

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

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**ASSOCIATION OF CHARITABLE FOUNDATIONS**

**SCOTTISH GRANTMAKERS**

**PHILANTHROPY IRELAND**



## Report of Main Findings

December 2020

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# Introduction

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## The SORP

The Charities SORP (*Accounting and Reporting by Charities: Statement of Recommended Practice*) is a fundamental document in the preparation of charity reports and accounts.<sup>1</sup> The first modern Charities SORP was issued in 1995 with subsequent versions in 2000, 2005 and 2015. The latest SORP is in most cases mandatory for the preparation of charity accounts across all three UK jurisdictions (England and Wales, Scotland, Northern Ireland) except for the smallest non-company charities (up to £250,000 income) which have the option of producing receipts and payments (R&P) accounts. Use of the SORP is also strongly encouraged in Ireland, and expected to become mandatory for Irish charities over €250,000 income.

SORP-based accounts must generally include:

- a *Statement of Financial Activities* (SOFA) which analyses the charity's income and expenditure in columns, distinguishing unrestricted funds, restricted funds and endowment funds where applicable, with a functional breakdown of income and expenditure
- a *Balance Sheet*
- a *Cash-Flow Statement*
- a wide range of *Notes to the Accounts* – sometimes referred to as 'Disclosures' in the accounts.

Alongside the accounts, most charities must also provide a *Trustees' Annual Report* (TAR) – for which detailed requirements are set out on the SORP.

The SORP includes a number of simplifications that may be followed by 'smaller charities' (those with income not exceeding £500,000 or €500,000) – in particular they are not required to provide a cash-flow statement, they do not have to use the functional analysis of income and expenditure on the SOFA (though they must still distinguish the different types of funds). Smaller charities are also allowed some simplifications in terms of disclosures in the notes, and less detail is needed in the TAR. However, except where specific relaxations are provided, smaller charities preparing SORP accounts are required to follow all other elements of the SORP.

Most charities are also required to attach an auditor's or independent examiner's (IE's) report on the accounts – though the audit/IE framework is separate from the SORP and is subject to slightly different requirements and thresholds in each jurisdiction (and no such framework is yet in force in Ireland, except under company law provisions or specific requirements of funders).

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<sup>1</sup> The current SORP is available from [www.charitySORP.org](http://www.charitySORP.org) and is generally referred to as *SORP FRS102* because it applies the general-purpose accounting standard FRS102, issued by the Financial Reporting Council, to the specific circumstances of charities. SORP FRS102 was issued to take effect for financial periods starting on or after 1 January 2015, though some issues have subsequently been clarified by *SORP Update Bulletins*. SORP FRS102 is divided into 29 Modules – of which twelve are applicable to all charities and the remaining 17 may be applicable depending on the charity's specific circumstances.

## The SORP Engagement Process

Following a *SORP Governance Review* in 2018/19, the charity regulators of the UK and Ireland agreed to instigate a *SORP Engagement Process* that would involve a much wider range of input into the next Charities SORP than had been possible for previous versions.

The SORP Engagement Process involves a number of strands, one of which is to consider the perspective of *Major Donors and Funders*. Donor and funders are widely recognised as among the most extensive *users* of charity accounts, with many making considerable use of the published accounts of charities to inform their decisions on awarding grants or other forms of funding.

The terms “funders” includes statutory funders and other organisations commissioning services from the charity sector. *But there is a particular interest in how charity accounts are used by charitable foundations awarding grants (or other support) to other charities.*

The Association of Charitable Foundations (ACF) and Scottish Grantmakers (SGM) are both represented on the SORP Engagement Panel for Major Donors and Funders. ACF is the main umbrella body for charitable foundations UK-wide, and SGM has a specific focus on charitable grantmakers based in Scotland (or with significant grantmaking in Scotland). Philanthropy Ireland is not directly a member of the Panel, but kindly supported this survey in order to help reach charitable grantmakers in Ireland.

## The Survey

SGM and ACF agreed to collaborate on a survey – the findings of which are reported here – regarding **the views of charitable grantmakers on the use of SORP accounts in their decisions on grant awards** (or other forms of support).

This survey was planned by ACF and SGM – independently of the charity regulators – with the intention of gathering grantmakers’ views to feed into the SORP engagement process through the Major Donors and Funders panel. We were delighted that Philanthropy Ireland also agreed to join in the survey which was circulated to the members of all three organisations in Oct/Nov 2020.

A total of 36 responses were received. Whilst the authors make no claim that this is a representative sample across all charitable funders, the findings present a wide range of views which we believe will be helpful in the development of the SORP.

