Deloitte.

Balancing Act
Surveying trustees' annual reports in the charity sector

September 2015

Contents

Foreword

The reporting landscape is changing as charities begin to address the requirements of the new Statements of Recommended Practice (SORPs) including developing extended disclosures on risk; new disclosures on senior management pay; and consideration of the tone of their trustees' reporting.

High quality reporting which demonstrates sound financial management and good governance continues to be an important differentiator. The challenge for each charity is how to tell their story and successes in a balanced and forward looking way. We suggested last year that a key element in this is the use and reporting of key performance indicators (KPIs) so that users can understand how the charity is performing against metrics the charity itself considers important. In 2015, only 34% (2014: 36%) of larger charities surveyed took up this challenge and included a KPI in their report (where a target was clearly set and reported on, excluding fundraising, investment and reserves reporting). This was disappointing, although perhaps not too surprising as charities prepare for change.

This is our sixth and the final survey under SORP 2005 and we look at the progress made and consider the areas of focus for some charities to become compliant with the new SORPs.

If you are a charity, we recommend that you study the findings of this survey and then attempt to benchmark your own reporting against it. The result may surprise you; it may also give you more ideas as to what you could include in your annual reports. However, while a survey is full of interesting information, the result of any survey that is based on the random selection of samples ought to be treated with care.

Of those reports reviewed, some of the most powerful were those that were closely linked to the aims and objectives of the charity and the strategy being used to achieve them. Use of pictures, case studies and graphs, clear reporting of KPIs and risk mean that charities can make an impact, differentiate themselves, show good governance and appeal to their readers, both existing stakeholders and those stakeholders of the future. The annual report can and should stretch beyond the regulatory requirements and allow a charity to demonstrate its place and value to the society in which it operates.

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Section 1 – Executive summary

The changes driven by the new SORPs will require more information to be included in the trustees' report, not less. This is the time for charities to 'grasp the nettle' and see the annual report not as an expense but an opportunity.

There is a trend for the full financial statements to be available not only through the Charity Commission website but on each individual charity's website, in addition to, or instead of, an annual review. As the full financial statements become a key resource for promoting, advertising and celebrating the achievements of the charity, now is the time to consider the use of graphs, charts, pictures, stories and other ways available to grab and keep the readers' attention.

The purpose of preparing a trustees' annual report and accounts is to discharge the trustees' duty of public accountability and stewardship. The SORP sets out recommended accounting practice for this purpose. The report gives trustees the opportunity to stake their claim in an increasingly pressured world. A high quality report, providing insight into governance and a necessary link between the income generated and the objectives, strategies, activities and achievements that flow from it, is required. A discussion paper recently produced by the FRC[1] noted that "the evidence suggested that smaller quoted companies believe that investors pay little attention to their annual report and hence do not prioritise its preparation to a higher standard. In fact investors have told the FRC that such reports are important to them, partly because there are fewer analysts' reports." Charities must consider whether they are under-estimating the audience for their report and indeed its importance to funders and donors as well as the regulator.

This is the sixth year we have reviewed and reported on trustees' reports and from our surveys we are able to identify a number of trends. The Deloitte's review of trustees' annual reports looks at the extent to which 100 of the largest charities are producing reports to achieve both compliance and be an effective communication, and also provides clear guidance on where improvements to reports can be made.

Extended survey

We have sampled 100 charities taken from the top 1,000[2] and as last year we included additional questions surrounding executive pay and for the first time around the disclosure of key management personnel remuneration policies. Comparatives have been amended to reflect the extended sample from 50 charities to 100 charities. This is the last year of our reporting under SORP 2005. The introduction of the new SORPs will see an overhaul of our survey as our next report will focus in particular on compliance with the new SORPs. In anticipation of that we have looked at some of the measures included in the new SORPs, for example the disclosures around risk, senior management pay and balanced reporting.

1 Financial Reporting Council

2 The methodology of the sample is covered in more detail in section 3

Status quo or preparation for change?

This year seems to have been one of little change: public benefit, going concern and reserves reporting show only small variations from the prior year; and structure and governance reporting demonstrates a similar steady state. In none of these areas is there 100% compliance.

