy of requiring recognition of multi-year grants in the year of receipt often distorted the position of the charity and was contrary to common sense.

This is a difficult issue, particularly when a grant-giver makes a commitment to fund a project for a number of years. Does the grant-maker just have a liability for the first tranche of that grant? Does he have a liability for all the years? Do you need to look at these grants in a performance-related context so the expenditure is only recognised as performance is delivered under the grant? The same issues apply to the recipient. Does he have entitlement to the full grant or does he have an entitlement for the services or activities performed? This is an area that the Charity Commission needs to explore. (P9)

(d) Restricted/unrestricted/designated funds

Significant proportions of many charities' incomes arise from funders who provide them for a specific purpose (restricted funds) and the charity is not free to spend for any other purpose. In contrast unrestricted funds may be used by the charity for any charitable activity. Furthermore, part of unrestricted funds may be earmarked for a particular purpose or project in the future (designated funds); designations are indicative only, have no legal basis and can be changed. The legal position and the accounting treatment of the different funds of a charity are considered of such importance that a separate appendix is devoted to this in the current SORP. At present, distinctions between restricted and unrestricted funds should be shown on the face of the SOFA and balance sheet, while funds designated for particular purposes should be disclosed as part of the financial statements.

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Two of the statements in the questionnaire specifically dealt with these issues: Statement 16 asked respondents as to whether the detail of restrictions should be shown merely in the notes to the financial statements; and Statement 17 explored whether reporting designated funds on the balance sheet is wrong. As can be seen from Table 2.9 there was general agreement across all stakeholder groups that distinguishing between restricted and unrestricted funds on the SOFA is useful (Statement 16) and there was some support for disclosing designated funds on the balance sheet (Statement 17), although this was rather limited with respect to preparers (score 0.9). These positions accord with the present requirements.

Table 2.9 Restricted and Unrestricted Funds – Responses by Stakeholder Group

	Academics	Auditors	Funders	Preparers	Overall Average	Simple Average
16. Knowing whether income is restricted or not is irrelevant to most users and that sort of detail is best kept in the notes rather than presented as additional column(s) in the SOFA.	0.3	0.5	0.4	0.6	0.6	0.5
17. Reporting designated funds in the balance sheet is wrong and designated funds should only be explained as part of a charity's reserves policy in the annual report.	0.6	0.8	0.7	0.9	0.8	0.7

Strong support for distinguishing between restricted and unrestricted funds

In the roundtables, significant support was expressed by academics for the use of fund accounting principles on the basis that it reflects the legal position in relation to trust law. There was an expressed view that this must be maintained in any future SORP:

The ability of the funder to compartmentalise a gift and say, "You can only use it in this way" and the SORP naturally respects all this. This is the reason for the fund accounting principles that are in the SORP. So, my suggestion here is that this cannot be lost sight of. (Ac1)

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Such factors as the proportion of funds that is restricted, the movement in funds and the source of funding were highlighted as being important by funders. For example:

The note showing the movement on cash across the funds is incredibly important and needs to be more prominent. The analysis of funds can be poor with funder names given, but not what the funds are restricted for. The note should require both the purpose and the funder. (F3)

Restricted funds are most important. If a charity has under 10 per cent of its funds unrestricted, it may be financially unstable and were a claim to arise it might be enough to push it under. Financial stability is important. (F3)

I am interested in the statutory income received by a charity and whether in giving a grant I am funding statutory services. How much of the money is the charity's own money and what pots are they dipping into to fund their activities? (F3)

Preparers accepted that it was important to clearly distinguish between restricted and unrestricted funds on the face of the SOFA as this helps to provide a clearer picture of a charity's circumstances. However, there were calls for clarification, and examples, of the definition of restricted funds, with a clear distinction between restricted and designated funds being needed.

Real difficulties exist with people not understanding the difference between designated and restricted funds. (P5)

While auditors also agreed with the principles of fund accounting,

The distinction between restricted and unrestricted funds in the columns of the SOFA is a good idea. Combining them in one column might hide situations where core funding is not sufficient ... the ability for this to be seen easily in the SOFA should not be lost. (Au9)

the focus of their attention was ensuring that charities could clearly demonstrate whether unrestricted reserves were 'genuinely free'. Auditors did not propose significant change to the current SORP.

Designated funds distinction useful if appropriately applied

The use of designated funds was believed to be an important category by auditors, funders and preparers which was helpful to users in understanding why a charity holds reserves and what its plans are for the future (ie for future projects or to fund functional assets).