## **The Survey Process**

Members of the three organisations were sent emails (in some cases as part of other communications) inviting grantmaking charities to respond to the survey, giving views on their use of charity accounts and reports prepared under the SORP. The survey was open from 9 October to 13 November 2020.

The survey was conducted online using SurveyMonkey to collect respondents' views.

The survey questions (and, where applicable, the range of possible answers) are reproduced in the Appendix to this report.

The following section discusses the findings on each question – this is followed by a Conclusion on the survey as a whole.

# Survey Findings on Each Question

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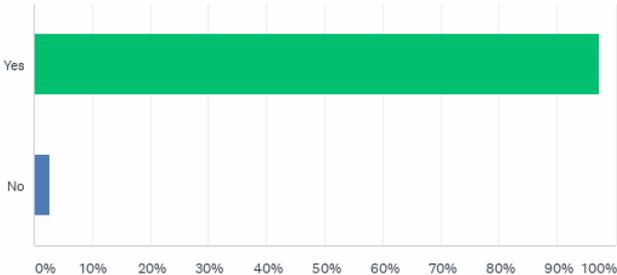
There were 36 responses to the survey. Please refer to the Appendix for the full wording of each question including additional notes of explanation that were presented to respondents.

Many of the findings below give responses in percentage terms (though figures may not total to 100% due to rounding). Narrative answers are included with respondents' permission (on an anonymous basis) but may have been edited slightly – e.g. to correct typos, to remove personal notes or to separate comments making more than one point.

## SECTION A: DEMOGRAPHIC DETAILS ABOUT RESPONDENT ORGANISATIONS AND THEIR USE OF APPLICANTS' ACCOUNTS

### 1. Whether applicants regularly award grants to other charities

Q1 Does your organisation regularly award grants to other charities? When we ask about grant awards in this survey, please include other forms of financial support (such as a loan finance if offered to charities you support).



All but one respondent stated that they award grants (or other forms of financial support) to other charities – the remaining answers come from these 35 respondents. (Note: References to 'grants' in subsequent questions include other forms of financial support.)

### 2. Numbers of grant awards made to other charities

Responses ranged from 3 to 350 awards typically made per year to other charities with a mean of 93 awards per respondent (omitting two who gave no answer).

Overall, the survey respondents are typically making more than 3,000 grant awards per year to other charities.

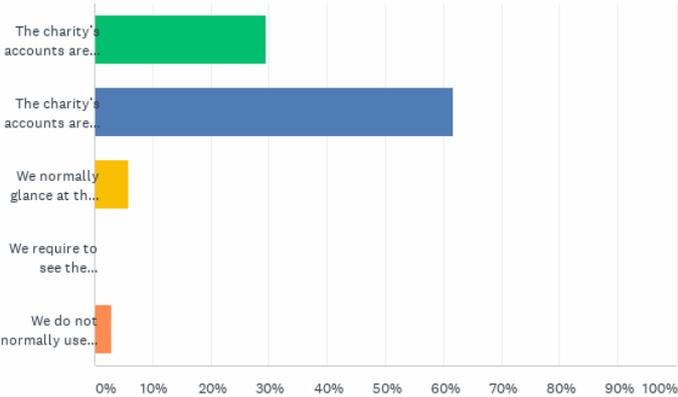
**3. Number of grant applications per year received from other charities**

Responses ranged from 3 to 1,000 grant applications typically received per year, with the respondents’ charities receiving an average of 267 applications per year (omitting two who gave no answer).

Overall, the survey respondents have experience of considering more than 9,000 grant applications per year.

**4. Extent to which respondents make use of applicants’ accounts when considering grant applications**

Q4 To what extent do you use the accounts of charities applying to you in your grantmaking decisions? (Please choose the answer which most frequently applies.) By ‘accounts’ we mean the final annual accounts, as approved by the trustees, normally including a trustees’ annual report and the report of the charity’s auditor or independent examiner. (In most case these would be as filed with a charity regulator.)



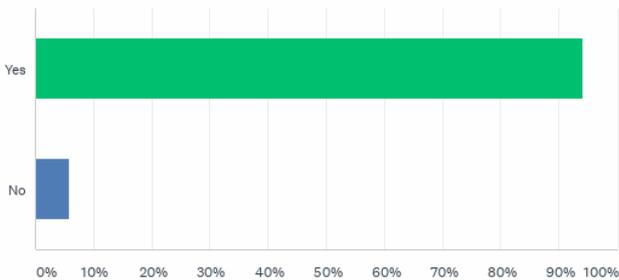
<i>Answer Choices</i>	<i>Response Percent</i>	<i>Responses</i>
The charity’s accounts are central to our grantmaking decisions	29%	10
The charity’s accounts are always considered as part of our grantmaking decisions but are not usually central	62%	21
We normally glance at the accounts of charities applying to us to gain an overview or to spot specific problems but we do not spend much time on them	6%	2
We require to see the accounts of charities applying to us before a grant is awarded but we do not normally read them.	0%	0
We do not normally use the formal accounts of a charity in our grantmaking decisions.	3%	1

So – the survey found that for 91% of respondents, the applicant charities’ accounts are actively considered as part of the grantmaking decision process and, for around a third of these, the applicants’ accounts are central to that process.

