

WHAT ARE THE KEY ISSUES IN CHARITY FINANCE NOW?

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ABSTRACT

Considerable effort has been invested over the past thirty years in the development of financial reporting and auditing standards for the “not for profit” sector.

It is unclear whether adequate attention has been given to the underlying finance issues which charities face. This research seeks to identify “what are the key issues in charity finance now” by looking at data provided by personnel working in the sector.

Much is made of accountability and transparency in the sector. There is a need for tangible enhancements in reporting, especially regarding internal controls, reserves policies and key performance indicators, to support these objectives.

EXECUTIVE SUMMARY

Ninety two per cent of charities have income of less than £ 250 k (Appendix 2). The remaining fifteen thousand registered charities have income up to several hundred million pounds.

Considerable attention has been paid to over the past thirty years to the development of accounting and auditing standards for the sector. Whilst the quality of public financial information on charities has improved there are still inconsistencies. It is unclear whether the underlying systems and controls have kept pace.

An important observation by Gambling and Jones in 1996 was that:

“the annual reports and accounts, upon which so many of the recent reforms concentrate, can only be as good as the administrative systems that underpin them”.

This research sought to ascertain from empirical data available from finance personnel what are the issues in finance now and what scope for improvements might exist.

The data reviewed for this project showed that:

- internal controls to be the top topic group by incidence;
- reporting was the second topic group, with (1) information technology and (2) the need for timely, accurate and relevant management information the top two individual topics;
- commercial activities, including planning for primary purpose trading, ranked as the third topic;

EXECUTIVE SUMMARY (cont)

- fourth, above strategy and governance, was tax compliance which was predominantly handling the partial exemption and capital goods VAT schemes;
- there was a low incidence of comments on cash management but high returns noted when the topic was addressed.

The primary recommendations arising from this research are:

1. ACCOUNTABILITY & TRANSPARENCY

Review these concepts espoused by the Charity Commission to confirm their relevance. Also provide more tangible data to support the concepts, as described below.

2. DISCLOSURES TO SUPPORT ACCOUNTABILITY & TRANSPARENCY

Three additional types of disclosure are recommended:

- KPIs

Research required on core KPIs which all charities could report within their Trustees' Annual Report. Focus on outcomes and their costs would assist the public to assess value for money and provide more explicit accountability.

EXECUTIVE SUMMARY (cont)

DISCLOSURES TO SUPPORT ACCOUNTABILITY & TRANSPARENCY

- require trustees to report on internal controls & make the good governance code mandatory

There is no requirement for Trustees to comment on internal controls and compliance with the Good Governance Code is voluntary. Such disclosure and compliance would enhance transparency.

- risk & reserves policies

Inclusion in the reserves policy of an explicit statement on the utilisation of a risk based assessment to determine the reserves maintained, would provide external stakeholders another tangible measure by which to assess charities.

3. OTHER RECOMMENDATIONS

Other recommendations include:

- Consider the need for an Urgent Issues Task Force to secure consistency in reporting;
- Value volunteers in financial statements;
- Create a model structure for charities to use to avoid reinventing the wheel when undertaking commercial activities which have complex tax rules;
- Disclose material under achievement of full cost recovery.

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ABBREVIATIONS

"acctg - tech"	accounting - technical issue
"acctg"	accounting
"Acevo"	Association of Chief Executives of Voluntary Organisations
"APB"	The Auditing Practices Board
"ASB"	The Accounting Standards Board
"ASC"	The Accounting Standards Committee
"BCP"	business continuity plan
"BPR"	business process re-engineering
"CAPE"	The ASB "Committee on Accounting for Public-benefit Entities"
"CC"	Charity Commission - responsible for England & Wales
"CC60"	The Hallmarks of an Effective Charity (CC publication)
"CEO"	Chief Executive Officer
"CFDG"	Charity Finance Directors' Group
"CFO"	Chief Financial Officer
"CIMA"	The Chartered Institute of Management Accountants
"CIO"	Charitable Incorporated Organisation
"CIPFA"	The Chartered Institute of Public Finance and Accountancy
"CoA"	chart of accounts
	Good Governance: Code for the Voluntary and Community Sector
"Code"	Summary
"Committee"	the SORP Committee of the Charity Commission
"CVA"	Company Voluntary Arrangement (context - insolvency)
"DChA"	ICAEW Diploma in Charity Accounting
"DFM"	discretionary fund manager
"e"	electronic
"FCR"	full cost recovery
"FM"	finance/procedures manual
"FR"	fund raising
"FRS"	Financial Reporting Standard
"FRS 5"	FRS 5 - Reporting the Substance of Transactions
"FRS 12"	FR 12 - Provisions, Contingent Liabilities and Contingent Assets

ABBREVIATIONS

"FRS 13"	FRS 13 - Financial derivatives disclosure
"FRS 17"	FRS 17 - Retirement Benefits
"FRS 18"	FRS 18 - Accounting Policies
"FRS 19"	FRS 19 -Deferred Tax
"FRS 21"	FRS 21 - Post balance sheet events
"FRSSE"	The Financial Reporting Standard for Smaller Entities issues on clarity of restricted & unrestricted funds (as used in ICAEW data)
"FUNDS"	
"GAAP"	Generally Accepted Accounting Practice
"GM"	grant maker
"HMRC"	Her Majesty's Revenue & Customs (UK tax collection agency)
"HR"	human resources (department)
"ICAEW"	The Institute of Chartered Accountants in England & Wales
"ICAEW data"	Scripts from recipients of the ICAEW DChA, by the experience route
"IE"	independent examination
"IFRS"	International Financial Reporting Standard
"IR 35"	UK tax & intermediaries Legislation - self employed workers
"IT"	information technology
"JV"	joint venture
"k"	thousand
"KPIs"	key performance indicators
"LA"	local authority
"m"	million
"nd"	no date (context - bibliography)
"NAPF"	The National Association of Pension Funds
"NFM"	non financial managers (& staff)
"NFPO"	Not for profit organisation
"NFPS"	Not for profit sector
"OS"	outsourc(ed)(ing)
"OSCR"	The Office of the Scottish Charity Regulator
"p.a."	per annum

ABBREVIATIONS

"Panel"	CIPFA Charities Panel
"PAYE"	Pay As You Earn, income tax system
"PN 11"	APB Practice Note (PN) 11: "The Audit of Charities in the United Kingdom
"PPT"	primary purpose trading
"PWC"	PricewaterhouseCoopers, accountancy firm
"SCRIPT"	One of the ICAEW data scripts - 77 in total: see also ICAEW data
"SIG"	Special Interest Group, of the ICAEW
"SIR"	Summary Information Report to the Charities Commission
"SLA"	service level agreements
"SOFA"	statement of financial activities; see definitions for contents description
"SORP"	Statement of Recommended Practice - Accounting and Reporting by Charities
"SORP 2005"	2005 edition of the SORP effective April 2005
"SORP 2010"	Potential future edition of SORP, currently under consideration
"SPV"	special purpose vehicle or trading subsidiary
"sub"	subsidiary
"TAR"	trustees annual report
"TARMI"	timely, accurate & relevant management information
"TPR"	The Pensions Regulator
"TUPE"	"transfer of undertakings, protected employment" legislation
"UITF"	Urgent Issues Task Force (part of the ASB)
"VAT"	Value Added Tax
"VFM"	value for money

DEFINITIONS

Source: (Charity Commission)

SOFA	SOFA stands for Statement of Financial Activities. A charity's SOFA shows all the incoming resources becoming available during the year and all its expenditure for the year, and reconciles all the changes in its funds. The SOFA should account for all the funds of the charity and should be presented in columns representing the different types of funds.
SORP - the Charities SORP	The Charities SORP means the Statement of Recommended Practice: "Accounting by Charities", published by the Charity Commission under the auspices of the Accounting Standards Board. (Note: The Charities SORP applies to charities generally in the UK unless a more specific SORP applies, such as for the Higher and Further Education Institutions or Registered Social Landlords).
SORP 2005 - the Charities SORP 2005	SORP 2005 means the Statement of Recommended Practice: "Accounting and Reporting for Charities", published by the Charity Commission under the auspices of the Accounting Standards Board in March 2005. It superseded the SORP 2000 and applied to accounting periods beginning on or after 1 April 2005.
Primary purpose trading	Primary purpose trading is a trade exercised by a charity in the course of the actual carrying out of its primary purpose. The following are examples of what might be regarded as trading in this manner: <ul style="list-style-type: none">● The provision of educational services by a school or college in return for course fees.● The provision of residential accommodation by a resident care charity in return for payment.● A trade in which a primary purpose of the charity is carried out by beneficiaries

INTRODUCTION

The ability to raise funds from the public requires a level of accountability which differs from other sectors.

There are repeated calls for greater transparency and accountability in the NFPS, which are reflected in government regulation and the disclosure requirements of the SORP, yet there is no widely agreed definition of what these words really mean.

The Charity Commission ("CC") interprets transparency and accountability as "providing relevant and reliable information to stakeholders in a way that is free from bias, comparable, understandable and focused on stakeholders' legitimate needs" (Charity Commission, 2004 p. 50).

Definitions of the words include:

- "transparent - obvious or evident;"
- "accountable - required or expected to justify actions or decisions". (Ask Oxford, 2008)

Commentators have said:

- "In return for these (*tax*) privileges society requires charities to submit themselves to "public accountability"" (Bird & MorganJones, 1981 p. 134);
- "Public trust depends on the perception of transparency, which for the layman translates into honesty" (Seddon, 2007 p. 110);

INTRODUCTION (cont)

- “Trust and confidence (*in the sector*) depends upon accountability - and visible accountability at that..... 96% of respondents (*to a MORI poll commissioned by the CC*) saying its important that charities provide information about how they spend their money. Almost as many wanted public reporting achievements as standard”
(Hind, 2008).

A landmark piece of research was published in 1981, which reported the findings from Institute of Chartered Accountants in England & Wales (“ICAEW”) sponsored research into financial reporting within the not for profit sector (“NFPS”) (Bird & Morgan Jones, 1981). At that time the quality of financial reporting by not for profit organisations (“NFPOs”), as reflected within their published financial statements, was wholly inconsistent. There were no formal reporting requirements with which the NFPS had to comply. The resultant diversity in reporting made comparison of financial statements impractical.

In the following twenty five years there have been extensive efforts to develop consistent accounting standards for the NFPS, which are reflected in the current standard, SORP 2005. The need to develop pertinent accounting and auditing standards for the NFPS over the past quarter century, to match those prevailing earlier in the private and public sectors, may have overlooked issues prevailing within finance functions in the NFPS.

A recent PriceWaterhouseCoopers (“PWC”) review of SORP 2005 commented: “The SORP Accounting and Reporting by Charities has a particular emphasis on fund accounting, to reflect the restrictions on charitable funds managed by charities” (PricewaterhouseCoopers, 2008).

INTRODUCTION (cont)

The current key financial topics control topics in the NFPS, as reflected in the prevailing auditing guidance (APB, 2008), include:

- reserves or fund accounting, both the adequacy of reserves and the analysis between restricted and “free” reserves;
- trading arrangements and their impact given charitable status and taxation rules for the NFPS;
- governance procedures;
- operating structures, including branches and the effectiveness of control.

Connolly & Hyndman found that:

- “There is extensive reporting of basic background information;
 - There is an inadequate discharge of performance accountability;
 - There may be a lack of willingness to disclose performance information;”
- (Connolly & Hyndman, 2003 pp. 115-119).

In the same presentation, Hyndman stated “...management is fearful that if it reports truly and fairly, its fund raising activities will be adversely affected and therefore ways and means are found for tucking away revenue and charging expenses which would not be tolerated in business accounts.”

The SORP development process has necessarily been a top down process. Whilst the SORP 2010 has sought consultation with representative groups there are so many umbrella organisations in the NFPS that it is not easy to achieve. The principal finance body, apart from the professional accountancy institutes, is the Charity Finance Directors Group (“CFDG”). It has “over 1,300 members” (CFDG) and thus tends to represent only the larger charities, given there are 192,000 charities and 10,000 with income in excess of £ 500 k.

INTRODUCTION (cont)

The CC recently issued a report, “Charities Back on Track” which stated that there have been a “number of instances where poor basic accounting and reporting practices have caused long-term problems for a charity” (Third Sector). The head of accounting policy at the CC said “Accounting skills are in short supply and the increasing complexity of UK GAAP (****) is not welcomed by the sector” (Jones, 2008). (*** *Generally Accepted Accounting Practice*).

Sector specific education has become a focus in the past few years, with both The Chartered Institute of Public Finance and Accountancy (“CIPFA”) and ICAEW developing qualifications specific to the NFPS. The creation of a new qualification, the ICAEW “Diploma in Charity Accounting” (“DChA”), provided an opportunity to gain an insight into some of the issues encountered by successful applicants for the DChA. The source data for this research, referred henceforth as the “ICAEW data”, is described in “research methodology”.

The purpose of looking at the ICAEW data was to identify the key issues in charity finance from the “ground up”, as noted by experienced personnel within the NFPS, both charity staff and their advisers. Given the source data, this paper only deals with England & Wales. This research seeks to establish what are the finance issues facing the NFPS now and consider what actions are required to address them, whether within the pending SORP 2005 revision (to be titled SORP 2010), auditing standards or other frameworks.

The NFPS is a surprisingly complex sector. NFPOs often are dealing with many topics as part of one issue. One example within the ICAEW data included strategy, fund raising, tax and financial planning (ICAEW data p. script 72). “Charities are complex organisations with funders, service users, staff and volunteers amongst their stakeholders. Each stakeholder has varying degrees of knowledge, skills, ability and experience of the organisation and the charity sector” (ICAEW data p. script 71).

LITERATURE REVIEW

BIRD RESEARCH - 1981

A seminal publication which reviewed the accounting and auditing in the UK was sponsored by the Institute of Chartered Accountants in England and Wales ("ICAEW") and undertaken by Bird and Morgan Jones. They sought to review the accounts of the top hundred charities. They "found that those directly concerned with charity accounting had little overall impression of current practice; we have therefore written up this part of our work in more detail than was originally intended" (Bird & Morgan Jones, 1981 p. preface).

The stated terms of reference for the study reported in the book were:

"First, to make a critical survey of the published accounts of charities, seeking to identify their reporting objectives and the problems that arise in trying to fulfil these objectives. Then, to develop and draft recommended principles of accounting and disclosure for charity accounts in the light of the findings at the earlier stage" (Bird & Morgan Jones, 1981 p. 1).

Their research revealed many fundamental areas of weakness and inconsistency, including:

(1) Lack of clear statements of accounting policies, e.g.

"many accounting policies can be ascertained from either general notes in support of the accounts and yet others can be deduced from the wording of the accounts, but certainly not all" (Bird & Morgan Jones, 1981 p. 29).

(2) Fund accounting

"one of the main problems which arises in financial reporting by charities is what is termed fund accounting" (Bird & Morgan Jones, 1981 p. 35).

LITERATURE REVIEW (cont)

BIRD RESEARCH - 1981

(3) Legacy accounting

“Some charities adopt the view that all legacies are of a capital nature and should not be credited to revenue whereas others regard them as a regular and recurring source of income and treat them as such in the general revenue accounts” (P.Bird&P.MorganJones, 1981 p. 43). Reference is also made to various methods of spreading legacies received over a number of years, by holding sums in suspense accounts.

A case study of the William Leech story (Bird & Morgan Jones, 1981 p. 106) examined the varying accounting treatments accorded income and shareholdings in companies wholly owned by five charities. The conclusion was: “The diversity of presentation does not help anyone who wishes to compare one set of charity accounts with another” (Bird & Morgan Jones, 1981 p. 119)

They concluded:

“Our overall impression is that users of charity accounts, as well as their producers and auditors, are as strongly in favour of moves towards greater consistency and comparability in the accounts as our analysis of users and their needs has led us to expect.” (Bird & Morgan Jones, 1981 p. 146)

Bird and Morgan Jones’s research laid the foundations for the creation of the SORP, whose development is reviewed by the CC in Appendix 3.

LITERATURE REVIEW (cont)

BOOKS SPECIFIC TO NFPS FINANCIAL MANAGEMENT

There are a number of books available which review finance issues in the NFPS. The first two are published by the Directory for Social Change, whose aim is to “help voluntary organisations become more effective by providing practical, challenging and affordable information and training to meet the current, emerging and future needs of the sector” (Poffley, 2002).

1. FINANCIAL STEWARDSHIP OF CHARITIES (Poffley, 2002)

The sub title of this book “Maximising impact in times of uncertainty” is thought provoking and well supported within sections, inter alia, which address:

- Corporate strategy ;
- Finance strategy;
- Financial management;
- Financial environment.

The book effectively combines a mixture of high level analysis of the purpose of budgeting and financial information delivery, with hard hitting practical advice on how to deliver monthly management accounts within three to five days of a month end. Poffley is an advocate of “beyond budgeting”, stating “traditional fixed plans and budgets are barriers to success” (Poffley, 2002 p. xi).

