



power to
change

business in
community
hands

Research Brief: Smaller charities, SORP and issues of financial accounting and reporting

15th February 2021

About Power to Change

Power to Change is an independent charitable trust that supports and develops community businesses in England. We have a vision of better places created through community business. The Power to Change Research Institute seeks to support this vision by commissioning high-quality research, promoting rigorous analysis and stimulating critical scrutiny and debate. In doing so we aim to shape both policy and practice.

About the Lloyds Bank Foundation

Lloyds Bank Foundation for England and Wales partners with small and local charities who help people overcome complex social issues. Through funding for core costs, developmental support and influencing policy and practice, the Foundation helps charities make life-changing impact.

During 2020, the Foundation awarded £24.8m to small and local charities helping people facing disadvantage. With the unprecedented circumstances of coronavirus such charities have been never more needed. The Foundation is an independent charitable trust funded by the profits of Lloyds Banking Group.

About the Charities Aid Foundation

Charities Aid Foundation (CAF) is a charity, bank and champion for better giving, and for over 90 years we've been helping donors, companies and charities make a bigger impact. Our independence, expertise and reach mean we're uniquely placed to do this. At CAF, we exist to make giving go further, so together we can transform more lives and communities around the world.

Background

The Charity Commission for England and Wales, the Office of the Scottish Charity Regulator and the Charity Commission for Northern Ireland are jointly responsible for the Charities Statement of Recommended Practice (SORP), one of seven SORPs authorised by the Financial Reporting Council. In July last year they launched an engagement process to develop the next iteration of the SORP.

The SORP is a requirement for all company charities (regardless of income), as well as larger charitable incorporated organisations (CIOs) and unincorporated charities with an income of £250k or more. However, many non-company charities with income below £250k voluntarily choose to follow the SORP.

1. This project is intended to look at how to improve the understanding, accessibility and value of the Trustees Annual Report (TAR) and accounts for smaller charities prepared under the current SORP, whilst also considering how the burden of the existing requirements could be reduced.

In particular, it should address:

- Views and ideas for how to balance regulatory compliance with “telling the social and financial story”. In particular, the TAR is thought to create a tension between the requirement to be as transparent as possible and the desire for the charity to develop its narrative, not least in order to present itself in a positive light to funders, donors and stakeholders.
- Whether there should be segmentation (or tiers) of requirements amongst smaller charities and, if so, what that might look like. For example, what simplifications would help to reduce the burden and improve accessibility and understanding for the smallest charities?
- The degree to which smaller charities understand core charity accounting concepts such as recognition of grant income, fund accounting and reserves.
- The widespread perception that many smaller charity trustees and CEOs tend to focus on bank transactions or (where they are prepared) management accounts and that they do not really understand SORP accounting.
- The reliance of smaller charities on external accountants/independent examiners, and concerns about varying cost, quality, and consistency across the profession. In particular, compliance with SORP guidelines for the Statement of Financial Activities (SoFA) and the treatment of reserves have been highlighted as areas of concern.
- Perspectives on the future including, for example, the increasing use of technology and approaches to reporting the impact of climate change.
- The research should look across the UK.

Research brief

We have allocated up to £20,000 (including VAT) for this project. In addition to the issues listed above, the project should aim to answer the following questions:

1. What is the estimated number of charities with an income below £500k that use the SORP? (Ideally set out in a number of income bands.)
2. Why do some smaller non-company charities (ie. those with incomes below £250k) choose to use the SORP rather than simple receipts and payments (R&P) accounting?
3. To what extent do smaller charities understand key charity accounting concepts such as fund accounting, grant recognition, fair value and reserves?
4. To what extent do smaller charities rely on external accountants/independent examiners for advice and preparation of SORP accounts Does this vary by the size of charity? Is this reliance expected to change in the future?
5. Could the SoFA and annual accounts guidelines be improved/simplified to benefit smaller charities? Should the option of using natural classifications in the SoFA be promoted and possibly extended? What other simplifications in the annual accounts should be considered?
6. Could the requirements of the TAR be improved/simplified to benefit smaller charities?

7. Could the quality and consistency of support from external accountants/ independent examiners be improved?

Applicants are invited to propose the methodology they think will best answer these research questions, and any other questions they think might be relevant. We would expect that methodology to include:

- A review of the academic and grey literature on accounting for smaller charities, as well as a summary of any relevant charity statistics.
- A survey to be sent to a representative sample of smaller charities. This should include a justification for the target sample size and a plan for achieving it.
- A survey to be sent to a representative sample of external accountants/ independent examiners.