The survey may have attracted a relatively high response from grantmakers that make active use of applicants’ accounts, but even if there is some response bias on those lines, these answers clearly show that applicants’ accounts are very important for decision making by a wide range of grantmaking charities.

**5. Whether respondents personally review charity accounts from applicants**

Q5 Do you personally review charity accounts from grant applicants?



**6. Numbers of accounts reviewed**

The number of sets of charity accounts that respondents typically reviewed personally from grant applicants ranged from 5 to more than 250+ sets of accounts per year, with a mean of 82 applicants’ accounts (omitting four who gave no answer).

Overall, the survey respondents have experience of reading and reviewing almost 2,500 sets of charity accounts each year.

**7. Forms of charity accounts considered from grant applicants (receipts and payments or accruals basis)**

On average, across all respondents, the proportion of accounts from grant applications considered in each category (to the nearest 1%) were as follows (excluding three who gave no response):

<i>Answer Choices</i>	<i>Mean percentage across respondents</i>
Applicants’ accounts prepared on the R&P basis (%)	16%
Applicants’ accounts largely complying with the Charities SORP (%)	77%
Applicants’ accounts that are neither R&P nor SORP format (%)	16%

So, between them, the respondents consider large number of sets of SORP accounts from grant applicants – applying these answers to the figures from Q5 suggests that between respondents review around 1,900 sets of SORP accounts each year.

(The figure of 16% of accounts that comply with neither the R&P basis nor the SORP basis may seem high, but it should be remembered that the survey respondents include grantmakers in Ireland where regulations on charity accounting are not yet in force. However, this may also reflect grantmakers’ experiences of receiving non-compliant accounts from UK-based applicants.)

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

## 8. Average time take to review a set of SORP accounts submitted by a grant applicants

Responses ranged from 8 minutes to 90 minutes as the typical time spent reviewing a set of SORP accounts submitted by grant applicants with an average of 27 minutes. (These exclude nine respondents who did not answer this question, and one who gave an extremely large outlier suggesting that the question had been misunderstood.)

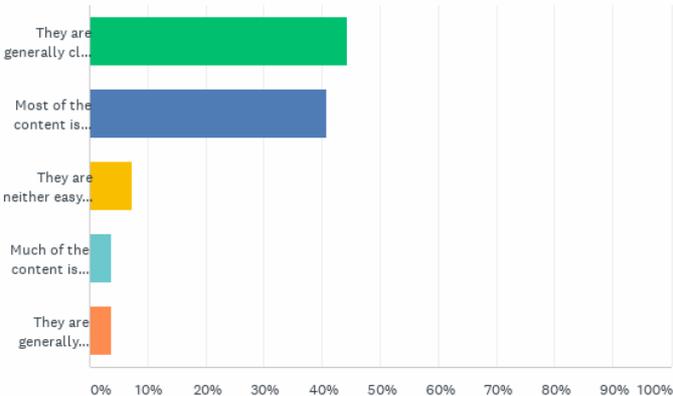
It is clear, therefore, that in general respondents take considerable time reviewing SORP accounts received from grant applicants.

(The question asked respondents to include time to consider the trustees' annual report (TAR) and the audit/independent examination report as well as the accounts themselves.)

## 9. Ease of reading SORP accounts for the purposes of grantmaking decisions?

This question was posed as an introductory exploration of the issues involved for grantmakers in reading SORP accounts, pending more detailed questions on specific issues.

Q9 How easy do you find it to read SORP accounts for the purposes of grantmaking decisions? (Please choose the answer which most frequently applies.)



27 respondents answered this question with a detailed breakdown as follows:

Answer Choices	Response Percent	Responses
They are generally clear and easy to understand	44%	12
Most of the content is clear but I have some difficulties	41%	11
They are neither easy nor difficult	7%	2
Much of the content is difficult, but I get some useful information	4%	1
They are generally difficult to understand.	4%	1

## 10. Specific difficulties of reading SORP accounts

22 respondents mentioned difficulties experienced in reading SORP accounts as a basis for grantmaking decisions, some covering more than one issue. Example comments are as follows, grouped under themes.