The author espouses “eight characteristics of successful management accounts” (Poffley, 2002 p. 117) which are defined to be: “relevant, up-to-date, accurate, intelligible, accessible, informative, in context, dynamic”. The need for such data is a significant theme in the ICAEW data.

Poffley explores the reasons to produce management accounts as a precursor to the end result, i.e. “maximum beneficiary impact” (Poffley, 2002 p. 7).

LITERATURE REVIEW (cont)

2. FINANCIAL MANAGEMENT - A PRACTICAL GUIDE TO (Sayer, 2007)

This is as the title implies a “how to do it” book, which goes into specific detail on a wide range of topics such as financial reporting, accounts preparation, investment and taxation as it applies to the NFPS.

Its level is one of educating readers. Whilst its stated objective is to address “those without an accounting background and aims to equip them with the basic knowledge and skills they need to exercise good financial management practices” (Sayer, 2007 p. vii), it is a book which would be good required reading for all charity finance personnel. In less than two hundred pages there is an overview of practical issues which can stimulate further enquiry and learning, as well as confirm basic technical understanding.

The comment “financial management is part of management as a whole and should not be seen as a separate activity left entirely to accountants or the finance department” (Sayer, 2007 p. vii) is often forgotten.

The importance of taxation to the NFPS is reflected in one third of the book addressing, in three chapters, tax and trading, value added tax (“VAT”) and tax-effective giving. Whilst the NFPS is exempt from “income tax, corporation tax; and capital gains tax on all income applied for charitable purposes”, these reliefs are “forfeited if the charity is in breach of the special conditions attached to them” (Sayer, 2007 p. 137). Thus there is great complexity of taxation applicable to the NFPS sector, which would not be apparent to those outside it. This is evident from the analysis of the ICAEW data.

LITERATURE REVIEW (cont)

3. FINANCIAL MANAGEMENT IN THE VOLUNTARY SECTOR (Palmer & Randall, 2002)

The sub title of this book is “New challenges” and it sits between the two preceding titles in its delivery. It is broader in its review of management issues, a review of the history of charity accounting and applicable accounting standards. It is more specific and detailed in its analysis of:

- “Issues in charity accounting”;
- “performance evaluation”;
- “future directions”.

The importance of charity reporting is reflected in the observation that “all those with an involvement in charity, commonly described as stakeholders.....have the right to expect that the resources entrusted to a charity are being used cost-effectively and efficiently” (Palmer & Randall, 2002 p. 77). They note that “it is important that trustees, when preparing the trustees’ report, appreciate the balance between clarity and brevity. Some reports are too long and detailed and are therefore not read, whilst others are so short that they may merely raise more questions than they answer” (Palmer & Randall, 2002 p. 138).

4. THE FINANCIAL GOVERNANCE OF CHARITIES (Gambling & Jones, 1996)

The preface states “we are accountants whose research in the charitable sector has been concerned with the development of Statements of Recommended (Accounting) Practice. One major conclusion we reached was that the annual reports and accounts, upon which so many of the recent reforms concentrate, can only be as good as the administrative systems that underpin them” (Gambling & Jones, 1996 p. 6).

LITERATURE REVIEW (cont)

THE FINANCIAL GOVERNANCE OF CHARITIES

They state that they could not find any modern literature describing, let alone theorising, about such administrative systems. The research, which was reported to the

Charities Aid Foundation, ICAEW and The Chartered Institute of Management Accountants ("CIMA"), was a review of the administrative systems of eighteen anonymous charities. Within their fourteen "points for discussion" are many topics which still relevant today, including:

- "whether every charity should prepare at least an annual budget, which should be approved by the full Board of Trustees";
- "whether, at least once a quarter, all members of the Board of Trustees should receive a set of cumulative management accounts, setting out variances with the budget, and proper minutes should be kept of any comments thereon and the explanations put forward to explain any variances" (Gambling & Jones, 1996 p. 101).

LITERATURE REVIEW (cont)

5. PERFORMANCE REPORTING BY UK CHARITIES: APPROACHES, DIFFICULTIES AND CURRENT PRACTICE (C.Connolly&N.Hyndman, 2003)

This book is the output from a research project to look at the top 100 United Kingdom fundraising charities. Two accounting periods were chosen: 1996/97 and 2001/02. Two reasons are given for charity performance management:

- “it can form the basis for discharging accountability (the focus of this research report); and
- It provides essential information to improve the organisation’s management planning and control systems” (Connolly & Hyndman, 2003 p. x).

They note a “clear reduction in the percentage of charities disclosing efficiency information... perhaps indicating the increased sensitivity of charities to publishing such information” (Connolly & Hyndman, 2003 p. xv). They go on to state “it had been suggested by some writers that managers in both public and private organisations may prefer limited performance reporting because they seek to avoid accountability” (Connolly & Hyndman, 2003 p. xvii).

The principal findings included (Connolly & Hyndman, 2003 pp. 115-119):

- “There is extensive reporting of basic background information;
- There is an inadequate discharge of performance accountability;
- There has been some limited improvement in performance reporting over time;
- There may be a lack of willingness to disclose performance information” .

LITERATURE REVIEW (cont)

AUDITING STANDARDS

The Financial Reporting Council ("FRC") is the regulatory body responsible, through the Auditing Practices Board ("APB") and the Accounting Standards Board ("ASB"), respectively for auditing and accounting standards in UK. Auditing guidance is contained in APB document "Practice Note 11". Such practice notes are stated by the APB to be "persuasive rather than prescriptive" (Appendix 11).

A consultation period for a proposed revision of Practice Note 11 - "Audit of Charities in the United Kingdom" ("PN 11") (APB, 2008) closed in July 2008. There are no material changes from the previous 2002 guidance (ASB, 2002), other than to reflect externally driven changes, i.e. revised accounting standards, legislative changes and the CC's revisions regarding "whistle blowing" responsibilities. PN 11 (2008) (APB, 2008) - notes the "special features of a charity audit to be:

- Governance
- Operating structures & branches
- Sources of income
- Restricted funds
- Trading, charitable status & taxation"

Of these five topics, all bar the sources of income were significant issues within the ICAEW data.

A considerable amount of valuable technical information, which may assist finance personnel within the sector, is contained in this one hundred and fifty page document. Aside from descriptions of the environment in the NFPS, a useful data source in PN11 is

Appendix 7 "control activities" which describes examples of controls for various risk areas. Appendix 12 gives an overview of this data.

LITERATURE REVIEW (cont)

WEBSITES

As websites are now a significant source of data, those of the CC and principal accounting bodies have been reviewed to assess the range and usefulness of information they provide for the NFPS.

CC

The CC website has extensive accounting related guidance, including:

- CC 8 - Internal Financial Controls for Charities
- CC 15 - Charity reporting and accounting: The essentials
- CC 19 - Charities and Reserves
- CC 35 - Trustees, trading and tax
- RS 8 - Transparency & accountability

(Charity Commission, 2008)

The orientation of these documents is inevitably towards smaller charities, which have few staff or wholly voluntary supporters fulfilling finance and administration functions.

See recommendation 2 in Appendix 1 for a review of the CC's role as information provider as well as regulator.

LITERATURE REVIEW (cont)

ICAEW

The ICAEW has a number of sector specific “special interest groups” (“SIG”). The stated purpose of the ICAEW charity and voluntary sector SIG (“ICAEW SIG”) is primarily to be a source of information to support professionals working in the NFPS.

The SIG has generated a number of “help sheets”, as noted in Appendix 13. In addition it generates quarterly newsletters on topical issues, especially financial issues facing the sector.

There is a wide range of data within the website, though most of it is restricted to members.

CIMA

Apart from links to the CC website, no NFPS data is available to non members.

CIPFA

There is a CIPFA “Charities Panel” which issues periodic newsletters; see Appendix 14. They are far less frequent than the ICAEW, i.e. eight in three and a half years, though it includes some long articles which are more of the “help sheet” length provided by the ICAEW. Its role is described as:

“The Charities Panel was established by CIPFA in December 2003 with a remit to support professionals in the not-for-profit sector. The role of the Panel is to focus on governance and financial issues relating to the charity sector, consider government policy statements and initiatives relating to the charity sector and also provide a variety of training resources for charity professionals” (CIPFA, 2004).

LITERATURE REVIEW (cont)

CHARITY FINANCE DIRECTORS GROUP

The Charity Finance Directors Group (“CFDG”) is primarily a membership access website, though some useful general data is publicly available. Recent such data available includes (CFDG, 2008):

- Information on HMRC’s consultation exercise on VAT regarding partial exemption methods and the capital goods scheme - June 2008;
- “Trading - A Survivor’s Guide”.

ACCOUNTANCY FIRMS

Accounting firms which specialise in NFPS work often provide useful data via their websites. Firms such as PricewaterhouseCoopers (“PWC”) and Deloitte & Touche tend to provide general, headline data. Some smaller firms such as Sayer Vincent and Gotham Erskine, provide a wider range of data, often detailed and thus useful for use by anyone accessing their websites. Knowing where and what data exists and accessing it efficiently is a significant issue for the sector’s effectiveness. See recommendation four in Appendix 1.

DEVELOPMENT OF THE SORP

PURPOSE OF A SORP

The development of accounting standards in the UK is the primary responsibility of the ASB, which is part of the FRC.

The ASB's policy regarding SORP development is that of overseer, confirming that a SORP is acceptable and consistent with UK accounting standards. A specialist advisory committee the Committee on Accounting for Public benefit Entities ("CAPE") assists the ASB in relation to the charity SORP.

They further state that "the Charity Commission and the Office of the Scottish Charities Regulator put forward proposals, which the Board has approved, to work together as a joint SORP making body for the Charity Sector" (Accounting Standards Board, 2006).

All prevailing UK accounting standards, issued by the ASB, are applicable to the NFPS. The development of a "charity SORP" follows the ASB's policy of having customised, sector specific guidance to facilitate the implementation of prevailing accounting standards.

"The SORP Accounting and Reporting by Charities applies to charities across the UK unless a more specific SORP applies. The Charities SORP applies to charities however constituted including charities incorporated under the Companies Act, and in these cases will also have to comply with both the Companies Acts and Charity legislation" (PricewaterhouseCoopers, 2008 p. 6).

DEVELOPMENT OF THE SORP (cont)

WHAT AUTHORITY DOES A SORP HAVE?

“SORPs are developed ...that enable charities to meet the legal requirement to present a true and fair view in their accounts. Accounting standards require any non-compliance with a relevant SORP to be disclosed in the accounts and this may lead to a qualified audit opinion. In the case of the Charities SORP, for non-company charities, its methods and principles and key disclosures are also underpinned, in England and Wales, by regulations made under the Charities Act 1993” (Charity Commission).

OVERVIEW OF THE DEVELOPMENT OF THE CHARITY SORP 1995 TO 2000

To date there have been three editions of the Statement of Recommended Practice - Accounting and Reporting by Charities (“SORP”). The first sector specific SORP was issued in 1995. It was revised in 2000 and again in March 2005, effective for accounting periods starting after 1 April 2005.

These were preceded by the issue in May 1988 by the Accounting Standards Committee (“ASC”) of a “Statement of Recommended Practice No 2 (Accounting by Charities) (SORP 2) (Palmer & Randall, 2002 p. 58)

The role of this ineffective precursor to the current SORP regime is described by the CC:

“SORP2 was wholly voluntary and not underpinned by regulation and was not adopted as standard practice by the sector. Arguably the continuing poor response by the sector meant that a regulatory framework was required if the sector was to achieve adequate levels of accountability and transparency in the public interest” (Charity Commission).

DEVELOPMENT OF THE SORP (cont)

OVERVIEW OF THE DEVELOPMENT OF THE CHARITY SORP 1995 TO 2000 (cont)

A quote from the ICAEW data gives a user's overview of the SORP's development:

"The three SORPs have each had a significant impact on my charity clients each in different way (*sic*). The first had to get most charity clients to grips with the concept of any sort of standardised accounting. The second introduced the concept of Risk into the Trustees Report relate far more closely to the figures in the SOFA (***)" (ICAEW data p. script 44). (***) "*Statement of Financial Activities*"

As noted in (P.Palmer&A.Randall, 2002 p. 64) the 1995 SORP was reviewed by the CC in 1998. A report was produced the following year and the operation of the SORP reviewed by a committee. "Generally it was recognised that the SORP had largely met its aims by both improving the quality of financial reporting by charities and reducing the diversity in charity accounting and presentation" (Palmer & Randall, 2002 p. 65).

SORP 2000

The objectives of this SORP, which was effective from January 2001, were to:

- "improve the quality of financial reporting by charities";
- "reduce diversity in accounting practice and presentation" (Charity Commission, 2005).

The CC issued a non compliance issues list regarding SORP 2000, which is set out in Appendix 7. The CC noted a failure rate of 41% for more than one of its "SORP Top 20 Cause for Concern 'triggers'".

DEVELOPMENT OF THE SORP (cont)

SORP 2005

In June 2004 the CC issued a consultation document with twenty six specific questions seeking responses to specific potential changes to SORP 2000. The process elicited one hundred and fifty eight responses. (Charity Commission, 2004) The document analysed the responses to each question and indicated where changes were being considered to topics including:

- the revision of the Trustee Annual Report (“TAR”);
- the deferral of consideration of the valuation of volunteer time;
- support costs to be shown as a note to accounts, with the change to an activity cost based SOFA.

The Charity Finance Directors Group (“CFDG”) undertook its own consultation exercise the outputs from which were forwarded to the SORP Committee. A material CFDG proposal was that the “value for volunteer time should be included in the financial statements of charities. Objections included (1) the burden on staff/volunteers would be too excessive and impossible to record with any accuracy; (2) inclusion of inputs and outputs in the accounts could take smaller charities over grant, audit and other compliance thresholds” (CFDG, 2004). This proposal was omitted from the SORP but warrants further consideration in SORP 2010.

The CC published an overview of the new SORP entitled “SORP 2005: what has changed?”; see Appendix 8. The ICAEW SIG’s summary of the changes is in Appendix 9.

Views of commentators which amplify the impact of this SORP include:

- “The challenge is to move away from the focus on reporting only on financial inputs - such as what has been spent on fundraising and administration - to reporting on outputs, outcomes and impacts” (Framjee, 2004);

DEVELOPMENT OF THE SORP (cont)

SORP 2005 (cont)

- Probably the most important change in the 2005 SORP was “a new approach to the Trustee’s Annual Report promoting the reporting of (*sic*) activities and performance against charity objectives” (Horwath Clark Whitehill Charities & Education Unit, 2005);

COMMENTS FROM ICAEW DATA

Comments from within the ICAEW data on the new SORP included:

- “The 2005 SORP was fairly prescriptive in what the Commission wanted disclosed in the Trustees’ Report, whilst the 2000 SORP allowed greater flexibility.... the general standard of the Trustees’ Report was not what they were looking for and the requirement under the 2005 SORP has once again, become more prescriptive” (ICAEW data p. script 58);
- “one of the key issues from SORP 2005 was the more prescriptive layout of the TAR and its concentration on governance issues” (ICAEW data p. script 50);
- “Achievements and performance, identifying which were the important outputs, outcomes and impacts to measure and developing some key performance indicators” (ICAEW data p. script 57).

SORP AS A “ONE STOP SHOP” FOR CHARITY REPORTING REQUIREMENTS

Whilst the length and potential complexity of the SORP may be daunting to smaller charities, it does have the significant advantage of being a “one stop shop” for charity reporting requirements. That value of the charity SORP is espoused by the ICAEW SIG; see Appendix 4.

DEVELOPMENT OF THE SORP (cont)

ANNUAL REVIEW PROCESS

It is a requirement of the ASB that each SORP is reviewed annually. Public evidence of the review is limited to the disclosure of changes, if any, in the SORP.

ANNUAL REVIEW PROCESS - 2007

A review of SORP 2005 was undertaken and SORP information sheet 1 was issued (Charity Commission, nd). The paper is informal, does not amend the SORP and has not been reviewed by the ASB, which seems to limit its impact to giving guidance on a few areas, thus it "attempts to explain and illustrate what is already recommended by the SORP" (Charity Commission, nd) in relation to, inter alia:

- "accounting for grants;
- the allocation of bank interest and other finance costs;
- the relevance of the business review".

SORP information sheet 2, issued in June 2008, addressed:

- "Objective of financial statements and defining class of user
- Multi-period liabilities
- Residual interests and designations
- Donated services
- Grants for financing capital projects
- Accounting for business combinations" (Charity Commission).

DEVELOPMENT OF THE SORP (cont)

ANNUAL REVIEW PROCESS - 2008

The CC issued an updated version of the Charities SORP 2005 in June 2008 (Charity Commission, 2008). The accounting requirements remain unchanged; hence the update has not been through the ASB approval process. It does however include a new introduction aimed at smaller charities and has been updated to reflect the impact of the Charities Act 2006 and the Companies Act 2006. The “concessions” to smaller charities within the original version of SORP 2005 are summarised in Appendix 5.

SORP REVIEW - 2010 REVISION

A further revision of the SORP is scheduled for issue in 2010. The CC appointed a “SORP Committee” (“Committee”) which is working on the review. The Committee is holding stakeholder forums over a year, which commenced in April 2008, to hear from representatives of the NFPS. The Committee meets three times a year and publishes all its agendas, meeting minutes and other papers on the CC website (Charity Commission, 2008).

