

Charities SORP Consultation

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CATEGORY:
[ARTICLE](#)

SORP refers to 'Statement of Recommended Practice: Accounting and Reporting by Charities' (SORP for short). It sets out certain 'rules' which, if not followed, render the accounts insufficient as to information given or clarity of presentation.

Changes to the SORP were once a frequent event, but the last actual change occurred in 2005, and the forthcoming proposed change will only apply with effect from 2015. So, if the current SORP ain't broke, why fix it? This is because of the need to make the SORP compliant with the proposed new accounting framework which has been agreed at an international level, called FRS 102. It is also intended to be compatible with the Financial Reporting Standard for Smaller Entities (FRSSE – pronounced 'frizzy'), which some 90 per cent of charities of a smaller nature are thought to be eligible to use.

The consultation window is fairly lengthy, running for 17 weeks from 8 July to 4 November 2013. But when one considers that a considerable part of that period is covered by the summer holidays, the deadline is relatively short. 4 November should really be regarded as the end of October, which means that there is in effect two months, post summer holidays, to make your views known. That said, the exposure draft is based upon soundings already undertaken with stakeholders, which have led the Charity Commission to ask specific questions in the hope of fine tuning the outcome. Specifically we are told that *'the responses received to this consultation and the feedback provided at consultation events will be analysed and carefully reviewed by the joint SORP-making body and the SORP committee'*. There are 25 questions in all, but there is no obligation to answer all of them.

It is difficult to pick specific issues out of 25 formal questions, but the following are the points which caught our attention.

Question 12 asks whether the SORP should require larger charities not only to disclose staff salaries in certain bands (as now) but also to disclose the job title and the specific remuneration of their highest paid employee. It is difficult to see how any large charity is going to think this is helpful, so responses in the affirmative are likely to come from those very charities which would not have to apply the rule, or from the general community of 'charity-watchers'.

Question 13 seeks to discuss the distinction between disclosures which arise from accounting standards (ie general rules of accounting per se), and disclosures arising from charity law or what is described as 'the higher level of accountability expected of charities'. This is likely to give rise to some fairly keen discussion.

Question 19 poses the intriguing question as to whether a separate corporate body to the charity can be regarded as a branch and thus incorporated into the charity's own individual entity accounts (as distinct from being shown separately, or as part of consolidated accounts). It then asks, *'if so, how would you distinguish a separate corporate body that is a branch from one which is a subsidiary and included in a parent charity's group accounts?'* Exactly. It is not easy to see why this is being posed at all. A separate company is a separate legal person, and it seems counterintuitive to call it a 'branch'.

We also have an intriguing issue under question 18, which refers to what are called 'mixed motive investments'. These are investments where there is both a purely charitable benefit (that is, it furthers the objects of the charity per se) and a potential commercial return. These hybrid situations are troublesome, since, for obvious reasons, it is extremely important to track investment losses in pure investment ventures, whereas losing money on your own charitable objects is neither here nor there. The solution suggested is that a mixed motive investment should be treated as though it were a pure financial investment, and subject to the rigours of being shown where loss making. Is that appropriate? It seems to deny the charitable benefit or to treat it as though it were itself a by-product, whereas one would have thought that it was the investment benefit that was the by-product. This should produce lively debate.

Finally, question 9 deals with how to report restricted funds, and observes that the current SORP does require a fairly full blown analysis. It is clear that the authors of the SORP review would prefer to retain something along those lines, but others may opt for simplification. The question as to how best to deal with restricted funds and the obligations that these place upon a charity is a perennial topic of conversation.

Whilst statutory accounts are not the most interesting subject in the world, they can certainly become one of the most painful and therefore a review of new requirements is an important matter. It would be advisable to respond with your views, and the deadline is not far off.