### *Overall Complexity*

- Particularly with larger charities (e.g. turnover in the £millions with multiple funding sources and/or restricted and unrestricted funding streams and/or fixed assets such as buildings) the complexity of information can make it difficult for me to get a clear overview of an organisation's financial position - particularly its viability (I don't have a finance background).
- Generally I find the language obscure and confusing - full of jargon and terminology. What is the difference between the SOFA<sup>2</sup>, the balance sheet and the cashflow? I don't really understand pension liabilities.
- Getting a deep understanding of the financial situation of an organisation - how viable they are, whether they are managing their funds appropriately.
- There can be unnecessary repetition.
- Length and complexity.
- Space taken up with details such as pension valuations which are not relevant.
- Accounts too long - far too much data and words. For grant awarder I want to know is the organisation financially viable and undertaking financial due diligence.
- Cash flow statements are hard to fathom.

### *Trustees' Reports*

- Info on trustees - end up checking this elsewhere, would be good to improve reporting on number and experience of trustees in report.
- Insufficient tie-up between accounts and TAR.

### *Reserves*

- I always find it difficult to figure out what the reserves figure for a charity stands at. It isn't always easy to get the full overview of how the charity is funded/earns its income.
- Understanding the reserve levels - sometimes the property owned is included in the unrestricted reserves, which is confusing. Not always clear to what extent that an applicant has diversity/security of income sources.. Risk and reserves reporting can be limited.
- Reserves policy is often unclear (e.g. no specific amount or months' expenditure specified) and charities often report on 'free reserves' without taking into account fixed assets.
- Finding reserves policy and financial controls.
- Finding and understanding reserves statement in body of report - would be good to have greater clarity in reserves explanation in particular greater clarity on designated funds.

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<sup>2</sup> See the Introduction to this report for explanation of acronyms used by respondents.

- Reserve levels and policy not always clearly defined.
- Reserves policy statement is very often misleading or unhelpful. A policy statement is normally included, but without important context such as what amount is required by the reserves policy, or whether a charity is meeting it.

*Income*

- It can be challenging to understand the fundraising picture when charities do not report on sources of income (e.g. report on income by the programme it is used for, or is too vague - grants encompassing both government grants and trusts).

*Expenditure*

- Understanding programme costs in detail.
- Difficult to break down "charitable expenditure" into its component parts. Frustrating lack of clarity about "Donations & Legacies" and grants.

*Compliance*

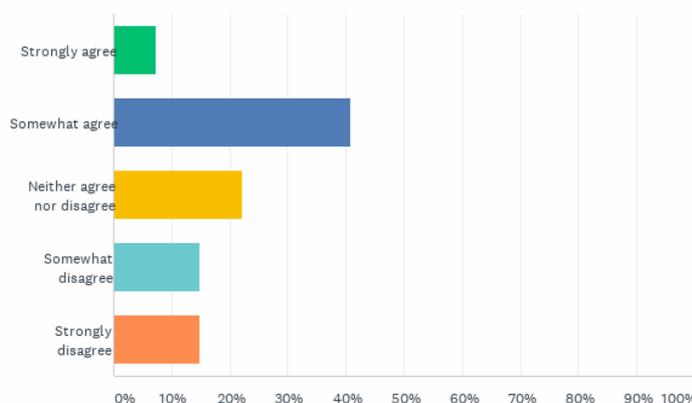
- Not following SORP correctly, not always naming income sources specifically, general headings used, not funders.
- Notes and policies taken from a template not relevant to the charity concerned.

*Other issues*

- I find them easy to understand but am aware that others within the Trust can be confused by: (1) recent change to where investment gains/losses now reside in the SOFA - potential large variances from each year; (2) charities utilising designated funds to skew how their accounts are interpreted.
- Lack of detail.