A summary of the Committee’s recent activities is reflected in their public record of work load (Appendix 10).

A key challenge expressed at the first forum was “In short how do we make the SORP more relevant” (Hind, Andrew, 2008). A joint CFDG/SORP Committee presentation at the same forum reviewed the dilemmas in seeking to have a SORP which is a one stop shop for all charities. It identified the technical issues to be addressed in the revision to be:

- “Relationship reserves and designated funds
- Recognition and valuing volunteers
- Accounting for capital grants
- Categorising of income

DEVELOPMENT OF THE SORP (cont)

SORP REVIEW - 2010 REVISION

- Accounting for 'heritage assets'
- Accounting for financial instruments" (Hickey & Gray, 2008)

In a presentation to the same forum the reporting issues were considered. Hyndman commented:

"...easy access to accurate and relevant information about charities is essential for real accountability, and for trust and confidence in charities", when quoting from The Strategy Unit - Private Action, Public Benefit 2002 as part of the SORP 2010 consultation exercise. (Hyndman, 2008)

In the same presentation, Hyndman stated "...management is fearful that if it reports truly and fairly, its fund raising activities will be adversely affected and therefore ways and means are found for tucking away revenue and charging expenses which would not be tolerated in business accounts. This results in an understatement of the surplus for the year of an overstatement of the deficit."

The CC has noted nine "drivers for change" which are listed in Appendix 3. Most are technically orientated with just two more broadly based and outward facing:

- "sector and public demands for transparency in reporting and accounts;
- maintenance public (*sic*) confidence and trust through high quality financial and narrative reporting." (Charity Commission, 2008)

The message of transparency is repeated without any indication of how this will be achieved.

DEVELOPMENT OF THE SORP (cont)

SMALLER CHARITIES

There is debate regarding SORP 2010 on the approach to the “target audience”. SORP 2005 was implicitly aimed at larger charities, as it addressed charities required to present accrual based accounts rather than on a cash basis. The definition of small charities is currently those with gross income < £ 100,000 in England & Wales, the only exclusion being incorporated charities (Charity Commission, 2005 p. v).

One proposal to reduce the burden on smaller charities was for ‘modified accruals’, which has not been supported by the Committee. “Accruals without rules’ would destroy credibility” (Life needs to be simpler, 2008). Instead it is envisaged that when SORP 2010 is issued the accruals accounting threshold will be increased to £ 250,000 (Charity Commission - SORP Committee, 2008). Appendix 2 “charities by size” shows that 92% of registered charities have less than this income, so if effected this change should relieve the majority of charities from this obligation.

REVIEW OF STATEMENT OF PRINCIPLES FOR PUBLIC BENEFIT ENTITIES

The ASB reviewed the public benefit SORPs in 2007 (Accounting Standards Board, 2007) and later commissioned an independent report by PWC (PricewaterhouseCoopers, 2008). Issues noted “for review and revision, latest when SORP 2010 is promulgated” include;

- “primary statements;
- capital grants and financing;
- designated reserves; and
- combinations” (Committee on Accounting for Public-benefit Entities, 2008).

The same PWC report notes the roles of each public benefit SORP, which are summarised in Appendix 6.

RESEARCH METHODOLOGY

NATURE OF THE “ICAEW DATA”

The “ICAEW data” is scripts which were completed by successful applicants for the ICAEW Diploma in Charity Accounting (“DChA”) via the “experience” route.

The qualification was launched in October 2006 and is available by the study route at Cass Business School’s “Centre for Charity Effectiveness”. The qualification is described in summary in Appendix 16 and examination of experience is in Appendix 17. The replies to the examination of experience is the data (“scripts”) which has formed the basis for this research project.

The “experience” route to gaining the DChA is available to accountants in the sector, whether employed by charities or advisory firms such as auditors, who have substantial, relevant experience. Applicants do not have to be ICAEW members. This route initially ceased to be available as at 31 July 2008 but has been extended to the end of 2008.

PROCESS TO ESTABLISH THE RESEARCH PROJECT

To February 2008 a total of one hundred and eight candidates were successful in gaining the DChA by the experience route. As detailed in Appendix 18, after obtaining permission from the ICAEW and the successful applicants, seventy seven confirmed their agreement to disclosure of their scripts for this research project.

Confirmation of ICAEW approval for the project is in Appendix 19, a copy of the ICAEW required confidentiality letter is in Appendix 20 and the ICAEW letter to DChA applicants to obtain permission to use their application data is in Appendix 21.

RESEARCH METHODOLOGY (cont)

CONTENT OF THE ICAEW DATA

The applicants were asked to provide examples of their experience in six areas:

- policy, law and regulation;
- resource management;
- marketing, fund raising, income generation and income distribution for public benefit;
- strategy and governance;
- charity accounting, auditing and taxation;
- financial management.

The opportunity to review the ICAEW data was process driven, reflective research and thus the reverse of the normal research process.

Grounded theory has been described by Borgatti in a "Discussion drawn from: Glaser and Strauss. 1967. The Discovery of Grounded Theory and Strauss and Corbin. 1990. Basics of Qualitative Research"as:

"theory that is developed inductively from a corpus of data. If done well, this means that the resulting theory at least fits one dataset perfectly. This contrasts with theory derived deductively from grand theory, without the help of data, and which could therefore turn out to fit no data at all" (Borgatti).

"In the spirit of "grounded theory" the task is that of looking for themes, links and relationships within the data" (Denscombe, 2002)

RESEARCH METHODOLOGY (cont)

EVALUATION OF THE DATA

To assess the nature of the replies and issues arising, the first ten scripts were reviewed. "Key words" were sought in each topic area and tabled in an Excel workbook to assess whether any clear patterns emerged from the data. Whilst some applicants had provided clear headings within each reply, others had provided none. The process was repeated for a further ten scripts, to confirm the viability of the approach. The same methodology was then applied to the remaining scripts.

After an interval of two to three months all scripts were read for a second time. The objectives of the second reading were to:

- (1) check whether the key words chosen on first reading of the scripts were appropriate and if not modify them;
- (2) extend the narrative accompanying the key words to give greater context and facilitate automated word analysis. Microsoft analysis facilities were used to scan the scripts, which were held electronically in Adobe PDF format.

RESULTS

The key word analysis follows on page 40 is in descending order of incidences. Appendix 23 provides an alpha list of the key words.

To gain a better understanding of the broader issues arising, the key words were grouped into functional groups, e.g. technical accounting, tax and commercial, which are noted on page 41. The detailed mapping of the data is in Appendix 22.

FINDINGS

KEY WORDS TABLE

This table maps the key words from the ICAEW data.

	<u>%</u>	<u>INCIDENCES</u>
SORP	9%	62
FUND RAISING	6%	45
INFORMATION TECHNOLOGY	6%	44
"TARMI"	6%	41
VALUE ADDED TAX	5%	39
STRATEGY	5%	36
GOVERNANCE	4%	28
RESERVES	4%	25
INTERNAL CONTROLS	3%	24
FUNDS (classification issues)	3%	19
HR	3%	19
RISK (including reviews)	2%	17
TRAINING	2%	17
FINANCE & PROCEDURE MANUALS	2%	17
GIFT AID	2%	16
SPECIAL PURPOSE VEHICLES	2%	16
PRIMARY PURPOSE TRADING	2%	15
KEY PERFORMANCE INDICATORS	2%	15
EFFICIENCY	2%	13
AUDIT	2%	12
PROPERTY	2%	12
REORG	2%	12
FULL COST RECOVERY	2%	12
COST ALLOCATION	2%	12
BUDGETING	2%	12
INVESTMENT	1%	10
PLANNING	1%	10
COMPLIANCE	1%	9
BANK	1%	9
TRUSTEE	1%	9
TAX - other (i.e. not VAT)	1%	8
CASH FLOW	1%	6
FRAUD	1%	6
MERGER & DEMERGER	1%	6
ACCOUNTING TECHNICAL	1%	6
OUTSOURCING	1%	5
OVERSEAS PROJECTS	1%	5
TRADING	1%	5
GRANTS	1%	4
REPORTING - OTHER	1%	4
SOLVENCY	1%	4
OTHER	4%	25
	100%	711

FINDINGS (cont)

KEY WORDS SUMMARY, by activity groupings

To facilitate review of the results the incidences were grouped, following the colour codes in the preceding table.

<u>ACTIVITY GROUPINGS</u>	<u>ALL INCIDENCES</u>	<u>ALL %</u>	<u>INCIDENCES excluding: (1) SORP (2) "FR"</u>	<u>% excluding: (1) SORP (2) "FR"</u>
INTERNAL CONTROLS, RISK & AUDIT	110	16%	110	18%
REPORTING	106	15%	106	18%
COMMERCIAL	102	14%	102	17%
TECHNICAL ACCOUNTING	149	21%	87	14%
TAX COMPLIANCE	65	9%	65	11%
STRATEGY, PLANNING & BUDGETING	58	8%	58	10%
GOVERNANCE	51	7%	51	8%
CASH FLOW & INVESTMENTS	25	4%	25	4%
FUNDRAISING & GRANTS	45	6%	0	0%
TOTAL	711	100%	604	100%

As the top two incidences were (1) SORP and (2) fund raising, which are common themes in the NFPS, the following observations of the ICAEW data are made after excluding the SORP and fund raising incidences. Observations on key themes emerging from the data were:

1. Internal controls, including risk reviews and identification of the need for finance or procedure manuals, made this group of topics the top ranking.
2. However, the top two incidences within reporting issues, IT and the need for timely, accurate and relevant management information ("TARMI"), represented 85% of incidences noted in that group and were the top two individual issues overall.

FINDINGS (cont)

3. Commercial activities are high at 17%. This reflects the inclusion of planning for primary purpose trading (“PPT”) and the need for separate companies, i.e. special purpose vehicles (SPVs) to achieve PPT objectives, which were not treated as tax topics.
4. VAT ranks as the third level of incidences, reflecting the importance of optimising the recovery of input tax which might otherwise be lost due to the impact of the partial exemption rules. These rules limit input tax recovery, broadly proportional to income subject to VAT.
5. Strategy reviews were often specific subjects, e.g. investment, property, legacies, fund raising, IT and VAT, though a number of broadly based reviews were noted.
6. Governance issues noted were primarily process level issues, including necessary compliance rather than higher level issues such as composition of Trustee bodies, their competence levels and responsibility for internal controls.
7. If the topics PPT and SPVs were combined, as they are often are related, with thirty one incidences they would have formed the fifth ranking topic.
8. A low incidence of comments on cash management but high returns were noted when the topic was addressed.
9. Savings and additional income noted within the ICAEW data totalled £ 3.2 m, of which £ 2.6 m appeared to be recurring items. The principal figures were £ 1.7 m for efficiency related actions, for VAT alone a further £ 0.75 m and for higher interest income £ 0.65 m. Further analysis is set out in the table “summary of savings & additional income” on page 44.

10. Only 22% (17) scripts refer to either “transparency” or “accountability”.

11. Thirteen references to full cost recovery, primarily in respect of service level agreements (“SLA”s). One of which resulted in an additional recovery of £ 279 k p.a. when higher contract process were negotiated, after establishing what were the true internal costs for operating residential centres (ICAEW data p. script 32).

12. Low incidence of topical or potentially significant subjects:
 - 12.1. one reference to independent examination as an alternate to a statutory audit;

 - 12.2. just three references to pension accounting, including FRS 17, which is a material topic in the “for profit” sector;

 - 12.3. no references to longevity, apart from investment strategy;

 - 12.4. limited technical issues in reporting, “reserves” & “funds” apart;

 - 12.5. a low incidence of fraud issues, probably no more of an issue than in other sectors;

 - 12.6. only two references to costing volunteers which was for CDFG an important recommendation for change in the consultation process for SORP 2005;

 - 12.7. difficulty of recovering head office costs when branches fulfil SLAs and they either do not or cannot recover the central costs and the centre’s income is primarily restricted funds (ICAEW data p. script 66);

 - 12.8. closure of a charity and transfer of reserves to a similar charity seems to be a rare event, with just two examples, one completed (ICAEW data p. script 55) and a second being evaluated (ICAEW data p. script 64).

FINDINGS (cont)

SUMMARY OF SAVINGS & ADDITIONAL INCOME - £ 000s

<u>SCRIPT</u>	<u>EFFICIENCY</u>	<u>VAT</u>	<u>INTEREST INCOME</u>	<u>GIFT AID</u>	<u>NATURE</u>	
17	645				reduced staff costs £ 615 k post £ 200 k "IT" capital spend	
11		400			recover VAT paid to contractors on capital projects	
14			400		additional interest from optimising cash management	
23	45	350			cessation of outsourcing & VAT reorg £ 350 k	
32	279				annual increased income from application of "FCR"	
20	250				improved purchasing £ 150 k & staffing £ 100 k	
45			250		increase in interest income due to cash management	
30	100) VAT savings "P/E" method £ 100 k & buildings £ 60 k	
30	60)	
3	125				reduction in HMRC claim re P/E method for VAT	
53				92	retrospective Gift Aid claim	
38	75				reduction in property costs	
75	60				greater efficiency in operations	
1	30				reduction of investment management fees	
37				30	increase in Gift Aid income due to improved procedures	
59				9	retrospective Gift Aid claim	
70		4			VAT recovery	
22	3				improved purchasing systems	
35	3				elimination of "SPV"	
<hr/>						
	1,675	754	650	131		
<hr/>						
	1,615	350	650	30		
	60	404		101		
					TOTAL	
					2,645	RECURRING
					565	"ONE OFF"
					3,210	

FINDINGS (cont)

INTERNAL CONTROLS

The following statement is a truism which warrants prominence when considering finance functions in the NFPS:

“One major conclusion we reached was that the annual reports and accounts, upon which so many of the recent reforms concentrate, can only be as good as the administrative systems that underpin them” (Gambling & Jones, 1996 p. 6).

Internal controls are often thought of as a finance specific topic. Poffley quotes CIMA’s (CIMA, 2000 p. 15) definition of internal control to be:

“The whole system of controls, financial or otherwise, established in order to provide reasonable assurance of:

- (a) effective and efficient operation;
- (b) internal financial control;
- (c) compliance with laws and regulations” (Poffley, 2002 p. 182).

“Poor basic accounting and reporting are still at the heart of most charity malpractice” (Charity Commission, 2008).

Internal control featured in twenty four (31%) of the scripts. A similar number mentioned the need for finance or procedures manual. Thirteen (17%) scripts noted the need for training for non financial managers.

Examples from the ICAEW data regarding internal controls included:

- “There still appears to be a lot of residual sentiment within the charity sector that charities should be less hard nosed than the commercial sector when it comes to

FINDINGS (cont)

INTERNAL CONTROLS (cont)

- generating income, ensuring effective expenditure and operating an internal financial control and governance system" (ICAEW data p. script 27);
- An ultra vires contract for £ 300,000 signed by a Chair of Trustees, staff hired and premises rented whilst the wider Trustee group assumed that the project was being undertaken by a connected charity (ICAEW data p. script 41);
 - The need for an internal controls review to ensure that future controls were appropriate post implementation of a new IT system, since "the existing systems (*of internal control*) were inadequate" (ICAEW data p. script 63);
 - "In many case their (*charities'*) internal financial systems were not robust and they needed help" (ICAEW data p. script 56).

Whilst cost allocation has been treated as a technical accounting topic, implementation of the objective requires an effective internal control system. Twelve (16%) scripts noted the need for review or establishment of such systems. SORP 2005, which introduced activity based reporting, generated the requirement for "the allocation of central costs to projects" (ICAEW data p. script 62).

Training of staff, both finance teams and non financial staff, is an important element of establishing effective internal controls. That 17% of scripts mentioned the need for internal training for non financial managers establishes this as an important topic. Topics ranged from understanding of management accounts, budgeting and reserves (ICAEW data p. script 57) to communicating a full cost recovery system (ICAEW data p. script 26).

FINDINGS (cont)

INTERNAL CONTROLS (cont)

TRUSTEES ANNUAL REPORT: GOOD GOVERNANCE CODE & INTERNAL CONTROLS

The Governance Hub, whose role is described in Appendix 15, produced a “Good Governance: Code for the Voluntary and Community Sector Summary” (“Code”) (The National Hub of Expertise in Governance, 2005). The key principles of the Code are listed in the same Appendix.

Currently this recommended code has no enforcement impact. There is a model for enforcement in relation to Financial Reporting Council’s (“FRC”) Combined Code applicable to public companies and the “Turnbull” guidance (FRC, 2008).

There is also no requirement in SORP 2005 for Trustees to comment upon the adequacy of internal controls. Indeed the document does not mention the topic at all. Greater accountability would be achieved if in the Trustees Annual Report (“TAR”) there was a requirement to comply with the Code and comment upon the adequacy of internal controls and the methodology for the Trustees’ reviews.