One or more focus group discussions with smaller charities and independent examiners. We are particularly interested in testing different ideas/formats with a range of stakeholders who read and use the TAR to identify its most important aspects. Similarly for annual accounts (e.g. with various simplifications or set out with different approaches).

Given the time, resource and skills constraints faced by many smaller charities, it is important that any communication with them is in Plain English and does not assume any knowledge of SORP. The research should be carried out in accordance with the Social Research Association's [ethical guidelines](#).

Power to Change, Lloyds Bank Foundation and the Charities Aid Foundation would consider adding up to a further £5,000 to the project budget to pay for a 'prize draw' or other incentive mechanism that the applicant thinks might increase participation in the survey of smaller charities, to ensure a sufficiently large sample size.

Project management

The project is to be completed and the final report submitted by Wednesday 30 June 2021. Day-to-day management will be overseen by Suzanne Perry, Research Officer, at Power to Change.

The project will be guided by a steering group made up of representatives from:

- Power to Change
- Lloyds Bank Foundation
- Charities Aid Foundation
- Small Charities Coalition
- Charities SORP Committee 2020
- Charities SORP Smaller Charities and Independent Examiners Engagement Strand

Deliverables

A final report will be required. The exact structure of the report will be agreed once the project has commenced however it should fully answer all of the research questions, summarise the findings of the literature review, surveys and focus group(s). It should also include a series of recommendations for consideration by the Charities SORP Committee 2020 on potential improvements including for example alternative, simpler ways of presenting the accounts and TAR.

The report should aim to be no longer than 30 pages long. It should contain an executive summary and a methodology section, and all sources must be clearly referenced using the Harvard system. A bibliography should be included as an appendix, along with other relevant information such as lists of consultees or interviewees, where relevant. Power to Change has writing guidance which will be shared. This contains details of our chosen presentation and writing styles. All research will be published under Creative Commons license.

All documents should be presented in Microsoft Word format. We will undertake graphic design and publication at Power to Change, this does not need to be included in the project budget.

Related research

There have been two other recent SORP-related surveys:

- Morgan, G, Pienkowska, J, Rutherford, M, December 2020, *Survey of Charitable Funders' Views of Accounts prepared under the Charities SORP*
- Civil Society Magazine, January 2021, *Charity Finance SORP Survey* [unpublished]

Copies of these surveys are attached at Annexes A and B. Neither are targeted at smaller charities

Bidding for this work

Please submit a proposal of no longer than four pages to Suzanne Perry by the 17th March 2021. Your proposal will be considered by a panel of Power to Change, Lloyds Bank, Charities Aid Foundation and independent representatives and assessed based on understanding of this brief, approach to the research and cost effectiveness. You will be notified as to whether you are successful or not by the 31st March.

If you have any questions please contact Suzanne Perry, Research Officer – Suzanne.perry@powertochange.org.uk

Annex A: Survey of Charitable Funders' Views of Accounts prepared under the Charities SORP

ASSOCIATION OF CHARITABLE FOUNDATIONS

SCOTTISH GRANTMAKERS

PHILANTHROPY IRELAND

Survey of Funders' Views of Accounts prepared under the Charities SORP

Introduction

In awarding grants or other financial support to charities, most grantmakers ask charities applying to them to submit a copy of their accounts.

Except for applications from smaller charities preparing receipts and payments (R&P) accounts, most of the accounts received will usually be prepared in accordance with the standard known as the *Charities SORP**. But does the SORP actually lead to accounts that are helpful for funders when deciding to award grants?

The Association of Charitable Foundations (ACF), Scottish Grantmakers (SGM) and Philanthropy Ireland have combined to launch this survey to seek the views of funders regarding SORP accounts.

Please note that this survey is about the accounts of charities that apply to you seeking grants or other support (not the accounts of your charity or foundation).

The four charity regulators across the UK and Ireland (CCEW, OSCR, CCNI and the Charities Regulator of Ireland) are responsible for the Charities SORP. They have launched a range of *SORP engagement panels* whose findings will feed into the development of the next SORP. Both ACF and SGM are represented on the SORP Engagement Panel concerned with the view of Major Funders and Donors. The results of this survey will feed into that process (however the survey is solely the responsibility of ACF and SGM).

*The *Charities SORP* is an abbreviation for the document *Accounting and Reporting by Charities: Statement of Recommended Practice*. The latest version is the *Charities SORP (FRS102)* which took effect from 2015.

How your responses will be used

The survey is being conducted by ACF and Scottish Grantmakers, with the support of Philanthropy Ireland. ACF is the data controller. The information is being collected anonymously (unless you choose to give your contact details at the end). The organisers of the survey will prepare a report which will summarise the results and which may include direct quotes from narrative answers (but it will not attribute comments to named respondents).