**11. Extent to which respondents consider that accounts produced under the Charities SORP are unnecessarily complex**

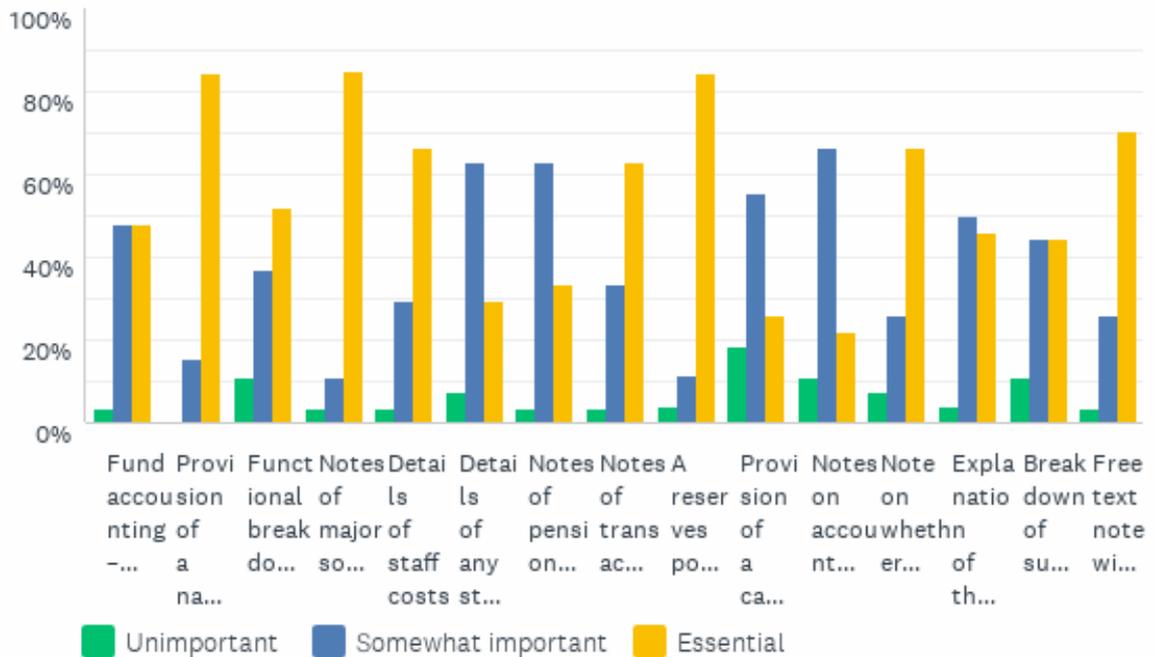
Q11 To what extent do you agree with the statement: Accounts produced under the Charities SORP are unnecessarily complex for those who need to read them.



Overall, almost half of respondents (48%) agreed that SORP accounts are unnecessarily complex, although 30% disagreed with this statement.

## 12. Importance attached to specific features of SORP accounts

Respondents were asked to comment on the importance or otherwise (from the perspective of a grantmaker) of a range of features commonly found in SORP accounts and/or in the associated Trustees' Annual Report (TAR).



In detailed terms, responses for each feature were scored as shown in the table below (with nine respondents omitting this question).

On the basis of allocating 1 point for features scored 'unimportant', 3 points for those scored 'important' and 5 for features regarded as 'essential' the mean scores are shown in the right hand column above. (The maximum mean score, if all respondents had allocated a feature as important would be 5, and the minimum mean score would be 1 if all respondents considered the feature unimportant.)

(The question noted that some of these features are not compulsory in SORP financial statements prepared for smaller charities as defined by the SORP – those not over £500,000 or €500,000 income.)

<i>Answer Choices</i>	<i>Unimportant (number of responses)</i>	<i>Somewhat important (number of responses)</i>	<i>Essential (number of responses)</i>	<i>Mean score (out of 5)</i>
<i>Score points allocated for answer:</i>	1	3	5	
Fund accounting: separation of funds into different columns on the statement of financial activities (SOFA)	1	13	13	3.9
Provision of a narrative Trustees' Annual Report (TAR) alongside the accounts	0	4	22	4.7
Functional breakdown of expenditure on the SOFA, distinguishing fundraising costs from expenditure on charitable activities	3	10	14	3.8
Notes of major sources of income	1	3	23	4.6
Details of staff costs	1	8	18	4.3
Details of any staff salaries over £60K (€70K in Ireland)	2	17	8	3.4
Notes of pension liabilities	1	17	9	3.6
Notes of transactions with trustees or connected persons	1	9	17	4.2
A reserves policy in the TAR	1	3	22	4.6
Provision of a cash flow statement for the year to which the accounts relate	5	15	7	3.1
Notes on accounting policies	3	18	6	3.2
Note on whether the accounts are on a going concern basis	2	7	18	4.2
Explanation of the purpose of individual funds	1	13	12	3.8
Breakdown of support costs	3	12	12	3.7
Free text notes with more detail on specific issues for the charity concerned.	1	7	19	4.3

All of the features listed gained a mean score of at least 3, indicating that on average respondents considered them to have at least some importance.