If well explained they [designated funds] are useful and people should know what they are doing. The SORP's approach is fine. (F3)

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However some groups expressed concern that this category of funds is only meaningful if properly applied and not used to 'massage the reserves figure through the use of designations' (Au9).

There was a significant debate across the different groups as to whether designated funds should form part of the financial statements (either on the face of the balance sheet or in the notes) or simply be disclosed in the TAR. A majority of auditors supported the current SORP practice of showing designated funds on the face of the primary financial statements. In contrast, the responses of preparers were more mixed. Because of its subjective nature and the fact it could be reversed, there was a belief among some preparers that it was perhaps more suited to the TAR rather than the actual financial statements (ie designated funds are merely a reflection of what is in the minds of the trustees at a particular point in time).

Designated funds should be removed and only mentioned in the annual report. (P8)

It is often abused by charities to hide the true level of reserves. (P10)

If we did not use designations then people would not understand our financial position. (P5)

Trustees want to bend all the rules – that's the difficulty with designations. (P7)

Designated funds are often just window dressing. (P6)

Preparers and auditors advocated that the Charity Commission (or OSCR) and the future SORP needed to develop clear definitions (with examples) of the different types of reserves, especially regarding the calculation of 'free' reserves. Free reserves is income that can be spent at the trustees' discretion in furtherance of any of the charity's objects but which is not yet spent, committed or designated.

The reserves information is important to the financial story and is fundamental. (P1)

Auditors supported improved disclosure in respect of reserves, and were strongly in favour of a prominent disclosure of free reserves separate from reserves represented by fixed assets either on the face of the balance sheet (Au3) or in the notes to the financial statements (Au3 and Au7). A number of those who commented (Au2 and Au7) emphasised that details of free reserves was particularly important for funders in making their decisions. These comments are consistent with funders' comments (previously highlighted) relating to the importance of information on the solvency of a charity.

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Section 3 Conclusions

As detailed in the terms of reference, the review of the data should allow five key questions to be answered. Using the analysis included in Section 2, these are now addressed.

3.1 Is a SORP product supported or is it not seen as required?

From the previous analysis, it is clear that the SORP product is overwhelmingly supported by stakeholders. Support was unanimous across all groups, as evidenced by the responses of those attending the roundtable events to the relevant statements in the questionnaire (as well as the deeper qualitative discussions at these proceedings). The SORP was seen to be driving improvement in accounting and reporting; and encouraging appropriate structure and discipline in charities by focusing the attention of trustees on key issues.

3.2 What are the key suggestions for changes to the existing SORP in terms of the annual report (additions, amendments, subtractions)?

There was strong support across all groups for the 'story' approach (whereby narrative explanations are used, drawing on nonfinancial performance information where available, to complement and interpret the financial statements). Funders in particular, identified as the key stakeholder group, supported much more thoughtful and focused reporting on performance issues as part of this. However there was concern that the need to report static, recurring information was taking away from this approach and diluting the impact of the Trustees' Annual Report (TAR). It was suggested that static standing information (such as details of bankers and auditors, or recurring policies) could be removed from the main body of the TAR and reported elsewhere (eg in the annual return).

3.3 What were the suggestions for simplifying the framework for smaller charities (incomes below £500,000)?

There was wide support for the SORP from those involved with small charities and from those involved with large charities. However, while it was perceived as working well for larger charities, there was consensus that the SORP was less user-friendly for small charities. In particular, it was considered difficult for small charities to identify the aspects of that SORP that related to them. Given that the vast majority (in numbers) of UK charities are small, there was support for the suggestion that the SORP be written for small charities with 'add-ons' for medium and large charities (a bottom-up approach).

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3.4 Is the SOFA supported or is an income and expenditure account preferred?

It was clear from the engagement with stakeholders that many users of charity financial statements, regardless of the basis of accounting and the terms used for documents, struggle with understanding the detail of the information. This is not dissimilar to issues relating to small investors and company financial statements in the business sector. While, as far as possible, steps should be taken to improve the presentation of financial information so as to aid understandability, it is accepted that an understandability gap inevitably arises (to some degree). With respect to the naming of the document and the terminology used for the main income statement, given that SOFA has been a term used for over 10 years and is now established in the sector, there was no widespread desire for reverting to a more business-like format and presentation. However, there was concern that too much information was presented on the face of the SOFA and it was suggested that much of it could be relegated to the notes (but not discarded). In doing this, the focus on the face of the document should be on distinguishing between restricted and unrestricted funds.

3.5 What are the key suggestions for change to the existing SORP in terms of the financial statements, accounting policies and notes to the financial statements (additions, amendments, subtractions)?