All charities will be required comply with the new SORPs in their financial statements for periods starting on or after 1 January 2015. For some this will be a tall order and one to start preparing for now. Some charities have already started to address some of the new requirements, for example, 17% of our sample included some comment on key management personnel pay and 7% discussed or hinted at those areas where the charity did not achieve its aims during the year, as well as the positive achievements. 42% of charities are already including mitigating factors for their significant risks.

The new SORP requires linkage between the activities reported and the financial information displayed but only 29% of our surveyed charities were judged to have a strong correlation between the narrative in the front half and the accounts in the back half.

Although many charities report comprehensively on their activities for the year and how these met goals or targets in words, only 34% of charities gave information on key performance indicators (KPIs), or reported clearly against targets or goals and presented a clear result for scrutiny. Partial information, a target without a specific result, the year's result and a comparative do not tell the whole story. It is not always clear whether the intervention or activity was successful or whether it more or less successful than anticipated or hoped. This reporting is a challenge to charities as to how to present failures or difficulties, explain targets not met, but this will be expected best practice, along with reporting on KPIs, under the new SORPs.

As last year we have included information on executive pay. Our sampled charities had approximately 2% of staff earning in excess of £60,000 and these staff accounted for approximately 6% of the total wages and salaries; both figures are unchanged from the prior year.

We continue to exhort charities to tell their story and this year almost half the charities sampled produced accounts that we found visually stimulating or a separate annual review. However, although use of pictures, headings and colour is improving, there remains poor use of graphs (25% of charities) and only 35% presented a highlights page or chairman's summary to give an overview of the activities and results for the year.

Opportunity

Our survey showed that there have been improvements in reporting in some key areas and some charities are beginning to move towards the requirements of the new SORPs. However, we continue to challenge trustees to understand fully their audience and to consider the desired impact of their individual reports. Reports are not just a statutory requirement, they are available on the charity commission's website and for just over half on the charity's own website. They can reach a wide range of stakeholders and targets, funders, service users and volunteers.

Although many charities report comprehensively on their activities for the year and how these met goals or targets in words, only 34% of charities gave information on key performance indicators (KPIs), or reported clearly against targets or goals and presented a clear result for scrutiny.

Section 2 – Reporting Requirements

This section summarises the regulatory requirements for narrative reporting applicable to charities subject to statutory audit in the United Kingdom.

The requirements stem from three main sources:

- the Charities Statement of Recommended Practice 2005;
- the Charity Commission's guidance on public benefit reporting; and
- the Companies Act 2006 (applicable to charitable companies only).

In addition, we consider Financial Reporting Council guidance on going concern and Charity Commission guidance on risk management.

Charities SORP

The 2005 SORP is still the main source of requirements for charity accounting and disclosure, although, as discussed below, for periods commencing on or after 1 January 2015 there are two new SORPs, tailored to be selected based on the relevant accounting standards adopted by the charity and reflecting the significant changes that apply to UK reporting from that date.

The SORP states that charity financial statements should be accompanied by information contained within the trustees' annual report as many of a charity's activities cannot be described in pure monetary terms. The trustees' annual report should provide a fair review of the charity's structure, aims, objectives, activities and performance to summarise what the charity has achieved in the year and what impact it has made.

The responsibility for preparing the trustees' annual report rests with the charity trustees. As it provides important accompanying information to the financial statements it should be attached to them whenever a full set of financial statements is distributed or otherwise made available.

Paragraphs 41 to 59 of the Charities SORP summarise the specific content of the trustees' annual report and are summarised into the following 7 categories:

1. Reference and administrative details of the charity, its trustees and advisers
2. Structure, governance and management
3. Objectives and activities
4. Achievements and performance
5. Financial review
6. Plans for future periods
7. Funds held as custodian trustee on behalf of others

To assist charities with the transition to the new SORPs we have included a checklist for the trustees' report, based on the FRS 102 and FRSSE[3] SORPs, in Appendix 1. The structure of the trustees report has not changed significantly.