- The highest mean score (4.7) was given to the inclusion of *narrative Trustees' Annual Report alongside the accounts*.
- This was followed by inclusion of a *Reserves policy in the TAR* and a *Note of major sources of income* (both of which had a mean score of 4.6).
- Next most important (with mean scores of 4.3) were *Details of staff costs* and *Free text notes with more detail on specific issues for the charity concerned*.
- These were followed by *Notes of transactions with trustees or connected persons* and *Note on whether the accounts are on a going concern basis* (which both had mean scores 4.2).

All of the features above were rated 'Essential' by the majority of respondents.

- The lowest mean score (3.1) was given to *The provision of a cash flow statement*.
- Respondents also gave a relatively low score (3.2) to *Note on accounting policies*.

(There are, of course, many other features in SORP accounts, but it was felt unrealistic to ask respondents to comment on more than fifteen specific elements. The features above were deliberately selected to be broad-ranging across the TAR and the accounts themselves, and within the accounts to include issues in the primary statements as well as aspects normally only disclosed in notes to the accounts.)

### 13. Unhelpful features of the SORP

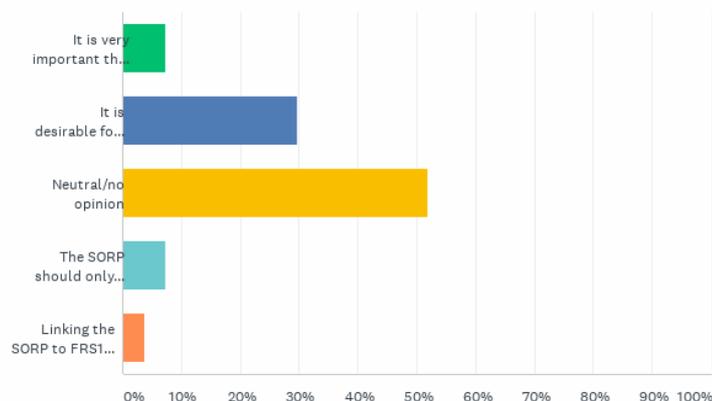
Respondents were invited in a free-format question to comment on any requirements of the SORP that they felt were *unhelpful* for readers that are reviewing the accounts as prospective grantmakers – the question asked respondents to mention “for example, notes or features that you would prefer to be omitted from a future SORP”.

Twelve respondents (a third) gave an answer, although some of these said “none” but those mentioning specific unhelpful features included the following comments.

- Some of the language used in the SORP accounts is complex and results in training needed to read the accounts correctly. Simplification of terms, or rather language that can be understood by someone who has not undergone formal training, would make reading the accounts more accessible.
- The breakdown of governance / support costs seems to be duplicated and is a little confusing.
- Why not include the reserves text as a clear note with a proper template of what is expected to be included - too many are far too woolly.
- No, however charities vary in their interpretation and level of information provided.
- Insufficient breakdown of details.
- Last year's SOFA.
- Excessive information on pension liabilities.

### 14. Status of the SORP in relation to the general purpose accounting standard FRS102

Q14 The SORP is designed to apply the general purpose accounting standard FRS102 to the specific context of charities – so it can add charity-specific requirements but it must ensure that charity accounts will comply with FRS102. How important is this to you as a reader of charity accounts? (Please choose the answer which most closely reflects your view.)



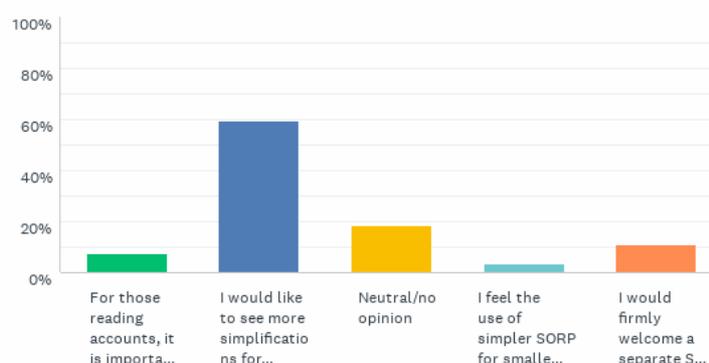
Detailed analysis of answers to this question are as follows (excluding nine who omitted this).