The major debating point related to the concept of matching with respect to capital grants and multi-period funding. While there was no easily identifiable consensus on the most appropriate approach, preparers and auditors in particular tended to be more supportive of matching the funding/grant to the related expenditure (ie a matching approach). This contrasts with the current approach recommended in SORP 2005 which advocates recognition in full in the period of entitlement.

3.6 Concluding comments

Poor accounting and reporting by charities (and, as a consequence, the possibility of scandals) could severely undermine confidence in the charity sector and reduce both charitable giving and charitable activity. The widespread adoption of appropriate accounting and reporting practices, and the ongoing renewal of such, has the potential to provide a basis for greater confidence in the control processes within charities and result in a more accountable and more legitimate sector. As a result public confidence will be enhanced. Such may be a desirable, or indeed necessary, condition for the continuing growth of the sector. This report, which considers the views of key stakeholders in a range of support, control and administration roles within the sector, makes available vital feedback on accounting and reporting issues. As such, it provides a valuable resource in ensuring that any revised SORP reflects legitimate stakeholder views and is fit for purpose.

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Appendix 1 Funders and Intermediaries providing Direct Feedback

1. Barclays Global Community Investment Team
2. Barclays Wealth
3. Bridge House Estates
4. Charities Aid Foundation
5. Children in Need
6. Department for Children, Schools and Families
7. Futurebuilders
8. Guidestar UK
9. Lloyds TSB Foundation
10. Northern Rock Foundation
11. Reed Foundation – via The Big Give
12. Sutton Trust
13. Wates Foundation

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Appendix 2 Analysis Sheet for Qualitative Data

1. Important General Themes

(a) Stakeholders
  (i) Who are the key stakeholders/users of charity annual reports and financial statements?
  (ii) What information matters/is important to these different groups?

(b) The SORP
  (ii) Is the SORP useful/a force for good?
  (iii) Should the SORP influence/stipulate practice? For example, with respect to board membership, risk, ethical investments, trustee induction, etc.
  (iv) Is the SORP too long and complex, especially for smaller charities?

(c) Discharging Charity Accountability
  (ii) What is/should be the role of charity annual reports and financial statements? ie stewardship/backward looking v future information?
  (iii) Does the 'story' approach work?
  (iv) What is the role of the annual review?

2. Trustees' Annual Report

(a) What works well and should be retained? Why?
(b) What should be removed? Why?
(c) What should be added? Why?
(d) What should be amended/revised? Why?

3. Financial Statements

(a) SOFA
(b) Income classification/recognition
(c) Grants
(d) Restricted/unrestricted/designated funds

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Appendix 3[4] Roundtable Questionnaire: Statements

Your views are sought on the issues already identified from the input we have received so far. Please **tick** the box that most closely corresponds to your views. You are encouraged to expand on any answer via the feedback form.

	Agree	Neither agree nor disagree	Disagree
Trustees' Annual Report			
1. Explaining how a charity has spent its money is the most important information.			
2. More emphasis on explaining outcomes and impacts would be the most valuable improvement to charity reporting.			
3. Trustees should be more balanced in their reporting and tell of both successes and failures.			
4. Rules on what must be included in the report help donors and financial supporters to make informed decisions.			
5. Smaller charities should be free to tell their own 'story' without any rules on what must be included in their annual report.[5]			
6. Smaller charities should be free to show their income and expenditure any way they choose without any rules being set by SORP.			
7. Stewardship reporting about past events is no longer important and reports should look mainly to what the future holds.			
8. Charities should explain clearly what they actually achieve.			
9. Volunteers should not be valued in the financial statements and their contribution is best shown by a mention in the annual report.			

[4] The statements included in the questionnaire distributed at the roundtable events were in a different order than presented here. They have been renumbered to facilitate a more appropriate flow. In addition, Statements 18 to 20 (although included in Appendix 4 in terms of an analysis of the results from the questionnaire) are not referred to in the main body of the report as there was no substantial discussion of the issues at the roundtable events.

[5] For purposes of completing the questionnaire, a 'small charity' was defined as one with an income of £500,000 or less per year.