Public Benefit Reporting

The Charity Commission has published guidance[5] on public benefit reporting. In an overview, the Charity Commission commented that the Charities Act states that charity trustees must "have regard" to the Commission's public benefit guidance "when exercising any powers or duties to which the guidance is relevant". The relevant regulations[6] require charity trustees to confirm that they have done so in their trustees' annual report. "Having regard" to the public benefit guidance means charity trustees should be able to show that:

- they are aware of the guidance;
- they have taken it into account when making a decision to which the guidance is relevant; and
- if they have decided to depart from the guidance, they have good reasons for doing so.

Public benefit reporting remains an integral part of what every charity does and should be integrated into any overall report of the charity's activities and performance during the year.

3 Financial Reporting Standard for Smaller Entities

4 Small charitable companies as defined by section 382 of the Companies Act 2006 are exempt from the strategic report requirements, broadly those within two out of three of the following limits: for periods commencing on or after 1 January 2015: income of less than £6.5m; funds less than £3.24m and less than 50 employees; for periods commencing on or after 1 January 2016 with early adoption permitted: income of less than £10.2m; funds less than £5.1m and less than 50 employees

Companies Act 2006

Charities that are also companies are, in addition, required to disclose specific matters in accordance with the Companies Act 2006. These are covered in sections 414A to 419 of the Companies Act 2006 and the relevant accounting regulations (Schedule 7 of the Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008 or Schedule 5 of the Small Companies and Groups (Accounts and Directors' Report) Regulations 2008).

For periods ending on or after 30 September 2013 there is a requirement for large and medium-sized charitable companies[4] to include a separate strategic report. We have included additional guidance on the strategic report in Appendix 2 with links to additional guidance in Appendix 3.

A separate statutory strategic report or directors' report does not need to be prepared for charitable companies provided that the trustees' annual report contains all the information required to be provided under the Companies Act 2006 and that the strategic report is clearly identified within the trustees' annual report and separately approved by the trustees.

A summary of the Companies Act 2006 requirements is included in Appendix 2.

Financial Reporting Council Guidance on Going Concern and Liquidity Risk

The Financial Reporting Council (FRC) previously published guidance on going concern disclosures[7] and recommended that these disclosures are brought together in a single place in the financial statements. As part of the discussion in the charity's narrative financial review, it may be useful to cross refer to the going concern disclosures in the financial statements.

The FRC guidance is in the process of being updated but currently includes suggested disclosures in respect of going concern and makes explicit that it applies to all companies, not just listed companies. In addition, the guidance states that "it may also be useful to the management of other entities that produce financial statements that are intended to give a true and fair view", which would be the case for charities preparing accounts under the Charities SORP.

The new SORPs[8] state that:

The trustees must make their own assessment of their charity's ability to continue as a going concern to assure themselves of the validity of this assumption when preparing their accounts. In making this assessment, a charity's trustees should take into account all available information about the future for at least, but not limited to, 12 months from the date the accounts are approved.

The FRSSE SORP also notes that where a period of less than one year has been used it should be stated. This provision is not included in the FRS 102 SORP.

Reporting risks and uncertainties

The Charity Commission has also issued guidance to trustees on risk management.[9] The guidance repeats the SORP requirement that all charities that are audited are required to produce a risk management statement as part of their trustees' annual report.

Charitable companies are also required to give a description of the principal risks and uncertainties facing the charity in the trustees' report. Although not mandated by the SORP, the Charity Commission guidance recommends that many charities, particularly larger charities or those with more complex activities, may also want to disclose details of the major risks faced.

The Financial Reporting Review Panel has also issued guidance[10] on the reporting of principal risks and uncertainties that, while specifically aimed at companies, would also be of interest to all charities. The guidance contains a list of questions that boards should consider when producing their risk disclosures, such as whether the risks and uncertainties disclosed are really the key risks that have been discussed at board meetings and whether the disclosures clearly state how each of the principal risks and uncertainties are managed.

The new SORPs again incorporate these developments and all larger charities must give a description of the principal risks and uncertainty facing the charity and its subsidiary undertakings, as identified by the charity trustees, together with a summary of their plans and strategies for managing those risks.