SECTION A: ABOUT YOUR ORGANISATION AND ITS USE OF APPLICANTS' ACCOUNTS

1. Does your organisation regularly award grants to other charities? [Y/N]

When we ask about grant awards in this survey, please include other forms of financial support (such as loan finance if offered to charities you support).

[End survey if answer is N].

2. Approximately how many grant awards per year does your organisation make to charities you support? [Number]

This survey is only about grants to other charities in the UK and Ireland – please don't include grants to individuals, businesses, community interest companies, non-charitable voluntary groups or to organisations outside the UK and Ireland.

3. Approximately how many grant applications per year do you receive from charities? [Number]

Please include applications that you have solicited as well as open application programmes.

4. To what extent do you use the accounts of charities applying to you in your grantmaking decisions? (Please choose the answer which most frequently applies.)

By 'accounts' we mean the final annual accounts, as approved by the trustees, normally including a trustees' annual report and the report of the charity's auditor or independent examiner. (In most cases these would be as filed with a charity regulator.)

[Multiple choice – select one]

- The charity's accounts are central to our grantmaking decisions
- The charity's accounts are always considered as part of our grantmaking decisions but are not usually central
- We normally glance at the accounts of charities applying to us to gain an overview or to spot specific problems but we do not spend much time on them
- We require to see the accounts of charities applying to us before a grant is awarded but we do not normally read them.
- We do not normally use the formal accounts of a charity in our grantmaking decisions.

5. Do you personally review charity accounts from grant applicants? [Y/N]

6. Approximately how many sets of charity accounts from grant applicants would you personally review in a typical year? [Number]

[If 0, end survey]

7. Many smaller charities are allowed to produce receipts and payments (R&P)* accounts as an alternative to following the Charities SORP. Roughly what proportion of accounts you consider are prepared on each of the following bases?

[Insert percentages – must total to 100%]

- Applicants' accounts prepared on the R&P basis: [%]
- Applicants' accounts largely complying with the Charities SORP: [%]
- Applicants' accounts that are neither R&P nor SORP format: [%]

**R&P accounts are generally allowed in all three jurisdictions of the UK (E&W, Scotland and NI) for non-company charities up to £250,000 income – though charities below this level may opt to follow the SORP. In Ireland, use of the SORP is encouraged for charities over €250,000 income but it is not yet compulsory.*

SECTION B: USE OF SORP ACCOUNTS IN GRANT-MAKING DECISIONS

Intro: The remaining questions are purely about applicants' accounts prepared under the SORP (where at least some attempt is made to follow the SORP).

8. On average, how much time would you spend reading a set of SORP accounts submitted by a grant applicant (including the trustees' report and the audit/independent examination report): [mins]

9. How easy do you find it to read SORP accounts for the purposes of grantmaking decisions? (Please choose the answer which most frequently applies.)

[Multiple choice – select one]

- They are generally clear and easy to understand
- Most of the content is clear but I have some difficulties
- They are neither easy nor difficult
- Much of the content is difficult, but I get some useful information
- They are generally difficult to understand.

10. In what ways do you find SORP accounts difficult to use when reading them as a grantmaker? (Please list up to three issues)

[Narrative text box]

11. To what extent do you agree with the statement: *Accounts produced under the Charities SORP are unnecessarily complex for those who need to read them*

[Multiple choice – select one]

- Strongly agree
- Somewhat agree
- Neither agree nor disagree
- Somewhat disagree
- Strongly disagree

12. To what extent do you find the following features of SORP accounts are important to readers? (Note: Some of these are not required for SORP accounts of smaller charities under £500,000 / €500,000 income).

[Each line offers following choices:]

- Unimportant / Somewhat important / Essential
- (a) Fund accounting – separation of funds into different columns on the statement of financial activities (SOFA)
 - (b) Provision of a narrative Trustees' Annual Report (TAR) alongside the accounts
 - (c) Functional breakdown of expenditure on the SOFA, distinguishing fundraising costs from expenditure on charitable activities
 - (d) Notes of major sources of income
 - (e) Details of staff costs
 - (f) Details of any staff salaries over £60K (€70K in Ireland)
 - (g) Notes of pension liabilities
 - (h) Notes of transactions with trustees or connected persons
 - (i) A reserves policy in the TAR
 - (j) Provision of a cash flow statement for the year to which the accounts relate
 - (k) Notes on accounting policies
 - (m) Note on whether the accounts are on a going concern basis
 - (n) Explanation of the purpose of individual funds
 - (o) Breakdown of support costs
 - (p) Free text notes with more detail on specific issues for the charity concerned.