FINDINGS (cont)

IT & TIMELY, ACCURATE and RELEVANT MANAGEMENT INFORMATION

Most organisations now use information technology (“IT”) in some or all of their finance and administration systems. IT underpins many aspects of any organisation’s life, from day to day operations through to budgeting and strategic planning. With forty four (57%) of scripts noting IT as an issue and a further forty one (53%) citing timely, accurate and relevant management information (“TARMI”) as needing action, these topics lead the agenda within the ICAEW data.

Whilst the development of the SORP has sought to improve the public reporting by charities in their annual financial statements, the ICAEW data shows that NFPOs seek TARMI not as a standalone topic. Nor is it solely related to management accounts. Other topics included timely fund reporting (ICAEW data p. script 2), facilitating compliance with service level agreements (ICAEW data p. script 7), grant utilisation (ICAEW data p. script 12) and establishing KPIs (ICAEW data p. scripts 22 & 23).

“Unless performance measures are in place, it is difficult for the charitable sector as a whole, or for individual charities in particular, to counter criticisms of poor management and ineffectiveness. Performance measures give a visibility to the resources, activities and achievements of a charity, thus enabling informed discussions and decisions”
(Connolly & Hyndman, 2003 p. 23).

There were fourteen references to KPIs in the ICAEW data, so just under 20% of scripts noted the topic. With the far higher references to IT and TARMI it may be the case that obtaining the underlying data is still a bigger issue. To secure progress with delivery of KPI and other data to evidence not only the effectiveness and efficiency which Connolly and Hyndman regard as “key criteria for judging performance” (Connolly & Hyndman, 2003 p. ix), there is a need for guidance within the SORP.

FINDINGS (cont)

RISK & RESERVES POLICIES

The SORP disclosure requirement in the TAR is:

“A statement should be provided confirming that the major risks to which the charity is exposed, as identified by the trustees, have been reviewed and systems or procedures have been established to manage those risks” (Charity Commission, 2005 pp. 8, para 45).

Seventeen scripts (22%) mentioned either risk management, or the need for a risk review of which just four linked the review to the reserves policy.

One script cited a charity which as part of its formal risk assessment annually calculated maximum and minimum risk levels and then applied a probability factor to their occurrence. The resultant figure was the trigger point for minimum reserves which was monitored regularly through the year (ICAEW data p. script 28).

Historically many charities have merely held “X” months overheads in reserves, to offset any shortfalls in income.

The SORP’s requirement is that within the Trustees’ financial review they should explain the:

“Policy on reserves... stating the level of reserves held and why they are held” (Charity Commission, 2005 pp. 9, para 55(a)).

The ICAEW noted a “need for risk management to form the backdrop to all control activities is critical. Without an adequate risk focus controls may fail to mitigate significant risks” (ICAEW SIG, 2006).

FINDINGS (cont)

RISK & RESERVES POLICIES (cont)

To improve the quality of risk assessment and setting of reserves, there is a need for SORP 2010 to require an expansion of the reserves policy. The SORP should require a detailed analysis of all factors contributing more than 10% to a charity's specified minimum reserves. The Trustees should be required to make an explicit statement linking their risk based assessment to the reserves policy statement and the reserves reported in the balance sheet.

FINDINGS (cont)

MODEL TRADING VEHICLE TO HANDLE COMPLEX TAX ISSUES

The NFPS in England & Wales is a surprisingly complex one. An example within the ICAEW data illustrates the observation. A single project to acquire a property involved:

- fundraising for a capital project;
- business planning;
- assessment of the tax issues arising from PPT & VAT;
- consideration of the need for an SPV (ICAEW data p. script 72).

A comment about skills availability from the ICAEW data is that “charities are complex organisations with funders, service users, staff and volunteers amongst their stakeholders. Each stakeholder has varying degrees of knowledge, skills, ability and experience of the organisation and the charity sector” (ICAEW data p. script 71).

Such complexity may be common for large value transactions in the private sector. In the NFPS the low thresholds on PPT trading within a charity and the scope to under recover input VAT due to the partial exemption (“P/E”) rules, which adds to overheads, make for greater complexity even in relatively small charities.

Whilst there is rarely a “one fits all solution” to tax technical topics, there is merit in seeking to establish for charities a core trading company model, which can be modified if required, thus avoiding the need to “reinvent the wheel”. One example of a model for financing an SPV is contained in the ICAEW data: “a mixture of fixed and redeemable equity. The fixed equity could represent the normal working capital when the company was in profit and the redeemable equity could be repaid with or without a coupon when cash flow allowed, the advantage here being that the capital was not locked in” (ICAEW data p. script 58).

FINDINGS (cont)

TAX

In considering the ICAEW data, the incidences of PPT and SPV were classified as commercial as the topics support the optimising of income for charitable purposes.

The ICAEW data indicates that the predominant tax issues were VAT with thirty nine incidences, followed by Gift Aid with sixteen incidences. The remaining ten incidences were an array of issues, including two regarding substantial donor legislation.

“For charities, even more than commercial organisations, it is necessary to consider the tax and legal implications of all decisions, and to ensure that decisions are compatible with the charity’s constitution” (ICAEW data p. script 35).

Due to the partial exemption scheme, which tends to result in charities being unable to recover all their VAT on overheads and thus expense the irrecoverable VAT against income, there is a greater emphasis on VAT compliance than would be the case in the “for profit” sector, financial services aside.

“Too many charities are losing out on possible VAT rebates because they do not understand the complex legislation surrounding VAT registration”.... “A lot of charities are filing VAT in the “too difficult” category and ignoring it” (Sayer, 2008). The same article cited the cost of irrecoverable VAT to the NFPS to be £ 650 million for 2008.

FINDINGS (cont)

TAX (cont)

The complexity of VAT for the NFPS sector is reflected by two examples in the ICAEW data:

- in the light of the "London Zoo judgement" that admission tickets should be exempt from VAT, a charity sought to ensure that their tickets remained subject to VAT to optimise the recovery of VAT on purchases. To do so they established that a paid Trustee created an opt out from HMRC's definition of a cultural body, thus optimising their VAT recovery (ICAEW data p. script 52).
- seeking to optimise recovery of VAT in connection with new buildings a charity sought clearance from HMRC, which gave the wrong guidance. After an appeal, HMRC agreed to waive £ 300 k of VAT due to their error (ICAEW data p. script 67).

FINDINGS FROM ICAEW DATA (cont)

“TRANSPARENCY” AND “ACCOUNTABILITY”

The ICAEW data includes limited references to these concepts:

- “transparency” - used 18 times in 11 scripts;
- “accountability” - used 15 times in 10 scripts.

In 1981 it was said “our overall impression is that users of charity accounts, strongly in favour of moves towards greater consistency and comparability in the accounts” (Bird & Morgan Jones, 1981 p. 146).

“The Charity Commission interprets transparency and accountability as providing relevant and reliable information to stakeholders in a way that is free from bias, comparable, understandable and focused on stakeholders’ legitimate needs” (Hyndman, 2008).

It is unclear what the CC is espousing and why it is still an issue thirty years after Bird and Morgan Jones’ research. It may require further external stakeholder focused research to establish what, if anything, is outstanding to avoid a mantra being repeated to little or no purpose. The ideas espoused by New Philanthropy Capital have relevance. In a speech in 2007 their Director of Research proposed the creation of a separate body from the CC to “be concerned with assessing and improving the performance of charities” (Brookes, 2007)

Hyndman in a presentation as part of the consultation exercise for SORP 2010 said:

“There is some evidence to suggest that, in general, charities and other not-for-profit organisations are not producing information which is sufficiently accessible and relevant to the public’s needs. Credible comparative information about impact is particularly lacking. This could in the longer term undermine public trust and confidence” (Hyndman, 2008).

FINDINGS FROM ICAEW DATA (cont)

“TRANSPARENCY” AND “ACCOUNTABILITY” (cont)

The fact that one of the influences stated by the CC upon the development of SORP 2010 is “sector and public demands for transparency in reporting and accounts” (Charity Commission, 2008 p. section 5), it is questionable whether the sector is making fast enough progress to meet the requirements of stakeholders.

Some evidence for this view is provided by the comment that it has “been suggested by some writers that managers in both public and private organisations may prefer limited performance reporting because they seek to avoid accountability”

(Connolly & Hyndman, 2003 p. xvii).

CONCLUSIONS AND RECOMMENDATIONS

The responses from those awarded the DChA to February 2008 have been reviewed to establish the key issues arising and evaluate what recommendations, including further research or initiatives, may be appropriate.

The key recommendations arising from this research are:

1. ACCOUNTABILITY & TRANSPARENCY

External stakeholder focused research is required to gain an understanding of the relevance of these concepts to the public. Whilst the CC promotes them, it is unclear what is being achieved. The low awareness reflected in the ICAEW data suggests a review is merited. It may be that the terms would be better replaced by specific actions, e.g. implementation by all charities of a core set of KPIs in the TAR, which would demonstrate tangible information disclosure to donors.

2. KPIs

Further research on core KPIs which all charities should report within their TAR would be desirable. Whether this could be conducted in time to have an impact upon SORP 2010 is uncertain, though desirable. Focus on outcomes and their costs would assist the public to assess value for money. As commented upon by Connolly and Hyndman in 2003 it is optimistic to expect individual charities to develop meaningful performance reporting systems without guidance.

3. REQUIRE TRUSTEES TO REPORT ON INTERNAL CONTROLS & MAKE THE GOOD GOVERNANCE CODE MANDATORY

That the SORP 2010 include a requirement for Trustees to give in the TAR the same statements required by public companies under the "Combined Code on Corporate Governance" issued by the FRC (FRC, 2008 p. 16), whereby the:

CONCLUSIONS AND RECOMMENDATIONS (cont)

REQUIRE TRUSTEES TO REPORT ON INTERNAL CONTROLS & MAKE THE GOOD GOVERNANCE CODE MANDATORY (cont)

“Board should, at least annually, conduct a review of the effectiveness of the group’s system of internal controls and should report to shareholders that they have done so. The review should cover all material controls, including financial, operational and compliance controls and risk management systems.”

The Trustees should also confirm adherence to the Governance Hub’s “Good Governance Code” (Governance Hub, 2005)

Again this would be tangible evidence of the application of transparency and accountability.

4. RISK & RESERVES POLICIES

SORP 2010 should be expanded to require inclusion in the reserves policy an explicit statement on the utilisation of a risk based assessment to determine the reserves maintained by charities. This would provide external stakeholders another tangible measure by which to assess charities.

5. CONSISTENCY OF ACCOUNTING THIRTY YEARS AFTER BIRD - NEED FOR “UITF” FOR CHARITY SORP?

Whilst considerable progress has been made with the development of the 1995 SORP and its revision every five years, with another pending for 2010, there remain issues as noted by Hyndman in the current consultation process:

Contentious accounting treatments;

Legacies;

Deferred expenses;

Fixed assets (including freehold property) (Hyndman, 2008)

CONCLUSIONS AND RECOMMENDATIONS (cont)

CONSISTENCY OF ACCOUNTING THIRTY YEARS AFTER BIRD - NEED FOR "UITF" FOR CHARITY SORP? (cont)

Nearly thirty years after the seminal research by Bird and Morgan Jones, there are still issues with legacy accounting. A senior audit partner recently stated "Some quite substantial charities are treating legacies in different ways" (Brooks, 2008)

If the NFPS is to achieve greater SORP compliance, consideration should be given to creating a referral mechanism similar to the ASB's Urgent Issues Task Force ("UITF") within the SORP Committee, so that it is capable of enforcing consistency in the application of material accounting policies such as legacy accounting.

6. VALUING VOLUNTEERS IN FINANCIAL STATEMENTS

This proposal was omitted from the SORP but warrants further consideration in SORP 2010. It is likely that to secure public liability insurance charities are providing their insurers data on the quantum of volunteer time to ensure that they are adequately insured. The valuation basis could be bridged by using such insurance estimates, with appropriate disclosure in the financial statements as to the basis of inclusion. To continue to omit what appears to be a valuable resource not only distorts the data reported in the SOFA but undermines any KPIs derived from it.

7. MODEL TRADING VEHICLE TO HANDLE COMPLEX TAX ISSUES

To avoid "reinventing the wheel" and optimising spend on charitable objectives, there ought to be an "approved" basic model for such trading issues. As currently organised such an objective would fall to the CC, though it is doubtful whether it should be the role of the NFPS Regulator. It may be that such a role could be undertaken by the new body proposed by New Philanthropy Capital.

CONCLUSIONS AND RECOMMENDATIONS (cont)

8. FULL COST RECOVERY - DISCLOSURE OF UNDER ACHIEVEMENT

This has been an emotive topic, with limited public information disclosed by charities.

To put the topic in its proper perspective, SORP 2010 should require disclosure in the TAR of any material under recoveries (say the lower of £ 10 k or 5% of gross income) on contracts with third parties. The logic would be that non disclosure is inconsistent with a charity's responsibility to be transparent in reporting how it spends donor's contributions in furtherance of its charitable objectives. By focusing attention on the topic charities might optimise their underlying cost allocation systems, as well as their negotiating skills when concluding SLAs.

9. RESEARCH TO FACILITAE A CAMPAIGN TO REMOVE PRIMARY PURPOSE TAX LIMITS

Once an organisation has been awarded charitable status, it is questionable whether society gains any advantage by seeking to regulate the nature of any trading undertaken to provide additional funds to sustain its charitable objectives. The PPT regime generates a need to create SPV's and make Gift Aid payments to the main charity to optimise the value of such trading. The ICAEW data indicated that PPT and SPVs together rank as the fifth topic by incidences. Research into the cost to charities of complying with such legislation would be desirable, as an input into a campaign to remove it and expend the sums saved in direct support of charitable objectives.

CONCLUSIONS AND RECOMMENDATIONS (cont)

10. OTHER NON ICAEW DATA SPECIFIC RECOMMENDATIONS

In undertaking the analysis of ICAEW data, the opportunity has been taken to note broader issues arising from consideration of the information sources consulted. Further recommendations are set out in detail in Appendix 1 addressing:

- (1) abolishing the requirement to file a summary information return ("SIR") with the CC;
- (2) reviewing the role of the Charity Commission as information provider;
- (3) establishing stronger compliance demands upon regulated charities by the Charity Commission;
- (4) creating a single web portal for sector finance information;
- (5) creating a single "trade" body.

B.S.Connolly - 13 October 2008 @ Skopelos, Greece

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APPENDIX 1

ADDITIONAL RECOMMENDATIONS - NOT ICAEW DATA SPECIFIC

Whilst undertaking this research a number of material issues which impact finance in the NFPS were noted but which are not derived directly from the ICAEW data. They warrant further research, as they are far broader than the scope for this project.

(1) ABOLISH THE REQUIREMENT TO FILE A SUMMARY INFORMATION RETURN WITH THE CC

The need for a Summary Information Return ("SIR") is enshrined in law under the Charities Act. Its creation dates back to a report "Private Action, Public Benefit" (UK Government - Strategy Unit, 2002), which thus pre dates SORP 2005. The introduction of the SIR as part of the Annual Return to the CC effective 2005 was acknowledged not to be "a regulatory tool." (Charity Commission, 2006 p. 4). A SIR is required to be filed with the CC by NFPOs with a gross income in excess of £ 1 million.

Reviewed by the ICAEW (ICAEW SIG, 2005) "The eight primary questions included in the SIR call for information which will 'be easily understood by, and useful to, the "interested" general public including donors, investors and beneficiaries'. They cover such areas as:

- the charity's aims (not simply its legal objects);
- how the charity seeks the views of its beneficiaries or users;
- how the charity measures the success of its strategy;
- the main objectives for the past year and whether they were achieved;
- a summary of income and expenditure;
- what were the three main fundraising activities for the year, and how much each generated and cost;
- a statement on reserves, and any significant financial commitments 'that might crystallise in the future';

APPENDIX 1 (cont)

ADDITIONAL RECOMMENDATIONS - NOT ICAEW DATA SPECIFIC

ABOLISH THE REQUIREMENT TO FILE A SUMMARY INFORMATION RETURN WITH THE CC (cont)

- what are the main objectives for the next year;
- a brief description of the charity's governance arrangements."

With the exception of the data regarding (1) "how the charity seeks the views of its beneficiaries or users" and (2) "three fundraising activities for the year", all the data should be contained within SORP compliant financial statements. Removal of the requirement to file a SIR would reduce the burden on charities and eliminate problems with the SIR regime now which include:

- (a) only 77% filed within the ten month deadline. (Charity Commission)
- (b) "Figures were not always easy to reconcile with those given in the charity's accounts and/or Parts A and B of the Annual Return Form." (Charity Commission)

(2) REVIEW THE ROLE OF THE CHARITY COMMISSION AS INFORMATION PROVIDER

The CC as regulator has potentially dual and thus potentially conflicting roles, as regulator and information/advice provider, which may not sit well together. The CC seeks to provide guidance on issues which appear far wider than comparable regulators, e.g. The Pensions Regulator. A review of its role for non regulatory matters would be useful. The potential for hiving off of its information provision role, other than that required to support compliance with its regulatory objectives, should be considered. Transferring responsibility for the information role regarding finance and administration from the CC to a single trade organisation may be an important stepping stone towards

optimising the availability of finance information to all charities in a single source. See point 4 below.