5 www.gov.uk/government/collections/charitable-purposes-and-public-benefit

6 Charities (Accounts and Reports) Regulations 2008

7 Going Concern and Liquidity Risk: Guidance for Directors of UK Companies

8 FRS 102 SORP 3.14, FRSSE SORP 3.14

9 CC26 *Charities and Risk Management: A guide for trustees* www.gov.uk/government/publications/charities-and-risk-management-cc26

10 FRRP PN 130 *The Financial Reporting Review Panel highlights challenges in the reporting of principal risks and uncertainties*

Future accounting and reporting developments

The FRC published FRS 102 "The Financial Reporting Standard Applicable in the UK and Ireland" which is effective for periods beginning on or after 1 January 2015 and replaces the old set of UK accounting standards. While it deals with the financial statements themselves rather than narrative reporting, the changes proposed will inevitably have consequential changes on how matters are reported in the trustees' annual report. The revised SORPs are modular in approach and reflect the structure of FRS 102. Specific trustees' report requirements are set out in the *Trustees' annual report* modules and are reflected in Appendix 1.

A consultation on further changes to the SORPs was published in June 2015, which closes in September. Amongst the changes being consulted on is a suggestion that the threshold for larger charities be maintained at £500,000 (or Euros) and not linked to the audit threshold (which has already increased to £1m for charities registered in England and Wales).

All larger charities must give a description of the principal risks and uncertainty facing the charity and its subsidiary undertakings, as identified by the charity trustees, together with a summary of their plans and strategies for managing those risks.

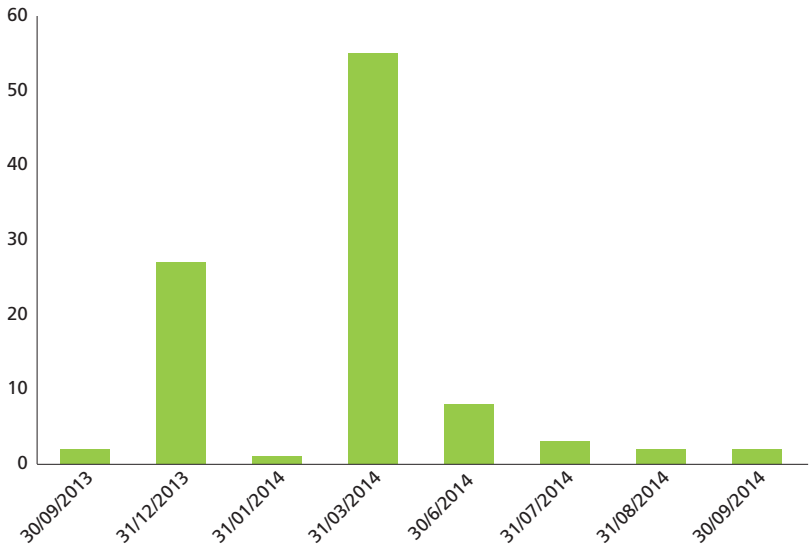
Section 3 – The survey's objectives and basis

The main objective of the survey was to consider how particular requirements regarding the content of the trustees' annual report have been applied by charities.

In addition, we have considered the compliance with the guidance issued by the Financial Reporting Council in respect of going concern and liquidity disclosures and also considered some matters that we deemed to be of particular interest in the current economic environment, such as the disclosure of details of the trustees' expenses and remuneration. We have also looked at the number of higher paid employees and the range of the highest paid employees' pay. We have not considered the specific Companies Act 2006 requirements regarding matters required to be disclosed in either the strategic or directors' report aside from the reporting of Key Performance Indicators (KPIs) and the disclosure of principal risks and uncertainties, as these are of interest to all charities.

The survey was conducted by obtaining a list of the Top 1,000 charities by income in the United Kingdom from the Top 3,000 Charities 2013/14 publication produced by CaritasData. The sample selected comprised 100 charities from the list of the top 1,000 charities by income. Twenty of these 100 charities were randomly selected from the top 100 charities, twenty from charities ranked 101 to 200 and the remainder from the top 1,000 charities. Where possible the same charities were selected as in 2014 so that reporting trends could be identified. As this is an increased sample from the prior year total of 50, the comparatives have been amended to reflect the increased sample of 100 charities. When a charity had moved from one banding to another, or, as in the case of one been dissolved, a replacement charity was selected at random from that grouping.

