

# Association of Accounting Technicians (AAT) response to the Independent Oversight Panel invitation to comment on “Guiding the Development of the Charities SORP”

## 1. Introduction

- 1.1. The Association of Accounting Technicians (AAT) is pleased to have the opportunity to respond to the invitation to comment from the Independent Oversight Panel, "*Guiding the Development of the Charities SORP*" published on 26 November 2018.
- 1.2. AAT has over 140,000 members, of which 9% identify as working in the charity sector; many more licensed accountants will have a range of different charities as clients and some members spend time volunteering for a charity.

## 2. Executive summary

- 2.1. **AAT agrees that having an advisory SORP Committee is a good way of ensuring stakeholder engagement with the development of the Charities SORP.**  
However, AAT recommends changes to the composition of the SORP Committee as donors, beneficiaries, trustees from smaller charities and preparers of the accounts of smaller charities do not appear to be appropriately represented.
- 2.2. **AAT believes it would be useful to have a small number of non-technical professionals on the Charities SORP committee.**  
This should help to address concerns that the work of the SORP Committee has too great a technical emphasis and better reflects the views of users of accounts.
- 2.3. **AAT recommends that consideration be given to introducing a "Simplified" Charities SORP.**  
This would help to make the document more accessible to trustees, with a non-financial background and of charities with more straightforward financial affairs.
- 2.4. **The consultation process could be improved to drive participation in the process amongst under-represented groups.**  
AAT suggests directly notifying charities, encouraging those charities to in-turn highlight this fact to their donors and beneficiaries and engaging with third sector media both to promote wider awareness but also to encourage journalists with knowledge of this area to consider responding themselves.

## 3. AAT response to Guiding the Development of the Charities SORP

### Question 1

**Please explain your role (or the charity or organisation on whose behalf you are responding) including your specific interest in or use of charity accounts. (However, please do not include any personal information in your formal response which you do not wish to be published.)**

- 3.1. AAT is a registered charity whose objectives are to advance public education and promote the study of the practice, theory and techniques of accountancy and the prevention of crime and promotion of the sound administration of the law.
- 3.2. As stated in the above introduction, AAT has over 140,000 members, of which 9% identify as working in the charity sector; many more licensed accountants will have a range of different charities as clients and some members spend time volunteering for a charity.
- 3.3. Regarding licensed members who act as Independent Examiners, it should be noted that they have a statutory duty to report matters of material significance to the Charity Commission.
- 3.4. While this response is primarily from the perspective of preparers, AAT's interest extends to the wider issue of maintaining public trust and confidence in the charity sector.

## **Question 2**

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

- 3.5. The primary users of charity reports are likely to be prospective and existing donors closely followed by regulators, creditors and lenders and finally, employees and other interested parties.

## **Question 3**

**What do you see as being the main purpose of the Charities SORP? Do you feel it is effective at meeting that purpose? If not, what changes would you suggest to the processes of developing the SORP to improve its effectiveness for those who prepare and use charity accounts?**

- 3.6. The main purpose of the Charities SORP is to be an accessible document that enables the trustees to prepare the accounts of their charity – helping trustees meet the legal requirement for their accounts to give a true and fair view. The document also encourages consistency and provides certainty in charity accounting standards.
- 3.7. A vast number of trustees, especially of smaller charities, do not have the financial training, experience or understanding to deal with some of the complex concepts and transactions covered in the Charities SORP.
- 3.8. Similarly, most accountants only learn about much of the SORP in theory and rarely come across much of its content in practice (e.g. hedging, derivatives). This can create problems in practice, in that the trustees of smaller charities look to their auditor/independent examiner to prepare the accounts - which also has a self-review threat where the external scrutineer is “marking his own homework”. This may be acceptable in practice, but it is not desirable.
- 3.9. The Charities SORP is a comprehensive 195-page document that appropriately directs charities that require more guidance towards the FRS. However, it is still far too detailed and therefore less accessible for most charities with straightforward financial affairs.
- 3.10. The Charities SORP should be a single stand-alone document. Update bulletins or other documents accompanying the SORP should be avoided as this creates a confusing need to constantly cross reference and reduces certainty and confidence in the main document. If sufficient changes are required, then the document itself should be updated.