APPENDIX 1 (cont)

ADDITIONAL RECOMMENDATIONS - NOT ICAEW DATA SPECIFIC

(3) ESTABLISH STRONGER COMPLIANCE DEMAND UPON REGULATED CHARITIES BY THE CHARITY COMMISSION

The CC has an apparently relaxed approach to compliance by NFPOs. For profit companies have to file accounts within prescribed periods with Companies House and face fines if they do not comply. Similarly directors can be subject to legal action for non compliance. Currently the CC does not impose penalties for late filing by its regulated community and only starts procedures to remove a charity from the register after twelve months non compliance has accumulated, i.e. twenty two months after its last financial year if it has “ceased to exist or does not operate”. (Charity Commission, 2007) Neither position is likely to make charities more compliance orientated. It thus undermines calls for greater transparency and accountability.

(4) CREATE A SINGLE WEB PORTAL FOR SECTOR FINANCE INFORMATION

Whilst there are extensive sources of finance information for those working in the sector, they are wholly uncorrelated. There are numerous umbrella organisations, many of which restrict access to data to their members. Charities wish to optimise their expenditure on charitable objectives, thus ready access to existing technical information free of charge or at minimal cost is important to them. The ready availability of finance information would also avoid the need for NFPOs to “reinvent the wheel”.

As the creation of a single trade body is a long term objective, consideration should be given to creating a web based portal through which NFPOs can access existing data from umbrella organisations and advisory firms, including

accountants and lawyers. Any organisation offering to host such a portal may well establish a dominance in provision of information to the NFPS, which may lead to its adoption as the leading or sole trade body.

APPENDIX 1 (cont)

ADDITIONAL RECOMMENDATIONS - NOT ICAEW DATA SPECIFIC

CREATE A SINGLE WEB PORTAL FOR SECTOR FINANCE INFORMATION (cont)

The portal would initially hold links to third party websites rather than the data itself. It would provide user friendly indexes to available data, some of which charities might not normally consider accessing, e.g. Appendix 7 “Control Activities” from PN 11, the APB’s audit guidance (APB, 2008).

(5) CREATE A SINGLE “TRADE” BODY

There is a plethora of sector or “trade” umbrella organisations, which inevitably overlap in the provision of services and more importantly the information to members. The value for money provided by these organisations warrants a separate research project. A comparison with bodies such as the National Association of Pension Funds may assist the NFPS deliver information to support members in both a more cost effective and accessible manner.

APPENDIX 2

CHARITIES BY SIZE

Source: (Hind, Andrew, 2008)

INCOME BAND	NUMBER	Non-company	Company
Under £ 10,000	114,600	94%	6%
£ 10,000 to £ 100,000	50,700	86%	14%
£ 100,000 to £ 250,000	11,000	57%	43%
£ 250,000 to £ 500,000	5,500	42%	58%
Over £ 500,000	9,900	29%	71%
TOTAL	191,700	85%	15%
Small charities ***	176,400	89%	11%

*** (Income under £250,000)

**SMALL CHARITIES AS % OF TOTAL IS
92%**

APPENDIX 3

SUMMARY OF DEVELOPMENT OF THE SORP

Source: (Charity Commission, 2008)

“CHARITY ACCOUNTS AND REPORTS - THE STATEMENT OF RECOMMENDED PRACTICE: ACCOUNTING AND REPORTING BY CHARITIES (THE SORP), UK ACCOUNTING STANDARDS AND CHARITIES”

1. “Why have a SORP? The purpose of accounting standards and the origins of SORP

Prior to the SORP and the Charities Act 1993, there was no coherent reporting and accounting framework for UK charities. Charities had near total freedom in law as to how they reported to the public. The requirements imposed by law on charities were rudimentary and not always even consistent with accounting practice. The Charities (Statement of Account) Regulation 1960 which provide the accounting framework prior to the 1993 Act only required:

- particulars of assets and the persons in whom they are vested;
- approximate amounts of liabilities;
- amounts of receipts and payments classified according to nature; and
- particulars of assets, receipts and payments should distinguish between endowment and non-endowed.

The result was a standard of reporting which was condemned by commentators for its poor quality and an inconsistent mix of styles of accounts (ranging from cash accounting through to an ad hoc range of balance sheets and financial statements).

The 1980 ICAEW research report: Financial Reporting by Charities (authors Peter Bird and Peter Morgan-Jones) studied a sample of 100 of the largest charities of which only 85 could be obtained by the researchers. The study and its related questionnaire of corporate donors and grant making trusts found a number of problems with sector practice:

- a lack of compliance with the disclosure requirements of the law or UK Statements of Standard Accounting Practice;
- a perception that some charities only showed what they wished and concealed their true financial state;
- some evidence of the exclusion of restricted funds from the revenue account and balance sheet;
- evidence of the deliberate understatement of the financial position; and
- that the absence of approved accounting guidelines obstructed auditors in challenging poor practice and in judging whether the accounts were “true and fair”.

APPENDIX 3 (cont)

SUMMARY OF DEVELOPMENT OF THE SORP

"They made a number of recommendations:

- that charity accounts comply with the prevailing accounting standards, modified only where appropriate;
- the desirability of more standardised accounts;
- columnar presentation of income and expenditure between unrestricted and restricted funds;
- receipts and payments accounting for smaller charities;
- full accruals based accounts for all other charities;
- consolidated accounts where appropriate; and
- the law should require the audit of charity accounts.

The "Woodfield Report": Scrutiny of the Supervision of Charities (1987) also found fault with the accounting and reporting by charities. Of the charities required to submit annual accounts under the Charities Act 1960 the report found "that in practice less than 10% comply" (paragraph 52) and it went on to note that "This situation is unacceptable. It is important that information relating to charities is available both to the Commission and the public" (paragraph 53). It also noted and welcomed the fact that "The Accounting Standards Board has been working on best practice for charity accounting and intends to publish a Statement of Recommended Practice" (paragraph 56).

The Government's response entitled Charities: A Framework for the Future (1989) paragraph 4.16 laid the foundations for the SORP as the framework for charity accounting and reporting. "Like Woodfield, the government welcomes the SORP. Given charities' great diversity we do not think it would be practicable to require all charities to follow the SORP in all respects. The precise requirements in each of these areas will be prescribed in regulations."

Accounting standards are overseen in the UK by an approved standards setting body called the Accounting Standards Board (ASB). The ASB sets standards for both profit and not-for-profit entities through the publication of Financial Reporting Standards and together with Urgent Issues Task Force abstracts provide the accounting profession with the framework within which it operates. This framework is referred to as UK Generally Accepted Accounting Practice (UK GAAP). Any charity preparing accruals accounts to present a "true and fair view" needs to comply with UK GAAP including the applicable SORP.

The first SORP was developed under the auspices of the Accounting Standards Committee (the predecessor body of the ASB) in 1988 and was arguably a response to poor sector practice. Without an accounting framework, the sector had fallen short of the expectations placed on it by the government in the public interest. However, this SORP (known as SORP 2) had no underpinning in law and its impact on sector accounting and reporting was marginal.

APPENDIX 3 (cont)

SUMMARY OF DEVELOPMENT OF THE SORP

Subsequently the Charities Act 1993 together with accounting and reporting regulation made under the act established a common reporting requirement (section 45) and accounting framework (section 42) with the SORP underpinning good practice reporting and accounting. At about the same time the Charity Commission was approved as the SORP making body by the ASB and took over the SORP making process, under the oversight of the ASB.”

“The SORP process itself is a collaborative one and offers a mechanism for the sector to be directly involved in developing the framework and to decide the direction accountability should take. Through SORP the sector was able and is able to set the framework that would subsequent be adopted by Regulations made under the 1993 Act. Also the SORP provides a unifying framework between charities fully regulated by Part 6 of the Charities Act 1993 and charities incorporated under the Companies Acts. The accounting framework for company charities is set out in company law with the recommendations of SORP enabling such charity to reflect sector needs within the framework of company law. Moreover, the SORP applied across the UK providing a consistent approach to charity accounting across the differing legal jurisdictions of the UK.

4. A brief history of the SORP to date

1988. SORP2 was issued by the Accounting Standards Committee in May 1988, together with a guide for the smaller charity. The recommendations went beyond the very basic legal requirements of the Charities Act 1960. The Charities Act 1960 was silent as to the format of the accounts, bar a requirement for details of the receipts and payment in the year. Rather than a balance sheet all that was required were particulars of assets distinguishing endowments and approximate amount of the liabilities.”

“Although the Commission welcomed SORP2 and would accept filings made using SORP2, SORP2 was wholly voluntary and not underpinned by regulation and was not adopted as standard practice by the sector. Arguably the continuing poor response by the sector meant that a regulatory framework was required if the sector was to achieve adequate levels of accountability and transparency in the public interest.

1995. Accounting by Charities: Statement of Recommended Practice (October 1995) was the fruit of a collaboration with the ASB where the Commission was granted the status of SORP making body. The SORP was underpinned by The Charities (Accounts and Reports) Regulations 1995 which came into force on 1 March 1995. The 1995 SORP introduced the Statement of Financial Activities in place of an Income and Expenditure Account, alongside a balance sheet and notes to the accounts.

APPENDIX 3 (cont)

SUMMARY OF DEVELOPMENT OF THE SORP

2000. Accounting and Reporting by Charities: Statement of Recommended Practice (October 2000) was the second by the Commission as a SORP making body. Effective from 1 January 2001, the SORP was underpinned by The Charities (Accounts and Reports) Regulations 2000 which came into force on 15 November 2000. The Regulations adopted the "methods and principles" of SORP thereby avoiding the need to schedule the format and other requirements in such detail. The SORP was supplemented by an Information Sheet which provided additional informal guidance on particular points and Update Bulletin 1 which amended the SORP for pension accounting and other new standards was published in January 2003.

2005. This is most recent SORP from the Commission as the sole SORP making body. Accounting and Reporting by Charities: Statement of Recommended Practice (March 2005) was effective for accounting periods starting on or after 1 April 2005. The SORP was again underpinned by The Charities (Accounts and Reports) Regulations 2005 which again adopted the "methods and principles" of the SORP and came into force on 31 March 2005.

5. "Current developments in the SORP

The drivers for change that will influence the development of the SORP include:

- changes in charity and company law;
- changes in UK GAAP;
- convergence of UK GAAP with International Financial Reporting Standards (IFRSs);
- requirements for a charity specific interpretation of a particular standard;
- developments in good practice reporting;
- sector and public demands for transparency in reporting and accounts;
- relevant reporting and accounting burdens for small (under the statutory audit threshold) charities
- stewardship reporting needs for resources held on trust; and
- maintenance public confidence and trust through high quality financial and narrative reporting."

APPENDIX 4

SORP AS A “ONE STOP SHOP” FOR CHARITY REPORTING REQUIREMENTS - ICAEW SIG VIEW

Source: (Charity and Voluntary Sector Group News, 2006)

The role of the charity SORP is usefully summarised by the ICAEW SIG:

“Too often the SORP has been seen as part of the regulatory agenda set by the Charity Commission. This has never been the case. The SORP exists primarily as an aid to the sector helping it to meet the legal requirement for accounts to give a ‘true and fair’ view”.

Accounting standards apply to all accrual-based accounts that seek to give a ‘true and fair view’, and the SORP does not invent accounting standards but interprets them to help the sector apply them. It’s worth remembering that there currently are some 42 separate standards supplemented by more than 40 Urgent Issues Task Force (UITF) abstracts and nearly 50 UITF information sheets dealing with interpretational issues as well as an overarching Statement of Principles for Financial Reporting. Without the SORP, each individual charity would need to consider how these commercially-set standards should be applied in the context of charity accounting and their particular circumstances.”

APPENDIX 5

SUMMARY OF CONCESSIONS TO SMALLER CHARITIES IN THE SORP

Source: (Charity Commission, 2005 pp. 99-100)

SORP 2005 described over two pages “concessions at the date of publication”, or smaller charities, which may be summarised as:

- general comments that the level of detail in accounting disclosure and the TAR may be less for smaller charities;
- reference to the scope for small charities (defined above) to present cash based receipts and payments accounts;
- reference to “The Financial Reporting Standard for Smaller Entities” (“FRSSE”) and the option to follow its reporting requirements to the extent that they do not conflict with the SORP;
- audit thresholds - the absence of a need for an audit where gross income or total expenditure is < £ 250,000 (Charity Commission, 2005 pp. 99-100).

APPENDIX 6

OVERVIEW OF PUBLIC BENEFIT SORPs

Source: (PricewaterhouseCoopers, 2008 p. 6)

“There is considerable variety in accounting treatment and presentational requirements across each of the four public benefit SORPs.

Each SORP has adopted a different approach to reflect the nature of transactions in their relevant sector:

- the SORP Accounting and Reporting by Charities has a particular emphasis on fund accounting, to reflect the restrictions on charitable funds managed by charities;
- the SORP Accounting by Registered Social Landlords focuses on accounting for the housing stock managed by the registered social landlord, with an emphasis on fixed asset accounting and accounting for the Social Housing Grant;
- the SORP on Local Authority Accounting reflects the requirements to account for different services separately, with ring-fencing around the accounting for some services (such as the Housing Revenue Account); and
- the SORP - Accounting for Further and Higher Education reflects this sectors mixed-economy mission, with private sector characteristics sitting within a funding regime which includes private, public and charitable sources of funding. The trend towards private sector funding has been increasing, with an emphasis on enterprise and commercialisation activities and joint employer funding of teaching provision, as well as increasing exposure to competitive markets for overseas teaching.

Many readers use the SORPs as a ‘one-stop shop’ for accounting guidance, and this influences the content of some of the SORPs, which often incorporate material directly from the accounting standards.”

APPENDIX 7

PITFALLS & OVERSIGHTS IN REPORTING BY CHARITIES POST SORP 2000

Source: (The Charities SORP 2000 and 2005)

“Common pitfalls and the top 20 failings for SORP 2000

The Charity Commission developed a ‘SORP top 20’ list for SORP 2000 to identify those key aspects of compliance considered critical to the quality of reporting, in order to establish a baseline. Those accounts failing one or more of these ‘SORP top 20’ were then subject to closer scrutiny for potential referral to the Quality Assurance Division (formally the Joint Monitoring Unit) where the accounts had been audited and the auditor was an ICAEW member. In the period 1 May 2004 to 30 April 2005 a total of 1088 accounts subject to audit were reviewed by the Charity Commission and 41% of them (445) failed one or more of the SORP Top 20 Cause for Concern ‘triggers’. The total income of the accounts reviewed was £9.2bn and the total assets held by those charities was £11.6bn

The SORP top 20 failings include 7 triggers for trustee reporting, 11 for the accounting statements and notes to the accounts, and 2 concerned with the scrutiny report, namely whether the accounts have been scrutinised where required and whether the correct form of external accounts scrutiny has been undertaken.

Common SORP 2000 errors in the accounts (11 triggers)

The nature of the trigger and the number of instances of non-compliance are as follows:

- Statement of Financial Activities and balance sheet do not reconcile (30)
- Missing primary statements (80)
- Restricted funds not shown separately (56)
- Endowed funds not shown separately (29)
- Omission of related party disclosures, i.e. trustee expenses and emoluments and other related party disclosures (163)
- Investments omitted or not quoted at market value (14)
- Deferred income incorrectly treated (SSAP 4 inappropriately applied) (68)
- Incorrect income or cost classifications used on the face of the Statement of Financial Activities (SoFA) (209)
- Insufficient explanation of designated funds (98)
- Evidence of the manipulation of a transaction to evade a reporting threshold (15)
- Significant items not explained in the notes (299)

APPENDIX 7 (cont)

PITFALLS & OVERSIGHTS IN REPORTING BY CHARITIES POST SORP 2000

The failings range from broad issues of judgment, significant items not explained, etc.,

to simple arithmetic,

e.g. does the figure for total funds carried forward in the SoFA agree with the total for all funds (total net assets) shown on the balance sheet?

One particular failing is for some company charities to ignore the requirement for a SoFA and provide only an Income and Expenditure Account."

"Common SORP 2000 oversights in trustees' annual reports (7 triggers)

The trustees are responsible for writing the trustees' annual report, required by section 45(1) of the Charities Act 1993. However, the auditor, when conducting the audit, is required by PN 11 to 'ensure that there are no inconsistencies which could either confuse readers of the accounts, or cast doubt on the reliability of the audited information' and PN11 specifically cites the risk management statement and considers reporting on aspects of compliance under 'other matters' and so these major omissions should arguably have been highlighted during the audit for remedy by the trustees:

Missing trustees' annual report (43)

Missing reserves policy, investment policy or grant making policy statements (399)

Missing risk management statement (103)

Insufficient explanation of the charity's objects, organisation or key relationships (215)

Insufficient explanation and review of charitable activities undertaken (270)

Insufficient or omitted explanation of investment performance, where required (158)

Legal and administrative details omitted or insufficient (144)"

APPENDIX 8

SORP 2005: WHAT HAS CHANGED?