The split of the charities surveyed by year end was as follows:



In certain instances, we have provided results split by top 100 charities, charities ranked 101-200 and other charities in the top 1,000 for the interest of the reader.

In Appendix 1 we have included a trustees' annual report disclosure checklist which has been based on the new SORPs' disclosure requirements. We have included at Appendix 2, additional requirements for charitable companies' trustees' annual reports reflecting the Companies Act 2006 requirements.

Section 4 – Survey results

This section sets out our survey findings in respect of the elements of the trustees' annual report.

Figure 1a. How quickly after the year end are the financial statements approved by the trustees?

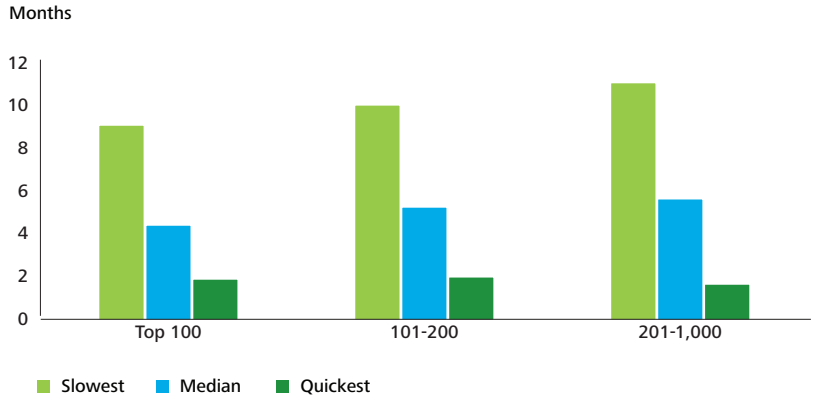


Figure 1b. How quickly after the year end are the financial statements filed with the Charity Commission?

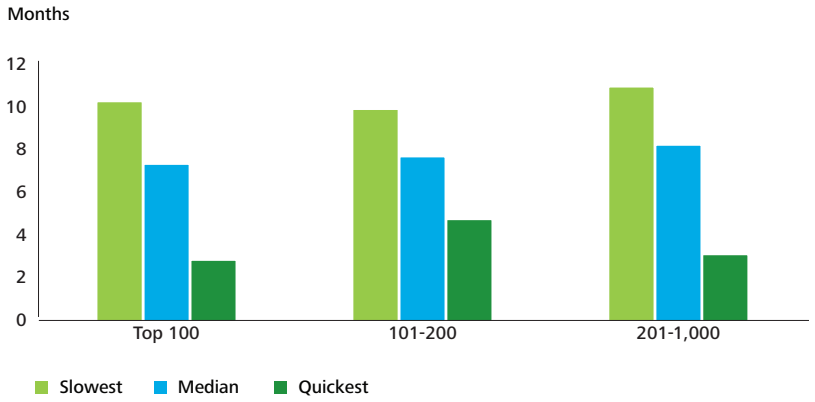
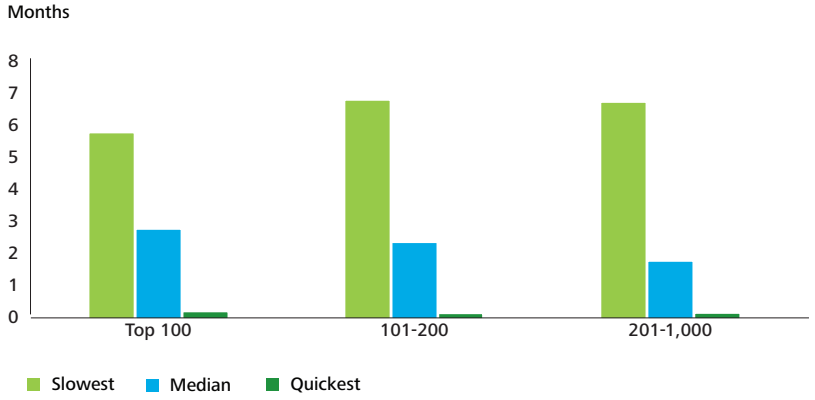


Figure 1c. How quickly after approval of the financial statements are they filed with the Charity Commission?