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	Agree	Neither agree nor disagree	Disagree
Financial Statements			
10. Reporting activities in the SOFA is the best way of explaining in numbers what a charity did.			
11. Where possible the information given and layout of charity financial statements should be the same as that of small commercial companies.			
12. Consistent use of categories and headings in the SOFA helps donors and financial supporters to make informed decisions.			
13. Where possible things are best left as they are in the SOFA and balance sheet.			
14. Where a charity gets a capital grant (for example to buy a building) matching the grant to the life of the capital asset acquired distorts the charity's income.			
15. Where a charity awards multi-year grants to another charity this is best shown by matching the grant to the period over which it is paid.			
16. Knowing whether income is restricted or not is irrelevant to most users and that sort of detail is best kept in the notes rather than presented as additional column(s) in the SOFA.			
17. Reporting designated funds in the balance sheet is wrong and designated funds should only be explained as part of a charity's reserves policy in the annual report.			
18. When two or more charities agree to combine, this is better shown as a merger of the two rather than as one acquiring the other.			
19. When a charity is in financial distress and combines with another, the rescuer is best understood as acquiring the charity in difficulty.			
20.Only legally enforceable liabilities should ever be accrued and so 'constructive obligations' which cannot be legally enforced are just promises which are best excluded from liabilities.			

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Appendix 4 Roundtable Questionnaire: Response to Statements

A questionnaire was distributed to the participants at each of the roundtable events. The responses have been scored by the Charity Commission as follows: 2.0 = agree; 1.0 neither agree nor disagree; 0.0 disagree.

	Academics (9)	Auditors (364)	Funders (40)	Preparers (272)	Average of all Respondents (685)	Simple Average of four responding groups (unweighted by respondents)
Trustees' Annual Report						
1. Explaining how a charity has spent its money is the most important information.	0.9	1.6	1.3	1.4	1.5	1.3
2. More emphasis on explaining outcomes and impacts would be the most valuable improvement to charity reporting.	1.6	1.3	1.5	1.4	1.4	1.5
3. Trustees should be more balanced in their reporting and tell of both successes and failures.	1.8	1.7	1.6	1.6	1.7	1.7
4. Rules on what must be included in the report help donors and financial supporters to make informed decisions.	1.9	1.6	1.8	1.7	1.6	1.7
5. Smaller charities should be free to tell their own 'story' without any rules on what must be included in their annual report.	0.3	0.7	0.5	0.5	0.6	0.5
6. Smaller charities should be free to show their income and expenditure any way they choose without any rules being set by SORP.	0.3	0.7	0.1	0.5	0.6	0.4
7. Stewardship reporting about past events is no longer important and reports should look mainly to what the future holds.	0.7	0.3	0.3	0.4	0.4	0.4

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	Academics (9)	Auditors (364)	Funders (40)	Preparers (272)	Average of all Respondents (685)	Simple Average of four responding groups (unweighted by respondents)
8. Charities should explain clearly what they actually achieve.	1.9	1.9	1.9	1.9	1.9	1.9
9. Volunteers should not be valued in the financial statements and their contribution is best shown by a mention in the annual report.	1.4	1.7	1.6	1.7	1.7	1.6
Financial Statements						
10. Reporting activities in the SOFA is the best way of explaining in numbers what a charity did.	1.7	1.3	1.4	1.2	1.2	1.4
11. Where possible the information given and layout of charity financial statements should be the same as that of small commercial companies.	0.6	0.8	1.0	0.8	0.8	0.8
12. Consistent use of categories and headings in the SOFA helps donors and financial supporters to make informed decisions.	1.9	1.5	1.9	1.7	1.6	1.8
13. Where possible things are best left as they are in the SOFA and balance sheet.	1.0	1.2	1.4	1.2	1.2	1.2
14. Where a charity gets a capital grant (for example to buy a building) matching the grant to the life of the capital asset acquired distorts the charity's income.	0.9	1.0	1.4	1.0	1.0	1.1

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	Academics (9)	Auditors (364)	Funders (40)	Preparers (272)	Average of all Respondents (685)	Simple Average of four responding groups (unweighted by respondents)
15. Where a charity awards multi-year grants to another charity this is best shown by matching the grant to the period over which it is paid.	1.9	1.6	1.7	1.6	1.6	1.7
16. Knowing whether income is restricted or not is irrelevant to most users and that sort of detail is best kept in the notes rather than presented as additional column(s) in the SOFA.	0.3	0.5	0.4	0.6	0.6	0.5
17. Reporting designated funds in the balance sheet is wrong and designated funds should only be explained as part of a charity's reserves policy in the annual report.	0.6	0.8	0.7	0.9	0.8	0.7
18. When two or more charities agree to combine, this is better shown as a merger of the two rather than as one acquiring the other.	1.4	1.4	1.4	1.3	1.4	1.4
19. When a charity is in financial distress and combines with another, the rescuer is best understood as acquiring the charity in difficulty.	0.9	1.4	1.3	1.4	1.4	1.2
20. Only legally enforceable liabilities should ever be accrued and so 'constructive obligations' which cannot be legally enforced are just promises which are best excluded from liabilities.	1.3	1.2	1.6	1.1	1.2	1.3

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Notes

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