Source: (Charity Commission, 2005)

"Introduction

1. The Statement of Recommended Practice, Accounting and Reporting by Charities, (the Charities SORP) has been reviewed and a revised edition - SORP 2005 - published in March 2005. The Charity Commission's website carries copies of the new edition of the [SORP](#). This document provides a broad overview of the changes made to the previous edition of the Charities SORP (SORP 2000). Any reader who would like to review these changes in detail should refer to the copy of [SORP 2005](#) on our website that shows the changes to SORP 2000 as tracked changes.

Background and Drivers for Change to SORP 2000

2. The environment in which charities operate is continually changing. The Accounting Standards Board's (ASB's) Policy and Code of Practice requires the Charity Commission, as the SORP-making body, to undertake an annual review of the Charities SORP. This review is carried out in conjunction with an advisory group, the Charities SORP Committee.

SORP 2000 was published in October 2000. In 2002, an information sheet was published providing informal guidance on a number of accounting issues. In January 2003 'Update Bulletin 1' was issued to update SORP 2000 for new Financial Reporting Standards issued since October 2000, in particular, FRS 17 - Retirement Benefits. SORP 2005 incorporates the amendments introduced by the Update Bulletin and Financial Reporting Standards and Urgent Issue Task Force Abstracts issued, withdrawn or amended up to 31 December 2004.

4. Recent years have seen a number of key reports, publications and research that have influenced the development of charity sector accounting and reporting. These have included:

4.1. Research projects such as the Charity Finance Directors' Group's "Inputs Matters Project" which identified practical issues arising from SORP 2000 and offered possible solutions.

APPENDIX 8 (cont)

SORP 2005: WHAT HAS CHANGED?

4.2. Research work sponsored by the Institute of Fundraising relating to the identification and classification of fundraising costs.

4.3. The work of the Association of Chief Executives of Voluntary Organisations in relation to cost allocation in “Funding Our Future II: Understand and Allocate Costs” that has informed thinking on cost categorisation and cost allocation.

4.4. The Cabinet Office’s Strategy Unit report “Private Action, Public Benefit” and the government’s response in “Charities and Not-for-Profits: A Modern Legal Framework” published in July 2003 addressed primarily at charities in England and Wales (see www.homeoffice.gov.uk/docs3/charitiesnotforprofit.eng.pdf).

The SORP Committee has taken account of these developments and the detailed sector feedback received through consultation.

5. In addition, the Accounting Standards Board published in 2003 a discussion paper “Statement of Principles for Financial Reporting: Proposed Interpretation for Public Benefit Entities”. Insights from this work have enabled the SORP Committee to make a number of clarifications and improvements to explanations of the

recognition of incoming resources and resources expended and the circumstances where consolidated accounts are required.”

“6. Following consultation in 2004, the Government has decided that the option of adopting International Financial Reporting Standards (IFRSs) should not be available to charitable companies. Both company and non-company charities applying the SORP therefore continue to apply UK accounting standards with a phased approach to full convergence with IFRSs. New standards issued by the ASB in 2005 and planned for 2006 will provide a series of “step changes” replacing one or more existing UK standards with standards based on IFRSs as their development is completed. The Charities SORP will continue to be reviewed in line with the ASB’s Policy and Code of Practice to reflect changes in UK standards, including those arising from the convergence process.

Summary of Changes to SORP 2000

7. SORP 2005 remains a comprehensive summary of how accounting standards, charity law, relevant company law and best practice impacts on the preparation of charity accounts and reports. Whilst SORP 2005 is longer than SORP 2000, this is due to expanded explanations, largely in response to requests for further guidance and examples from users of the SORP, as well as the need to address the increasing number of accounting standards in issue. SORP 2005, for example, includes in appendix 2 a summary of some 37 accounting standards and 26 UITF Abstracts as a reference source to users

APPENDIX 8

SORP 2005: WHAT HAS CHANGED? (cont)

8. The underlying principles of the Charities SORP (eg following UK accounting standards, fund accounting and compliance with charity law) are unchanged in the new edition. The main changes to the SORP are:

In general:

8.1. Clarification of the [purpose and scope of the SORP](#), in particular, explaining how the SORP applies in different parts of the British Isles.

8.2. Incorporating recommendations for the interpretation of new [financial reporting standards](#) issued since the previous SORP.

8.3. [More explanation](#), including the use of tables indicating how information may be presented in both the primary statements and related notes, and an expanded glossary of important terms used.

And more specifically:

8.4. More focused recommendations for the content of [Trustees' Annual Reports](#) emphasising the reporting of activities and achievements against organisational objectives.

8.5. More specific guidance on [recognising when incoming resources and resources expended](#) should be brought into the Statement of Financial Activities (SoFA).

8.6. Reporting resources expended and incoming resources by [activity in the SoFA](#).

8.7. A new category of '[heritage assets](#)' is introduced replacing the "historic and inalienable" category of the previous SORP with expanded guidance being provided.

8.8. A number of [changes to disclosure notes](#) and explanations of how the formats of the SoFA and balance sheet can be adapted to fit particular presentational needs.

8.9. A separate appendix summarising the significant exemptions available to [smaller charities](#)

8.10. Providing advice on accounting for a number of [new situations](#)."

APPENDIX 9

ICAEW OVERVIEW OF ISSUES FOR CHARITY REPORTING - SORP 2005

Source: (The Charities SORP 2000 and 2005)

“Looking ahead to implementing SORP 2005

SORP 2005 was released in March 2005 and merits close scrutiny by the practitioner. The emphasis on developing the quality of charity reporting is a key theme underpinning the SORP. Paragraphs 41 to 59 set out more demanding requirements for the trustees’ annual report and the SORP introduces activity reporting to the SoFA (paragraphs 188 to 194), defines ‘governance’ costs (paragraphs 210 to 213) and ‘heritage’ assets (paragraphs 279 to 294) and also provides a new treatment for programme-related or ‘social’ investment activities. The difference between the concepts of functional cost reporting and activity reporting is in the new emphasis on *why* charitable activities are undertaken (i.e. to what end) rather than how (i.e. by what means). For this reason grant-making and the support costs of charitable activities no longer appear on the face of the SoFA. They must still be distinguished in the accounts note, however. There is still a need to allocate direct and indirect costs to the relevant SoFA headings, but these headings themselves have changed.”

APPENDIX 10

SORP COMMITTEE - PUBLIC RECORD OF WORKLOAD: (November 2006 to June 2008)

Source: (Charity Commission, 2008)

SORP Committee Meeting - 13 June 2008

The Committee has planned a full schedule of work and the final meeting of the 2008 SORP review cycle is on 17 October 2008.

The agenda, minutes and papers for the 13 June 2008 meeting:

1. [Agenda](#) (10KB PDF)
2. [Draft minutes 13 June meeting](#) (38KB) < not available when accessed again 8/9/2008>
3. [Agenda paper 2 Forum Feedback](#) (71KB PDF)
4. [Agenda paper 3 Update on the planned roundtables](#) (37KB PDF)
5. [Agenda paper 4 Technical Research Agenda](#) (38KB PDF)
6. [Agenda paper 5 Letter from the ASB regarding the Technical Research Agenda](#) (76KB PDF)
7. [Agenda paper 6 Letter to the ASB regarding the Technical Research Agenda](#) (100KB PDF)
8. [Approved minutes 25 January meeting](#) (40KB PDF)

Previous SORP Committee Meetings

The agenda, minutes and papers for the 25 January 2008 meeting:

- [Agenda](#) (9KB PDF)
- [Letter to ASB: Charity SORP Committee plans for further research and development of the SORP](#) (906KB PDF)
- [Draft minutes January Meeting](#) (40KB PDF)
- [Taking the Pulse: Developing SORP with Stakeholder Roundtables](#) (22KB PDF)
- [Media and Communications Guidelines](#) (21KB PDF)
- [Approved minutes 23 November meeting](#) (25KB PDF)

The agenda, minutes and papers for the 23 November 2007 meeting:

- [Agenda](#) (10KB PDF)
- [Taking the Pulse: Overview of themes and the stakeholder conference](#) (34KB PDF)
- [Notification to the ASB of development work on SORP 2010](#) (16KB PDF)
- [Approved minutes 19 October meeting](#) (54KB PDF)

APPENDIX 10 (cont)

SORP COMMITTEE - PUBLIC RECORD OF WORKLOAD: (November 2006 to June 2008)

The agenda, minutes and papers for the 19 October 2007 meeting:

- [Agenda](#) (10KB PDF)
- [Agenda paper 2 Statement of Principles](#) (35KB PDF)
- [Agenda paper 3 Analysis and review of SORP compliance](#) (168KB PDF)
- [Agenda paper 4 Information Sheet](#) (17KB PDF)
- [Agenda paper 5 Options for the next SORP and convergence with](#) (92KB PDF)
- [IFRS and Accounting for not-for-profit entities letter](#) (28KB PDF)
- [Agenda paper 6 Work Plan](#) (35KB PDF)
- [Approved minutes 12 April meeting](#) (45KB PDF)

The agenda, minutes and papers for the 12 April 2007 meeting:

- [Agenda](#) (19KB PDF)
- [Agenda paper 2 'Update on Heritage assets'](#) (22KB PDF)
- [Letter and consultation response to the ASB on FRED 40](#) (63KB PDF)
- ['Letter to ASB regarding IFRSs and the charity SORP'](#) (973KB PDF)
- [Approved minutes 18 January meeting](#) (36KB PDF)

The agenda, minutes and papers for the 18 January 2007 meeting:

- [Agenda](#) (19KB PDF)
- [Agenda paper 1 'Heritage asset update'](#) (38KB PDF)
- [Agenda paper 2 'IFRS Small and Medium Entities and developing the SORP'](#) (30KB PDF)
- [Agenda paper 3 'Communicating SORP 2005 to small charities preparing accruals accounts'](#) (61KB PDF)
- [Agenda paper 4 'Proposed Draft Information Sheet'](#) (48KB PDF)
- [Tabled paper 'Press Coverage of the SORP'](#) (26KB PDF)
- [Approved minutes 1 November meeting](#) (37KB PDF)

The agenda, minutes and papers for the 1 November 2006 meeting:

- [Agenda](#) (20KB PDF)
- [Agenda paper 1 'The SORP-making process: A background paper'](#) (41KB PDF)
- [Agenda paper 2 'SORP Committee Briefing: Steering the way forward challenges and options'](#) (86KB PDF)
- [Agenda paper 3 'Accounting for Heritage asset: A background and proposals for a SORP Update Bulletin'](#) (42KB PDF)
- [The findings of a survey conducted by the Directory of Social Change](#) (38KB PDF)

APPENDIX 11

APB DRAFT REVISED GUIDANCE ON THE AUDIT OF CHARITIES

Source: (APB, 2008)

"The Auditing Practices Board (APB) has published a consultation draft of a revision of Practice Note (PN) 11: "The Audit of Charities in the United Kingdom". The consultation period ends on 10 July 2008. The current version of PN 11 was issued in 2002 and has since been supplemented by Bulletin 2005/1: Audit risk and fraud - supplementary guidance for auditors of charities.

The update to PN 11 reflects:

- the replacement of Statements of Auditing Standards by ISAs (UK and Ireland);
- changes to the Charities Act 1993 (which apply to charities in England and Wales) as a result of the implementation of the Charities Act 2006 on 1 April 2008;
- changes to the legal and regulatory arrangements for charities in Scotland, including the establishment of the Office of the Scottish Charity Regulator (OSCR) which apply to accounting periods commencing on or after 1 April 2006;
- changes to the guidance on the Charity Commission's interpretation of 'material significance' in the context of whistle blowing responsibilities.

Changes to the legal and regulatory arrangements for charities in Northern Ireland have been proposed but, as these are not yet in a sufficiently final form, they have not been referred to in the consultation draft. If new legislation is approved before PN 11 is finalised, reference will be made to it.

Richard Fleck, APB Chairman, said:

"There have been a number of significant changes in law and regulation relating to charities since PN 11 was issued in 2002, and these are reflected in this consultation draft. In particular, illustrative auditor's reports based on the new legislation are included in an Appendix, and guidance is provided on the new regulatory arrangements in Scotland. The APB welcomes comments on the draft from auditors and others with an interest in charities".

APPENDIX 11 (cont)

APB DRAFT REVISED GUIDANCE ON THE AUDIT OF CHARITIES

Notes to Editors

- The Financial Reporting Council (FRC) is the UK's independent regulator responsible for promoting confidence in corporate reporting and governance. Its functions are exercised principally by its operating bodies (the Accounting Standards Board, the Auditing Practices Board, the Board for Actuarial Standards, the Financial Reporting Review Panel, the Professional Oversight Board and the Accountancy and Actuarial Discipline Board) and by the Committee on Corporate Governance.
- The APB is committed to leading the development of auditing practice in the United Kingdom and the Republic of Ireland so as to:
 - establish high standards of auditing;
 - meet the developing needs of users of financial information; and
 - ensure public confidence in the auditing process.
- The APB issues Practice Notes to assist auditors in applying auditing standards of general application to particular circumstances and industries. Practice Notes are persuasive rather than prescriptive. However, they are indicative of good practice even though they may be developed without the full process of consultation and exposure used for auditing standards.
- The revised PN has been prepared with advice and assistance from staff of the Charity Commission and OSCR.”

APPENDIX 12

EXTRACT FROM PN 11 - "CONTROL ACTIVITIES"

Source: (APB, 2008 pp. 141-146)

This PDF document is not capable of being copied so the headings are reproduced below.

<u>TABLE</u>	<u>TOPIC</u>
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1	cash donations
2	other donations
3	other income
4	fixed assets
5	use of funds
6	branch operations

APPENDIX 13

ICAEW CHARITIES & VOLUNTARY SECTOR SPECIAL INTEREST GROUP

Source: (ICAEW)

“There is now increased regulation and specialisation in the sector and, as a result, it enjoys a higher profile. Therefore it is important that Institute members working in the charity and voluntary sector have access to up-to-date information; can attend relevant conferences and seminars; and belong to a peer network which supports them in their professional life. Since its inception in 1998, the group has firmly established itself with a growth in subscriber numbers and a strong, capable committee which includes active involvement from the Charity Commission.”

HELP SHEETS - Source: (ICAEW)

NON TAX

- “Volunteers (January 2008)
- Charities and investment (November 2007)
- Independent examination (November 2007)
- Corporate joint ventures (April 2007)
- SORP 2005 - Risk Review (April 2007)
- Role of honorary treasurer (April 2007)
- Charities SORP 2000 and 2005 (May 2006)

TAX SPECIFIC

- Fund-raising events - VAT rules (April 2007)
- Tax-efficient giving (November 2007)
- Taxation of charity trading (November 2007)”

APPENDIX 14

CIPFA CHARITIES PANEL - NEWSLETTER TOPICS

Source: (CIPFA, 2008)

The following are examples of the topics included in CIPFA publications:

Panel Newsletter 2 - June 2005

- Function of internal audit
- Review of the "SIR"

Panel Newsletter 5 - December 2006

- Buying from the Third Sector - extract of the Commissioning Joint Committees Guide
- Land - Public Private partnership schemes guidance

Panel Newsletter 8 - Spring 2008

- Third Sector case studies - partnership working & contracts

APPENDIX 15

(A) GOVERNANCE HUB - BACKGROUND

Source: (Governance Hub)

“Who we are

The Governance Hub is a collaborative body that provides support for good governance in the voluntary and community sector in England.

Our vision is for a future in which all voluntary and community organisations are better able to fulfil their missions and play a positive role in society through good governance practice.

We are a partnership of nine voluntary and community sector organisations, funded by Capacitybuilders, whose representatives, called the Core Group, oversee the Hub’s activity. We are hosted by NCVO who is our accountable body and take guidance from an advisory group of twenty seven stakeholder organisations. Our small staff team implements the decisions of the core group and carries out the work of the Hub.”

(B) GOOD GOVERNANCE - KEY PRINCIPLES

Source: (Governance Hub, 2005)

- Board leadership
- The Board in control
- The high performance Board
- Board review and renewal
- Board delegation
- Board and Trustee integrity
- The open Board

APPENDIX 16

ICAEW DIPLOMA IN CHARITY ACCOUNTING - OVERVIEW

Source: (ICAEW)

“The ICAEW Diploma in Charity Accounting is the qualification that acknowledges expertise and experience in charity accounting and finance. Having this in your armoury and the letters DChA after your name will inspire confidence that you have the necessary knowledge to be able to make a real difference to the prosperity of an organisation through your specialist understanding of charity accounting and financial management.

Because charities handle large amounts of money donated from the public and private purse, they must be accountable and act with integrity. To ensure effective use of their funds, it is also important that they become more business-like in their activities. This qualification will help to ensure that these values are implemented from the top downwards, and will provide a benchmark for employers and clients alike.

There are currently two routes you can take to the qualification. The “study route” offers a learning programme for accountants who want to specialise in the charity and voluntary sector. You may already be working in this area, or you could be looking to develop your career in this direction.

The “experience route”, which is only available until 31 July 2008(***), is open to senior professionals with extensive experience in charity accounting and financial management to apply for the ICAEW Diploma in Charity Accounting in recognition of their knowledge and achievements.” (**** since extended to 31 December 2008*)

“The Diploma in Charity Accounting was launched in 2006 to give finance professionals who work in or with charities the necessary knowledge to deal with the increasingly complex requirements placed on charities around financial management and reporting.