13. Are there aspects of SORP accounts that you consider to be *unhelpful* (for example, notes or features that you would prefer to be omitted from a future SORP)?

[Narrative text box]

14. The SORP is designed to apply the general purpose accounting standard FRS102 to the specific context of charities – so it can add charity-specific requirements but it must ensure that charity accounts will comply with FRS102. How important is this to you as a reader of charity accounts? (Please choose the answer which most closely reflects your view.)

[Multiple choice – select one]

- It is very important that the SORP complies fully with FRS102 so that the figures in charity accounts are directly comparable with accounts of other (non-charitable) entities
- It is desirable for the SORP to comply with FRS102 as much as possible, but a few minor departures for charities would be acceptable.
- Neutral/no opinion
- The SORP should only link to FRS102 in areas where this can be done without difficulty for charities
- Linking the SORP to FRS102 is completely unnecessary – there is no need for charity accounts to be comparable with other entities.

15. The SORP already allows some simplified rules for smaller charities (up to £500,000 / €500,000 income) but it has been suggested that it might be better to have a completely separate SORP for smaller charities (possibly linked to the FRS105 standard available for micro-businesses, rather than to FRS102). To what extent do you feel this would be helpful? (Please choose the answer which most closely reflects your view.)

In your answer, please assume that charities under £250,000 income would still have the option of R&P accounts if they are not structured as companies.

[Multiple choice – select one]

- For those reading accounts, it is important that the SORP is consistent for charities of all sizes, so I would not welcome any simplifications for smaller charities beyond those currently permitted.
- I would like to see more simplifications for smaller charities but within one overall SORP.
- Neutral/no opinion
- I feel the use of simpler SORP for smaller charities could possibly be helpful for readers of charity accounts.
- I would firmly welcome a separate SORP for smaller charities, even if it meant some clear differences between the accounts of smaller and large charities following SORP.

16. Do you have any other comments regarding the use of SORP-based charity accounts in grantmaking decisions?

[Narrative text box]

SECTION C – RESPONDENT DETAILS

17. To charities in which jurisdiction are most of your organisation's grants awarded?

England & Wales / Scotland / Northern Ireland / Ireland

18. What is the typical income range of charities to which you award grants? (Note: This question is about the *total income* of charities to which you award grants – not the size of your grants.)

Lowest typical income of charities awarded grants: []

Highest typical income of charities awarded grants: []

19. Are you happy to be contacted to discuss these issues further? [Y/N]

20. Would you like to receive an email with a link to the results of this survey when analysed?
[Y/N]

21. If you answered Yes to either of the last two questions, please give your details as follows:

Name: []
Organisation: []
Email []

THANK YOU

Annex B: Civil Society Magazine / Charity Finance SORP Survey

Exit



Charity Finance SORP Survey

*** 1. Please enter details about yourself and your organisation:**

First name	<input type="text"/>
Last name	<input type="text"/>
Job title	<input type="text"/>
Charity	<input type="text"/>
Charity's annual income	<input type="text"/>
Email	<input type="text"/>

2. Is the Charities SORP fit for purpose?

- Yes
- No

3. The four charity regulators across the UK and Ireland make up the SORP-making body, which is responsible for creating the Charities SORP. According to the terms of reference for SORPs issued by the FRC, the SORP-making body should be "representative of the sector" it is working for. Do you believe the regulators are the right bodies for the role?

- Yes
- No
- Unsure

If you have any further comments on this please do so here:

4. How easy is the Charities SORP to apply in practice?

- Very easy
- Fairly easy
- Neutral
- Quite difficult
- Very difficult

5. What would you like to see added to the next version of the Charities SORP?

- A tailoring to charity size
- More guidance on narrative reporting issues like environmental reporting
- Include receipts and payments accounting
- FRS 102 sections so that we don't have to refer to SORP and FRS 102 separately
- Sector specific guidance, eg academies and PCCs
- Example lay outs
- Other (please specify)

6. Should the Charities SORP focus more on how a charity achieves charitable impact rather than on presenting financial information?

- It should focus more on charitable impact
- It should maintain the current balance

7. Do you feel that complying with the Charities SORP is too time consuming?

- Yes
- No

8. In total, how many days of work do you think goes into producing your charity's annual report and accounts (adding together contributions by different staff members, volunteers or advisers)?

- 0-5 days
- 5-20 days
- 20-50 days
- 50-100 days
- 100+ days

9. There are plans to develop an international accounting standard for not for profits (including charities). Are you in favour of this?

- Yes
- No
- Don't know

10. If you have any further comments on this, please make them here:

Done >>