## **Question 4**

**Do you agree that having an advisory SORP Committee is the best way of ensuring stakeholder engagement with the development of the SORP? If not, what alternative arrangements would you recommend and why?**

- 3.11. AAT agrees that having an advisory SORP Committee is the best way of ensuring stakeholder engagement with the development of the Charities SORP. However, AAT has some recommendations on the composition of the SORP Committee as detailed in the response to question 5 below.

## **Question 5**

**Do you consider that the composition of the current SORP Committee is appropriate both (a) to provide the necessary expertise in charity accounting and (b) to reflect the range of stakeholders who use charity accounts and reports? If not, what changes are necessary to the membership of the Committee and why? For example, if you feel more representation is needed from beneficiaries or from donors, or from particular types or sizes of charities, please give details.**

- 3.12. AAT believes that the composition of the current SORP Committee is likely to provide the necessary expertise in charity accounting.
- 3.13. However, the current composition does not appear to adequately reflect the range of stakeholders who use charity accounts and reports.

- 3.14. To address this apparent shortfall, AAT suggests serious consideration is given to the addition of beneficiaries, donors, trustees from smaller charities (although AAT notes this group is partially represented by an independent examiner on the SORP Committee) and preparers of the accounts of the smaller charities.
- 3.15. The invitation to comment suggests including people with the “...*necessary expertise in charity accounting*”. However, it is equally important that there is representation from those who do not come from a financial background and do not necessarily have technical expertise but do offer valuable perspective, insight and experience because of their engagement with charity accounts whether as beneficiaries, donors, as trustees or in some other format.

#### **Question 6**

**Do you consider that the work of the SORP Committee is overly technical in its approach? If so, what changes should be made? (In your answer you may wish to reflect on how the work of the SORP Committee could be made less technical, whilst still ensuring the SORP reflects the requirements of general purpose accounting standards and the requirements of charity law.)**

- 3.16. The problem for the SORP Committee is that it is trying to provide a one-size-fits-all Charities SORP that must meet the needs of the full spectrum of charities where the spectrum does not relate just to size but to the level of financial complexity.
- 3.17. The needs of smaller charities are partially met as they can prepare the simpler Receipts and Payments accounts. Nevertheless, consideration should be given to introducing a “Simplified” Charities SORP for charities with straightforward financial affairs.

#### **Question 7**

**Do you have any comments on the balance of the membership of the SORP Committee?**

- 3.18. Please see AAT’s response to question 5 above.

#### **Question 8**

**Do you have any suggestions as to how the SORP making body might improve the consultation process – either at the research stage or at the exposure draft stage?**

- 3.19. AAT responds to approximately 80 consultations every year. These are to a range of different Government departments, Select Committees, regulators and bodies and whilst there are occasionally extremely popular consultations which capture the public imagination e.g. the recent single use plastics consultation which attracted over 160,000 responses, typically in the region of 50-100 responses to consultations/inquiries/calls for evidence are received.
- 3.20. The fact this consultation process last attracted in the region of 160 responses may suggest that the process is working sufficiently well.
- 3.21. However, as the invitation to comment acknowledges, engagement from beneficiaries, the donating public, wider commentators on the sector, and smaller funders and some government funders remains low.
- 3.22. There are numerous ways of seeking to address this issue. Firstly, to directly notify charities that a consultation is taking place. Secondly, encourage those charities to in-turn highlight this fact to their donors and beneficiaries. Thirdly, to engage with third sector media both to promote wider awareness but also to encourage journalists with knowledge of this area to consider responding.

#### **Question 9**

**Can you suggest any organisations (in particular, those that may not have taken part in past SORP consultations) that you consider it would be useful for the SORP-making body to consult?**

- 3.23. The third sector media (national and trade), not just to promote awareness of the consultation but to encourage journalists to respond themselves.
- 3.24. AAT assumes that at least the top 100 UK charities are already notified but if not, they most certainly should be.