Answer Choices	Response Percent	Responses
It is very important that the SORP complies fully with FRS102 so that the figures in charity accounts are directly comparable with accounts of other (non-charitable) entities	7%	2
It is desirable for the SORP to comply with FRS102 as much as possible, but a few minor departures for charities would be acceptable.	30%	8
Neutral/no opinion	52%	14
The SORP should only link to FRS102 in areas where this can be done without difficulty for charities	7%	2
Linking the SORP to FRS102 is completely unnecessary – there is no need for charity accounts to be comparable with other entities.	3%	1

Much of the technical detail of the SORP is driven by the need to align with FRS102 (a requirement set by the Financial Reporting Council in its policy on developing SORPs<sup>3</sup>). But it is interesting that even from respondents read large number of SORP accounts, with an average of almost 30 minutes spent reading each set of accounts<sup>4</sup>, that the majority (52%) have no opinion on the alignment of the SORP with FRS102. Only two respondents (7%) felt that full alignment was essential.

#### 15. Simplified rules for smaller charities (up to £500,000 / €500,000 income)

Q15 The SORP already allows some simplified rules for smaller charities (up to £500,000 / €500,000 income) but it has been suggested that it might be better to have a completely separate SORP for smaller charities (possibly linked to the FRS105 standard available for micro-businesses, rather than to FRS102). To what extent do you feel this would be helpful? (Please choose the answer which most closely reflects your view.) In your answer, please assume that charities under £250,000 income would still have the option of R&P accounts if they are not structured as companies.



<sup>3</sup> [www.frc.org.uk/accountants/accounting-and-reporting-policy/uk-accounting-standards/statements-of-recommended-practice-\(sorps\)](http://www.frc.org.uk/accountants/accounting-and-reporting-policy/uk-accounting-standards/statements-of-recommended-practice-(sorps))

<sup>4</sup> See analysis of responses to Q8.

A clear majority of those responding to this question (59%) selected the answer *I would like to see more simplifications for smaller charities but within one overall SORP*.

The next most frequently chosen response (19%) was those with *no opinion* on the issue. Just three respondents (11%) indicated that they would *firmly welcome a separate SORP for smaller charities, even if it meant some clear differences between the accounts of smaller and large charities following SORP*.

#### **16. Other comments regarding the use of SORP-based charity accounts in grantmaking decisions**

The final substantive question invited respondents to comment more broadly on the use of SORP accounts in the specific context of a grantmaking charity deciding on grant awards (or other forms of financial support to other charities).

Twelve respondents added further comments – although some of these simply stated that they had nothing to add and some related more to the application of SORP to grantmaking foundations themselves. However, specific comments regarding use of the SORP in relation to charity accounts considered in grantmaking decisions included the following:

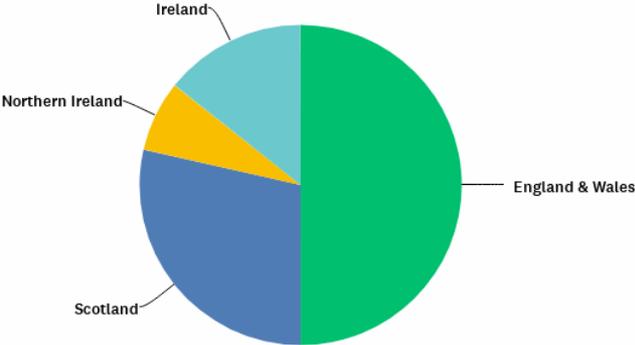
- As the foundation I work for begins to discuss issues [such as] the inequalities highlighted by the Covid-19 pandemic, we are increasingly interested in issues such as which communities benefit from our grants ... A requirement within the new SORP for all charities ... to publish information about the people they serve and who they are run by (broken down by protected characteristics) would be helpful to us when it comes to targeting our resources ... This transparency would also promote accountability of all charities to the communities they serve as well as promoting public trust.  
The consistent format is helpful for finding relevant information quickly and also useful for people new to working with financial accounts as relatively easy to follow and compare.
- I can see benefits to an option that is a bit easier/simpler for smaller income charities, however if they're on a growth trajectory then consistency can be valuable.
- There is insufficient expertise among many accountants in the ROI on Charity SORP. More worryingly, many accountants [are] producing abridged accounts for charities.
- Simplifying – no more.
- The standardisation between charities is helpful, but only where SORP is followed reasonably well.

## SECTION C: RESPONDENT DETAILS

### 17. Primary jurisdiction of grants awarded

Respondents were asked to indicate the jurisdiction where *most* of their grants were awarded – which would normally determine the specific charity law framework applicable to the majority of grant applications received.

Q17 To charities in which jurisdiction are most of your organisation's grants awarded?



28 out of 36 respondents answered this question, with 14 awarding grants mainly in England and Wales, 8 in Scotland, 4 in Ireland and 2 in Northern Ireland. This means the survey responses are well-spread across the four jurisdictions concerned.

### 18. Typical income range of charities to grants are awarded

This is an important consideration, as it is likely that those reading SORP accounts from very small charities would focus on different issues from those reading the accounts of large charities applying for grants.