APPENDIX 16 (cont)

ICAEW DIPLOMA IN CHARITY ACCOUNTING - OVERVIEW (cont)

The Diploma is currently obtainable in two ways: based on experience or through study. The last day professionals can apply for the Diploma based on their experience, and that way gain recognition for their knowledge and skills in the charity accounting sector, is 31st July."

"The experience route is open to senior professionals with extensive experience in charity accounting and financial management either gained from advising or working in the charity sector, and requires the applicant to provide evidence of knowledge and experience in the subject areas covered by the study route to the diploma (including voluntary sector policy and strategy, diversity and governance). Successful candidates get the right to use the designation DChA after their name."

"Peter Gotham, Chairman of the ICAEW Charity and Voluntary Sector Special Interest Group (SIG), said: "I would urge all professionals with extensive experience in charity accounting - whether they work in the charity sector, business or an accountancy firm - to apply for the Diploma in Charity Accounting.

"Having the qualification and being able to use the designatory letters DChA is a great opportunity to get recognition for the knowledge and expertise held in this increasingly complex sector." "

APPENDIX 17

ICAEW's DChA - EXAMINATION OF EXPERIENCE

1 POLICY, LAW AND REGULATION (1 x 15 marks) (answer 1a or 1b)

1a. Describe one development in policy, law or regulation, and explain its impact on your organisation and the action you took to implement or comply with it.

(Examples might include: SORP, charity law, Charity Commission guidance, government papers)

1b. Describe one development in policy, law or regulation, and explain its impact on your client(s) and the advice you gave to enable implementation or compliance.

(Examples might include: SORP, charity law, Charity Commission guidance, government paper)

2 RESOURCE MANAGEMENT (1 x 15 marks) (answer 2a or 2b)

2a. Describe one issue of resource management at your organisation, and explain how you addressed it to make improvements to the organisation.

(Examples might include: use of IT; set-up of trading organisations within the charity; production of business plans to plan and prioritise projects; development or update of procedures manual or staff handbook; recruitment, appraisal or restructuring of staff, external service providers or other suppliers)

2b. Describe one issue of resource management at a client, and explain how you addressed it to recommend improvements to the client.

(Examples might include: use of IT; set-up of trading organisations within the charity; production of business plans to plan and prioritise projects; development or update of procedures manual or staff handbook)

APPENDIX 17 (cont)

ICAEW's DChA - EXAMINATION OF EXPERIENCE (cont)

3 MARKETING, FUNDRAISING, INCOME GENERATION AND INCOME DISTRIBUTION FOR PUBLIC BENEFIT (1 x 15 marks) (answer 3a or 3b)

3a Describe one marketing, fundraising, income generation or income distribution campaign/strategy at your organisation, and explain how you contributed to it for the benefit of the organisation.

(Examples might include: preparation of business case and/or budget; use of promotional merchandise; setting and implementing control procedures; recommending tax efficiencies; setting up a website to collect donations; operating gift aid forms; obtaining lottery funding or a grant; distribution or evaluation of a grants programme; providing advice on fundraising, brand development and brand awareness; designing a marketing strategy)

3b Describe one marketing, fundraising, income generation or income distribution campaign/strategy undertaken by a client *, and explain the advice you gave in connection with the campaign and how this benefited the client.

* For this question only, you may instead use your experience as trustee of a charity.

(Examples might include: preparation of business case and/or budget; reviewing control procedures; recommending tax efficiencies; setting up a website to collect donations; operating gift aid forms; obtaining lottery funding or a grant; distribution or evaluation of a grants programme; providing advice on fundraising, brand development and brand awareness; designing a marketing strategy)

APPENDIX 17 (cont)

ICAEW's DChA - EXAMINATION OF EXPERIENCE (cont)

4 STRATEGY AND GOVERNANCE (1 x 15 marks) (answer 4a or 4b)

4a. Identify one issue of strategy or governance at your organisation, and explain how you addressed it for the benefit of the organisation.

(Examples might include: design of strategic plan, reserves or investment policy; dealing with threat to charity's reputation or risk profile; resolution of conflict of interest or dispute; approach to ethical issue; planning of merger or joint working arrangement strategy)

4b. Identify one issue of strategy and governance at a client, and explain how you addressed it for the benefit of the client.

(Examples might include: design of strategic plan, reserves or investment policy; dealing with threat to a client's reputation or risk profile; resolution of conflict of interest or dispute; approach to ethical issue; planning of merger or joint working arrangement strategy)

5 CHARITY ACCOUNTING, AUDITING AND TAXATION (1 x 15 marks) (answer 5a or 5b)

5a. Describe one significant charity accounting/audit/taxation issue at your organisation, and explain how you used your technical knowledge/skills to address it within the organisation.

(Examples might include: charity trading; dealing with visit or investigation by Charity Commission, taxation authorities or other official body; incomplete records; benchmarking; VAT; Gift Aid; Inheritance Tax; year-end accounting and reporting; liquidation or closure of a client)

5b. Describe one significant charity accounting/audit/taxation issue that you have encountered, and explain how you used your technical knowledge/skills to address it.

(Examples might include: charity trading; dealing with visit or investigation by Charity Commission, taxation authorities or other official body; incomplete records; benchmarking; VAT; Gift Aid; Inheritance Tax; year-end accounting and reporting; liquidation or closure of the charity)

APPENDIX 17 (cont)

ICAEW's DChA - EXAMINATION OF EXPERIENCE (cont)

6 FINANCIAL MANAGEMENT (1 x 15 marks) (answer 6a or 6b)

6a. Describe one issue of financial management at your organisation, and explain how you addressed it to add value to the organisation.

(Examples might include: performance reporting or forecasting; setting and/or monitoring investment policy; setting and/or monitoring key performance indicators (KPIs); establishing and/or reviewing internal controls; applying/negotiating for bank borrowing; training of non-financial staff in financial issues)

6b. Describe one issue of financial management at a client, and explain how you addressed it to add value to the client.

(Examples might include: performance reporting or forecasting; setting and/or monitoring investment policy; setting and/or monitoring key performance indicators (KPIs); establishing and/or reviewing internal controls; applying/negotiating for bank borrowing)

APPENDIX 18

SET UP OF ACCESS TO "ICAEW DATA"

The opportunity to access the ICAEW data was created by Professor Paul Palmer of CASS Business School's Centre for Charity Effectiveness. He entered into preliminary discussions with the ICAEW via its Charity Manager, Ms Barbara Bampton, of their Technical Services Division.

2007

4 December - Professor Palmer and B.Connolly held a meeting to discuss the concept and establish preliminary interest.

2008

14 January - meeting at CASS to develop the concept. This meeting was attended by Messrs Palmer, Clark (Visiting Professor @ CASS), Ms B.Bampton (ICAEW) and B.Connolly. The meeting clarified the nature of the proposed academic project. The meeting addressed some, but not all, of the administrative associated with progressing to achieving access to the ICAEW data. This area subsequently proved to be more time consuming than initially envisaged.

1 February - ICAEW (Learning and professional Development team) approve the writer's confidentiality agreement and draft letter to DChA successful applicants. ICAEW offering no funding or secretarial support for the project, bar ICAEW paper and envelopes for outgoing letters. ICAEW limitations to mailing:

(1) sample to exclude unsuccessful candidates. ICAEW decided that it would be unfair to write to such candidates.

(2) no follow up letter to non respondents allowed by the ICAEW

19 February - Ms Bampton advised that having seen ICAEW data scripts they are not entirely anonymous and thus the previously approved form of letter to the applicants had to be revised.

25 February - revised letters mailed first class.

28 February - 45 replies, of which "yes" 39, "no" 2 and "completed incorrectly" 4

5 March - 74 "yes" replies advised by ICAEW

6 March - writer collects all available scripts from ICAEW for copying

10 March - a further 3 "yes" replies so 77 in total with 6 "no's", 83 in total
- all original scripts returned to ICAEW

APPENDIX 19

ICAEW EMAIL ADVICE - USE OF DATA APPROVED

From: Barbara Bampton [mailto:Barbara.Bampton@icaew.com]

Sent: Fri 1 Feb 2008 13:02

To: Brendan Connolly

Cc: Palmer, Prof. Paul; Elizabeth Blount

Subject: Your research project

Dear Brendan

I'm very excited to be able to tell you that our Learning and professional Development team have given your letter the thumbs up and approved your suggested confidentiality agreement.

We aren't able to provide you with any secretarial or admin support I'm afraid but what we can do is to give you

1. The names and addresses of the candidates in an excel spreadsheet.
2. A supply of Institute headed paper and envelopes.

You'd need then to work out how to do the mail merging. As the letter is going out on ICAEW paper I think I should sign it.

Do you want to give me a bell so we can meet up and get the ball rolling?

Barbara Bampton

Charities Manager, TSD

T +44 (0)20 7920 8794

E Barbara.Bampton@icaew.com

ICAEW

Chartered Accountants' Hall

PO Box 433 Moorgate Place London EC2P 2BJ www.icaew.com

INSPIRING CONFIDENCE

APPENDIX 20

CONFIDENTIALITY AGREEMENT RE "ICAEW DATA"

Institute of Chartered Accountants in England & Wales
Moorgate Place, London EC2P 2BJ

14 February 2008

Dear Sirs

CONFIDENTIALITY AGREEMENT - MSC PROJECT @ CASS BUSINESS SCHOOL

You have agreed to provide data, authorised for disclosure to me by the creators, from applicants for the Diploma in Charity Accounting by the experience route.

1 CONFIDENTIAL INFORMATION

1.1 Subject to clause 1.2, for the purposes of this agreement the expression "Confidential Information" means any information that is supplied to me by ICAEW for the purposes of my MSC project at CASS Business School.

1.2 The expression "Confidential Information" shall not include information that:

- (a) is in or comes into the public domain other than as a result of a breach of this agreement;
- (b) lawfully becomes available to me other than from a source which is connected with ICAEW.

2 CONFIDENTIALITY OBLIGATIONS

In consideration of the Confidential Information being made available to me I undertake:

- (a) to treat all Confidential Information as secret and confidential and take all necessary steps to preserve such confidentiality;
- (b) not to use any Confidential Information other than for the purpose of the MSC project at CASS Business School;
- © to confirm to you in writing at any time upon request that I have complied with the provisions of this agreement;
- (d) not to make any copies of any Confidential Information, without your prior written consent;
- (e) on your written request, promptly to return to you or destroy, as directed, all materials containing Confidential Information and all copies, extracts or reproductions of it and to certify to you in writing that I have done so.

3 GOVERNING LAW

This agreement shall be governed by and construed in accordance with English law.

Yours sincerely

B.S.Connolly

APPENDIX 21

ICAEW LETTER TO DChA APPLICANTS TO OBTAIN PERMISSION TO USE THEIR DATA

22 February 2008

Dear [A.N.Other]

SURVEY OF ISSUES IN THE THIRD SECTOR

An MSC student of the Centre for Charity Effectiveness at CASS Business School, London, wishes to undertake research on the key issues which accountants working in charities and their advisers are currently facing. A key part of the research would be a mapping study of the replies to the application for a "Diploma in Charity Accounting" via the experience route.

We are writing to ask your permission to disclose your answers to the seven questions contained in your application to the student, who is an ICAEW member. He will be supervised by Professor Paul Palmer, who is the Course Director at Cass and an examiner for the ICAEW, and by David Clark FCA, who is a Visiting Professor at Cass.

Nobody other than the student, Professor Palmer and Mr Clark will see your answers. The research paper will not contain references to you, your organisation or your clients and any copies of your answers will be destroyed once the research is completed. The research student and the supervisors have signed a confidentiality letter with the Institute.

If the research reveals issues of wide interest, the Institute may develop the findings of the MSC project into a discussion paper.

To give your permission for this data to be disclosed, please complete the attached authority letter and return it to me in the enclosed envelope. Your reply would be appreciated by Friday 7 March.

Thank you for your assistance

Yours sincerely

Barbara Bampton
Charities Manager

APPENDIX 22 - MAPPING SUMMARY OF ICAEW DATA - Q1 - POLICY, LAW & REGULATION

SCRIPT	ANALYSIS
1	SORP implementation & training
2	SORP 2000 implementation
3	SORP 2005 implementation
4	audit thresholds
5	SORP 2005 implementation & cost allocation
6	substantial donor regulations
7	SORP 2005 implementation
8	SORP 2005 implementation & "FCR"
9	governance - adequacy of records
10	SORP 2005 implementation, "TAR" & "SIR"
11	SORP implementation & income recognition of grants
12	SORP implementation & FRS17
13	governance - CC regulatory regime
14	SORP implementation & cost allocation
15	SORP 2005 implementation guides for churches
16	tax & mutual insurance company; create charity
17	risk management review
18	SORP implementation; heritage assets & cost allocation
19	SORP 2005 implementation & "TAR"
20	SORP 2005 implementation, "TAR" & strategic plan
21	SORP 2005 implementation, "TAR" & overhead allocation
22	SORP 2005 implementation & overhead allocation
23	SORP 2005 implementation & heritage assets
24	SORP 2005 implementation, governance & "TAR"
25	SORP 2005 implementation & "TAR"
26	SORP 2005 implementation & "TAR"
27	SORP 2005 implementation & cost allocation
28	governance review & "CC 60"
29	SORP 2005 implementation
30	risk register, "TAR" & reserves policy
31	SORP 2005 implementation, "TAR" & cost allocation
32	SORP 2005 implementation
33	SORP 2005 implementation, "IT" & strategy
34	SORP 2005 implementation
35	SORP 2005 implementation & "TAR"
36	SORP 2005 implementation, "IT" & management accounts
37	SORP 2005 implementation & cost allocation
38	Trustee training & handbook
39	SORP 2005 implementation & "TAR"

APPENDIX 22 (cont)- MAPPING SUMMARY OF ICAEW DATA - Q1 - POLICY, LAW & REGULATION

<u>SCRIPT</u>	<u>ANALYSIS</u>
40	SORP 2005 implementation - "GM" - outcomes assessment
41	SORP 2005 implementation - "IT" software for clients
42	Governance issues: trustees & expenses
43	SORP 2005 implementation & "TAR"
44	SORP 2005 implementation & "TAR"
45	SORP 2005 implementation & "TAR" & "KPIs"
46	create charity
47	governance - public benefit test
48	SORP 2005 implementation & fund acctg
49	SORP 2005 implementation & "funds"
50	SORP 2005 & client guide
51	SORP 2005 - lobbying for change re smaller charities
52	SORP 2005 - "TAR" & funds
53	SORP 2005 & client "toolkit"
54	FRS17 deficit 90% of unrestricted reserves & going concern
55	SORP 2005, "TAR" & "funds"
56	reserves & pension liabilities
57	SORP 2005 implementation, "TAR", "KPIs" & "FCR"
58	SORP 2005 implementation & "TAR"
59	SORP 2005 & client implementation guidance
60	SORP 2005 implementation & "TAR" & cost allocation
61	SORP 2005 implementation
62	SORP 2005 implementation, "CoA" revision & cost allocation
63	SORP 2005 implementation & utilisation of "IT" upgrade
64	SORP 2005 implementation
65	sale & leaseback - property & donor repayment from profit
66	SORP 2005 implementation
67	create reserves policy
68	SORP 2005 implementation
69	SORP 2005 implementation
70	SORP 2005 implementation
71	SORP 2005 implementation & "TAR"
72	risk review & embedding process
73	SORP 2005 implementation, reserves policy & value of volunteers
74	Acctg - tech: acctg for donated resources
75	SORP 2005 implementation - client support
76	SORP 2005 & reserves policy reviews
77	SORP 2005 implementation

APPENDIX 22 (cont) - MAPPING SUMMARY OF ICAEW DATA - Q2 - RESOURCE MANAGEMENT

SCRIPT	<u>ANALYSIS</u>
1	investment strategy
2	"IA" tender
3	strategic plan & "KPIs"
4	trading "sub" reorganisation: VAT & "PPT"
5	"IT" & pension scheme accounts
6	"IT" & "TARMI" & improving internal controls
7	trading "sub" creation; governance & working capital
8	"IT" & "OS" payroll
9	"HR" - hire "CFO"
10	trading "sub" review & simplification
11	internal controls review & "FM"
12	"IT" & "TARMI" - hospital spend & budget
13	governance & consortium charity
14	"IT"- implement integrated & efficient systems
15	property management strategy review & "IT"
16	"HR" - staff training & appraisal
17	"HR", "IT" & "TARMI"; £ 600 k savings p.a. on staff rostering
18	"HR" - staff reorganisation for efficiency & service levels
19	create "FM", internal controls & reserves policy
20	efficiency - cost base - fixed to variable
21	"HR" - team reorganisation of customer services
22	"IT" - upgrade & efficiency
23	efficiency - cease "OS" arrangements for restaurant
24	"IT" upgrade
25	"IT" & time recording & efficiency
26	"HR" - reorganisation of functions/staff
27	"FM" & internal controls
28	efficiency savings & budgets
29	"HR" - reorganisation of functions/staff
30	banking & anti money laundering checks for 30 k guide branches
31	"HR" - timesheets & efficiency
32	"TARMI", cash flow review & optimise interest income
33	"HR", esp. remuneration
34	"FM" revision
35	cease "SPV" & undertake trading in charity
36	create internal controls & "FM"
37	"HR" - pay & grading review
38	property cost reduction & unrestricted funds
39	"IT", "CoA" & "TARMI"