- 3.25. The smaller end of the sector must be adequately represented too. Given AAT's membership profile we would be happy to undertake focus group activity on this issue in the future if requested. Likewise, bodies such as the British Chambers of Commerce and Federation of Small Businesses should also be notified, and feedback sought.

#### **Question 10**

**Do you think that the balance given to various groups during consultations concerning the development of the SORP should change? For example, do you consider that more or less weight should be given to any of the following groups:**

- (a) beneficiaries**
- (b) the donating public**
- (c) representatives of smaller funders**
- (d) representatives of larger funders**
- (e) representatives of smaller charities**
- (f) representatives of larger charities**
- (g) the accountancy profession**
- (h) commentators on the sector and journalists**
- (i) any other categories you consider relevant?**

- 3.26. This very much depends on the outcomes being sought but whilst all views should be given due consideration, irrespective of which audience they emanate from, it is not unreasonable to give additional weight to those most likely to be affected or with greater experience in a relevant area.
- 3.27. For example, whilst the views of smaller charities must always be considered, that should be against the backdrop that smaller charities can prepare the simpler Receipts and Payments accounts.
- 3.28. Likewise, larger charities views must be considered against the backdrop of greater resources to seek professional advice and more generally invest in compliance.

#### **Question 11**

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

- 3.29. Representation on the Charities SORP committee would probably be the best way of achieving this but various other steps could be taken in conjunction with this e.g. focus groups comprising of different groups e.g. donors, beneficiaries, small charities, large charities and so on.

#### **Question 12**

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

- 3.30. AAT does not have any additional suggestions for improvement.

#### **Question 13**

**Do you think that the SORP development process should cover all forms of financial reporting by charities – both those required by charity law (or company law) and other financial communications issued by charities – for example in a non-statutory annual review, summary financial reports, or visual summaries of a charity's finances?**

- 3.31. The SORP development process could cover all forms of financial reporting by charities. However, AAT recommends that the Charities SORP itself should only cover financial reporting by charities that is required by charity or company law.
- 3.32. Non-statutory reviews and summary financial reports may be subject to developments and changes at a much faster rate than charity law. So, if the SORP development process included non-statutory financial reports then it would mean that the Charities SORP would need to be updated on a more frequent basis. An increase in the frequency of when new Charities SORPs are issued is likely to be perceived as unhelpful by many preparers. Therefore, if the SORP development process included non-statutory forms of financial reporting by charities, then this guidance should be contained in a separate document that could be more frequently updated without the need to update the Charities SORP.

#### Question 14

**If you agreed that the SORP Committee should issue guidance on non-statutory financial reporting by charities, what form do you feel such guidance should take, bearing in mind that (without a change in the law) it would not be mandatory?**

3.33. AAT's response to Question 13 refers.

#### Question 15

**If you considered that the SORP process should cover all forms of financial reporting by charities, what changes to the SORP Committee and SORP consultation process would you recommend and why?**

3.34. Extending the SORP development process from covering statutory financial reporting to also covering non-statutory financial reporting is unlikely to raise any problems. The FRC reviews any new Charities SORP to ensure it agrees with FRS102, another reason for having a separate document for non-statutory financial reporting as it would not impact the FRC's review.

#### Question 16

**Do you have any other comments on how the SORP is developed, the SORP-making body, the advisory SORP Committee or the SORP consultation process?**

3.35. AAT has no further comments.

#### 4. About AAT

- 4.1. AAT is a professional accountancy body with approximately 50,000 full and fellow members and over 90,000 student and affiliate members worldwide. Of the full and fellow members, there are more than 4,250 licensed accountants who provide accountancy and taxation services to over 400,000 British businesses.
- 4.2. AAT is a registered charity whose objectives are to advance public education and promote the study of the practice, theory and techniques of accountancy and the prevention of crime and promotion of the sound administration of the law.

#### 5. Further information

- 5.1. If you have any queries, require any further information or would like to discuss any of the above points in more detail, please contact Phil Hall, AAT Head of Public Affairs & Public Policy:
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