Respondents were invited to give a typical income band (from smallest to largest) of those receiving grant awards. (No attempt was made to distinguish answers in GBP or EUR as this answer was only seeking a broad range, and the values of the two currencies only differed by around 10% at the time of the survey.)

However, assuming figures in GBP (as applicable to the majority), respondents reported considering accounts from applicant charities with income from £200 up to £50M – an extremely broad range.

*On average* respondents were considering applicants with incomes ranging from £80,000 to £7M, but individual respondents had very different bands they considered. One grantmaker did not consider any applications from charities over £50,000 income (but even this respondent reported receiving considerably more SORP accounts than R&P accounts). By contrast, another respondent never considered applications from charities under £500,000 income (so that respondent had no cause to consider accounts where the SORP simplifications for smaller charities would apply).

Nevertheless it is clear from the answers that overall, the grantmakers responding to this survey are dealing with applications from an extremely wide income range of charities preparing SORP accounts.

#### **19-21. Follow up**

68% of respondents indicated a willingness to discuss the issues further (Q19) – showing a high level of engagement.

71% asked to receive a copy of the findings (Q20) (and will receive a copy of this report).

All those who responded positively to Q19 or Q20 gave their contact details for this purpose (however, the analysis above has been separated from the contact information provided).

## Conclusion

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This survey – conducted by the Association of Charitable Foundations, Scottish Grantmakers, and Philanthropy Ireland – provides a detailed insight into the ways that charitable grantmakers use SORP accounts submitted by applicants to support their grantmaking decisions.

The responses come from a broad range of grantmakers awarding grants (or other financial support) to recipient charities across all four charity jurisdictions: England & Wales, Scotland, Northern Ireland and Ireland, with support being given to charities of all sizes.

Between them, the respondents review around 2500 sets of charity accounts each year from grant applicants, of which around 77% are on the SORP-basis.

These accounts are considered very thoroughly with a mean time of 27 minutes to review each set of accounts and the associated trustees' annual report (TAR). No respondent spends less than 8 minutes on average considering the accounts of an applicant charity and some spend up to 90 minutes. *It seems likely, therefore, that grantmakers as represented by the respondents to this survey are some of the most thorough users of charity accounts across the whole of the UK and Ireland.*

Despite this experience and willingness to devote time to reading applicants' accounts, almost two thirds of respondents reported at least some difficulties in the use of SORP accounts in grant-making decisions with many focusing on its overall complexity.

Features of SORP accounts that are valued most highly include:

- *Provision of a narrative Trustees' Annual Report alongside the accounts;*
- *Inclusion of a Reserves policy in the TAR; and*
- *Note of major sources of income.*

Of fifteen features of SORP accounts that were directly mentioned in the survey questions, the *cash-flow statement* was felt to be the least crucial (though it is worth noting that this is not required in any case for charities up to £500,000 / €500,000 income).

Almost half (48%) felt there was unnecessary complexity in the SORP, making it harder for grantmakers to use SORP accounts in their decisions.

On the question of how important it is for the SORP to be fully aligned with the general purpose accounting standard FRS102, just over half of respondents (52%) had no firm views either way. However, on the issue of making the SORP simpler for smaller charities, a clear majority (59%) opted for the answer:

- *I would like to see more simplifications for smaller charities but within one overall SORP.*

Many respondents had further comments in relation to open questions, as summarised above.

The authors wish to thank all those who responded to the survey, and commend the use of these findings in the future development of the SORP.

## Appendix – Wording of the Survey

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ASSOCIATION OF CHARITABLE FOUNDATIONS

SCOTTISH GRANTMAKERS

PHILANTHROPY IRELAND

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

#### Introduction

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

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

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

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

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

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

#### How your responses will be used

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

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

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

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

[End survey if answer is N].

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

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

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

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

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

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

[Multiple choice – select one]

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

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

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

[If 0, end survey]

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

[Insert percentages – must total to 100%]

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

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

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

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

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

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

[Multiple choice – select one]

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

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

[Narrative text box]

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

[Multiple choice – select one]

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

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

[Each line offers following choices:]

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

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

[Narrative text box]

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

[Multiple choice – select one]

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

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

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

[Multiple choice – select one]

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

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

[Narrative text box]

SECTION C – RESPONDENT DETAILS

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

England & Wales / Scotland / Northern Ireland / Ireland

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

Lowest typical income of charities awarded grants: [   ]

Highest typical income of charities awarded grants: [   ]

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

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

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

Name:                    [       ]  
Organisation:         [       ]  
Email                    [       ]

THANK YOU