APPENDIX 22 (cont) - MAPPING SUMMARY OF ICAEW DATA - Q2 - RESOURCE MANAGEMENT

<u>SCRIPT</u>	<u>ANALYSIS</u>
40	grant making process review
41	"PPT" review; reorganisation charity & create "SPV"
42	"FR" - online donation system
43	"IT" upgrade - Sage for charities
44	"TARMI"; internal controls & management accounts
45	"OS" & medical bookings
46	"FM"
47	Property - controls over development
48	"IT" & fund accounting
49	"IT" strategy & implementation
50	reorganisation property loans & optimise tax efficiency
51	structure review, "FM" & improved internal controls
52	"IT" upgrade & "TARMI"
53	"IT" & internal controls review, esp. timesheets
54	"IT" - strategy & operational
55	set up "IT", "CoA" & "TARMI" for new charity
56	efficiency - vehicle sharing
57	"IT" upgrade, fund accounting & "TARMI"
58	funding "SPV"; redeemable equity
59	"OS" - accounting for £ 1 m income charity
60	resources review & allocation; budgeting & objectives
61	"IT" upgrade, "TARMI" & internal controls enhanced
62	business plan & revised "FR" strategy
63	business plan & strategic direction
64	"TARMI", "funds" & hire qualified acct
65	efficiency - transfer ancillary activities (creche) to third party
66	"FCR" of central overheads when grants to branches
67	"PPT" & creation of "SPV"
68	"HR" - revise management structure
69	"IT" upgrade & "TARMI"
70	efficiency - "e" purchasing
71	create business plan & revision mission & vision
72	upgrade & integrate "IT" & enhance reporting
73	internal controls review & "FM" (including governance)
74	"IT" upgrade & revised "CoA"
75	diminishing reserves & strategy review
76	"HR" - payroll & timesheets
77	"HR" - relocation

APPENDIX 22 (cont) - MAPPING SUMMARY OF ICAEW DATA - Q3 - MARKETING & FUND RAISING

<u>SCRIPT</u>	<u>ANALYSIS</u>
1	investment - asset allocation etc
2	VAT audit
3	"funds"
4	"funds"
5	"FR" & appeal processing
6	VAT strategy
7	Gift Aid recovery
8	funding bid & "FCR"
9	funds & design of "FR" campaign
10	"PPT" review
11	"FR" bid; "FCR"
12	"TARMI" - grant utilisation
13	financing trading "sub"s
14	"FR"- brand revision
15	"FR" - religious organisation
16	"FR" - optimise "sub"s profits from new health products
17	"FR" - capital appeal
18	"FR" - capital project
19	"FR" - capital & "funds"
20	create training course
21	"FR" - unsuccessful appeal
22	budgeting & user involvement
23	"FR" - European funding & "funds"
24	"FR" agency & Gift Aid
25	"FR" - Norway & accountability
26	legacy strategy
27	"FR" & appropriate resources
28	VAT & capital project
29	"PPT" & VAT acctg - café
30	VAT - "P/E" - revise method & save £ 100 k p.a.
31	tendering
32	"FCR" & SLAs
33	"FCR" & tender
34	grant strategy & process review
35	brand awareness event & VAT
36	"FR" & capital project
37	"FR" & rebranding
38	"FR" & concert
39	"FR" & church

APPENDIX 22 (cont) - MAPPING SUMMARY OF ICAEW DATA - Q3 - MARKETING & FUND RAISING

<u>SCRIPT</u>	<u>ANALYSIS</u>
40	grant making & support to fundees
41	grant making process review
42	"PPT" & creation of "SPV"
43	business plan to aid "FR" & avoid closure
44	"FR" & optimising income from property
45	VAT recovery on "GM" donated buses
46	"FR" & capital project
47	"SPV" & business plan to support share capital
48	"FR" - optimise "TAR" for promotion
49	capital project & VAT
50	"FR" & cost ratios review
51	"FR" & ICAEW SIG
52	"FR" - costume sale
53	Gift Aid systems review & retrospective claim
54	"FR" strategic review
55	"FR" - funding application & "FCR"
56	business planning & expansion
57	capital project - review of VAT & "PPT"
58	sponsorship - review VAT & "PPT"
59	Gift Aid reclaim
60	"FR" - donation of shares
61	Gift Aid planning & "FR" appeal
62	deficit, recovery planning & "FR"
63	"FR" - evaluate EU funding opportunity
64	budgeting & deficit
65	"FR" for capital project (£ 50 million), controls & reporting
66	optimising grant applications
67	optimise Gift Aid from admission charges
68	"FR" & capital project
69	"FR" & project reports
70	"FR" - EBay v retail shops
71	"FR" - diversification
72	"FR" & capital project, business plan, "PPT" & "SPV" & VAT
73	"FR" & VAT
74	tendering & budgeting incremental costs
75	"HR" - payroll giving
76	strategy review
77	efficiency - direct debit donations & cost reduction

APPENDIX 22 (cont) - MAPPING SUMMARY OF ICAEW DATA - Q4 - STRATEGY & GOVERNANCE

<u>SCRIPT</u>	<u>ANALYSIS</u>
1	ethical investment policy
2	risk review - grading & impact
3	"IT" - disaster recovery plan
4	trustee & conflict clearance
5	ethical banking
6	governance review
7	fraud - £ 20 k
8	governance - trustees committees & skills
9	governance review
10	risk review & internal audit
11	"TARMI" & branch cash management
12	reserves & FRS17: pension scheme closure
13	cost allocation - related parties
14	strategy development
15	trustee skills audit
16	investment strategy review
17	strategic plan & "KPIs" & improved "TAR"
18	conflict policy & register of interests
19	capital project & reserves policy
20	"FM" & purchasing controls
21	strategy, "TARMI" & training "NFM"
22	risk review & "BCP"
23	strategic plan & capital grant
24	strategic plan; support to "FR"
25	"HR" - remuneration & tax compliance
26	develop reserves policy
27	strategic review - sustain purpose
28	risk assessment & reserves policy
29	contract negotiation & risk review
30	governance - strategy & creation of overseas branch
31	strategy
32	reserves policy review
33	governance review
34	pre merger, governance & risk review, incl. "BCP"
35	"funds" & total return clearance by "CC"
36	two aims, demerger & "CC" clearance
37	retail strategy
38	governance review - overseas branch
39	reserves policy review, "funds" & FRS 12

APPENDIX 22 (cont) - MAPPING SUMMARY OF ICAEW DATA - Q4 - STRATEGY & GOVERNANCE

<u>SCRIPT</u>	<u>ANALYSIS</u>
40	establish risk policy & register
41	inadequate internal controls & ultra vires contract
42	business plan to support "FR"
43	"TARMI" & training "NFM"
44	"HR" - remuneration committee
45	Acctg - tech: joint venture creation & acctg
46	strategic review & recovery plan
47	reserves & investment policy review
48	accounts preparation dependent upon auditors
49	"BPR", governance review & turnaround
50	Loss due to "IT" error & governance review
51	insolvency & successful "CVA"
52	3 year strategy & budget
53	related party grants & disclosure
54	develop risk based reserves policy
55	develop risk based reserves policy
56	fraud, internal control review & cash flow management
57	risk review, create register & involve Trustees
58	governance - charity registration
59	governance - members records & company limited by guarantee
60	develop risk based reserves policy
61	investment policy review & new strategy
62	merger & acctg policy review
63	reserves policy review & designated funds
64	strategic review; potential transfer of assets to like charity
65	review prior to merger, which was aborted
66	merger planning post loss of contract income
67	risk review & establish policies
68	governance- Trustee succession planning
69	standardising internal controls & creation of "IA"
70	fraud - donation misappropriated
71	governance - Memorandum & Articles & ultra vires activities
72	create "FM", including governance
73	VAT re (1) "PPT" and (2) capital goods scheme
74	cost allocation; direct costs understated
75	conflicts policy & property sale
76	governance review
77	fraud - bogus collectors

APPENDIX 22 (cont) - MAPPING SUMMARY OF ICAEW DATA - Q5 - ACCOUNTING, AUDIT & TAX

<u>SCRIPT</u>	<u>ANALYSIS</u>
1	cost allocation
2	cost allocation
3	VAT liability reduced & "PE"
4	fraud (not quantified) & audit opinion
5	VAT & "PE"
6	Acctg - tech & "HR": acquisition accounting & "TUPE" issues
7	"funds" - recreate 20 years records
8	"IT" & "TARMI" - no management accounts
9	cash accounting & VAT registration
10	internal control review - grant making & FRS 12 compliance
11	VAT - buildings & zero rating; £ 400 k recovery
12	year end close; "IT" deficient
13	CC 60 compliance reviews
14	year end close & "funds" from endowment to unrestricted
15	"Acctg - tech" - clergy housing & inclusion as asset under FRS 5
16	switch assets to "SPV" & optimising Gift Aid profits switch
17	"FM" & "TARMI"
18	"SPV" for non "PPT" income & consolidated accounts
19	"funds" & disclosure in SOFA
20	governance - create Dubai branch
21	tax - taxable benefits - lunches
22	VAT - "P/E" systems
23	reorganisation to protect VAT recovery £ 350 k
24	control of overseas projects
25	"PPT" review & "FM"
26	tax - PAYE compliance
27	audit of overseas branches
28	Gift Aid & errors - negotiate settlement at £ 10 k with HMRC
29	"TARMI" & management accounts
30	VAT & buildings - recover £ 60 k
31	VAT & buildings
32	"HR" - IR 35
33	VAT & "P/E" method review
34	property, capital grants & restricted reserves
35	Gift Aid errors & lack of distributable reserves
36	audit rather than "IE" & SORP 2005 implementation
37	Gift Aid systems
38	efficiency - accounts preparation in house
39	tax - P11d & housing benefits

APPENDIX 22 (cont) - MAPPING SUMMARY OF ICAEW DATA - Q5 - ACCOUNTING, AUDIT & TAX

<u>SCRIPT</u>	<u>ANALYSIS</u>
40	"GM": SORP 2005 & application of FRS 12
41	fraud - £ xxx,000 - but unspecified
42	tax & minister's housing
43	acctg reorganisation: "TARMI", strategy & Gift Aid enhanced
44	governance - CC review visit & planning
45	VAT recovery re property via "SPV"
46	Gift Aid systems
47	substantial donor review
48	VAT & "P/E"
49	VAT planning & "London Zoo" judgment
50	VAT & government contract income
51	insolvency & charity closure
52	VAT, London Zoo judgment & "paid Trustee" opt out
53	VAT & (1) "P/E" (2) capital goods scheme
54	SORP 2005 & "TAR" & outputs
55	closure & transfer reserves to similar charity
56	VAT & capital goods scheme
57	theft & internal controls review
58	losses in "SPV"s & Gift Aid planning
59	VAT & (1) "P/E" (2) capital goods scheme
60	VAT & "P/E" method review
61	governance - Articles revision & audit requirement removed
62	VAT & "P/E" method review; cease "SPV"
63	VAT & "PPT" review; cease "SPV" & hive up commercial activities
64	"JV", Gift Aid planning & need for "SPV"
65	donation & restricted funds
66	bank finance strategy for major capital projects
67	VAT, buildings & HMRC £ 300 k error waived
68	income VAT able & "P/E" methodology
69	solvency - going concern & contingencies disclosure
70	income VAT able - VAT recovery
71	VAT compliance review
72	Gift Aid & HMRC audit
73	"PPT" & need for "SPV"
74	grant making & FRS 12 compliance; inclusion of conditions
75	"PPT" & "SPV"; reorganise into charitable company
76	VAT compliance review
77	Gift Aid & HMRC audit: £ 15 k liability

APPENDIX 22 (cont) - MAPPING SUMMARY OF ICAEW DATA - Q6 - FINANCIAL MANAGEMENT

<u>SCRIPT</u>	<u>ANALYSIS</u>
1	merger & investment policy
2	"IT" & "TARMI" - timely fund reporting
3	"IT" & "TARMI"
4	"FCR" & ACEVO model usage
5	risk review - overseas payments
6	"IT" - reporting structure - new "CIO"
7	"IT" & "TARMI" & "SLA" compliance
8	internal controls & "FM"
9	"TARMI" & management accounts
10	internal control review - branches & "FM"
11	"TARMI" & training for "NFM"
12	training for "NFM"
13	"SIR" & compliance issues
14	banking reorganisation & optimise interest income
15	management accounts, "KPIs" & "TARMI"
16	"IT", "TARMI" & "KPIs"
17	bank - debt refinancing on care homes
18	investment policy - no "DFM"
19	"KPIs" & school turnaround
20	"KPIs" & dashboard & "TAR"
21	"FM" & improve internal control from "IA" reports
22	"TARMI", "IT" & "KPIs"
23	"TARMI", "CoA", budgeting & "KPIs"
24	internal controls
25	training "NFM"s
26	"FCR" & training "NFM"s
27	internal controls & "FM"
28	bank facilities & reserves
29	training "NFM"s
30	create investment strategy
31	"IT" & "TARMI"
32	internal controls review & "FM"
33	reserves policy & budgeting losses
34	"TARMI" & management accounts
35	"IT" & inadequate acctg system
36	"IT" & training "NFM"
37	budgeting & training "NFM"
38	"TARMI", management accounts & budgeting
39	shops & internal control review

APPENDIX 22 (cont) - MAPPING SUMMARY OF ICAEW DATA - Q6 - FINANCIAL MANAGEMENT

<u>SCRIPT</u>	<u>ANALYSIS</u>
40	"GM" - grantee control review
41	"OS" acctg advice
42	"IT" & monitoring unrestricted funds
43	internal controls & "LA" income: TARMi
44	risk review & "LA" funding negotiations
45	cash management & optimising interest income
46	"FR" & strategy review - hospice
47	"TARMi", management accounts & training "NFM"
48	Acctg - tech: valuing volunteers & "matched" funding
49	"TARMi", management accounts, budgets & "IT"
50	Acctg - tech: FRS 5 & revenue recognition
51	insolvency, "IT", "TARMi" & "funds"
52	"IT", "TARMi" & forecasting
53	capital project, bank loan & property security
54	Trustees & strategic financial info six monthly
55	"TARMi" & management accounts; "FCR" from "SLA"
56	internal controls review & "TARMi"
57	training for "NFM" & internal controls review
58	"FR" - "VFM" review of event
59	"TARMi"
60	training for "NFM"
61	capital project, bank loan & property security
62	cash flow forecasting & monitoring
63	internal controls review
64	incorporation & reorganisation of property loans
65	financial planning & strategy
66	tax - members fee & tax relief
67	investment policy & performance monitoring
68	relevant "KPIs" & focus on strategic issues
69	governance - creation of audit committee
70	"TARMi", "KPIs" & "FR" financial data
71	"FCR" & improved SLA pricing
72	renegotiate bank loans & interest hedging
73	internal controls review
74	internal controls review & "KPIs"
75	internal controls review & "KPIs"
76	training for "NFM", esp. reserves utilisation
77	"KPIs"

APPENDX 23 - KEY WORDS TABLE - ICAEW DATA -
ALPA

This table maps the key words from the ICAEW data in alpha order

	<u>%</u>	<u>INCIDENCES</u>
ACCOUNTING TECHNICAL	1%	6
AUDIT	2%	12
BANK	1%	9
BUDGETING	2%	12
CASH FLOW	1%	6
COMPLIANCE	1%	9
COST ALLOCATION	2%	12
EFFICIENCY	2%	13
FINANCE & PROCEDURE MANUALS	2%	17
FRAUD	1%	6
FULL COST RECOVERY	2%	12
FUND RAISING	6%	45
FUNDS (classification issues)	3%	19
GIFT AID	2%	16
GOVERNANCE	4%	28
GRANTS	1%	4
HR	3%	19
INFORMATION TECHNOLOGY	6%	44
INTERNAL CONTROLS	3%	24
INVESTMENT	1%	10
KEY PERFORMANCE INDICATORS	2%	15
MERGER & DEMERGER	1%	6
OTHER	4%	25
OUTSOURCING	1%	5
OVERSEAS PROJECTS	1%	5
PLANNING	1%	10
PRIMARY PURPOSE TRADING	2%	15
PROPERTY	2%	12
REORG	2%	12
REPORTING - OTHER	1%	4
RESERVES	4%	25
RISK (including reviews)	2%	17
SOLVENCY	1%	4
SORP	9%	62
SPECIAL PURPOSE VEHICLES	2%	16
STRATEGY	5%	36
"TARMI"	6%	41
TAX - other (i.e. not VAT)	1%	8
TRADING	1%	5
TRAINING	2%	17
TRUSTEE	1%	9
VALUE ADDED TAX	5%	39
	100%	711