4.1 Time to report

The deadline date for submission of the financial statements to the Charity Commission is ten months after the date of the year end. Where relevant, company accounts are required to be filed at Companies House nine months after the date of the year end. We were unable to determine the dates that the financial statements were filed with OSCR (where relevant) as this information is not made available on OSCR's website.

The median length of time before the financial statements were approved by the charity was 155 days (2014: 137 days) after the year end. The quickest and slowest lengths of time for approval were 52 days (2014: 66 days) and 332 days (2014: 295 days) respectively.

Of the financial statements reviewed all but three sets were filed at the Charity Commission by the ten month deadline (2014: all filed within the deadline). One (2014: one) charitable company failed to meet the nine month Companies House deadline.

The median length of time before the financial statements were filed with the Charity Commission was 252 days (2014: 225 days) after the year end. The quickest and slowest times to file were 89 days (2014: 97 days) and 336 days (2014: 304 days) respectively.

The time between signing and filing varied quite considerably with the fastest being 1 day and the slowest being 209 days. The median result from our sample was 65 days (2014: 66 days) between signing and filing, just over two months.

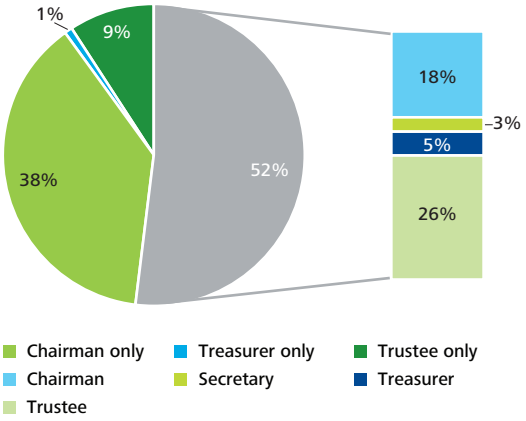
4.2 Signing of the trustees' annual report and financial statements

The Charities SORP requires that both the annual report and accounts be approved by the charity trustees as a body and should be signed on behalf of the charity's trustees by one of their number authorised so to do or as otherwise required by law but does require any particular trustee to sign the report.

In the prior year we looked at who signed the trustees' report only. This year we have extended our review to look at the signatures across the whole of the financial statements, trustees' report and any strategic report (for medium and large charitable companies), see section 4.3 below.

In 48% of our sample one trustee signed both the trustees' report and the balance sheet on behalf of all the trustees; in 79% of those reports this was the chairman. In the remaining 52% of reports there were more varied signatories including treasurer, secretary and trustee. The most signatories any report surveyed included was three.

Figure 2. Who signs the trustees' annual report? (%)

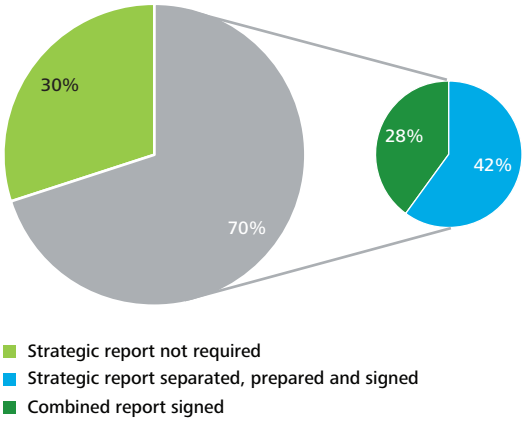


4.3 The strategic report

All charities within our sample which were required to prepare a strategic report did so in the annual report and financial statements.

The Charity Commission guidance gave charitable companies the option of preparing a separate strategic report or incorporating it within the trustees' report. The key requirement was clear and separate approval of the strategic report. All charitable companies surveyed did this, with 28% amalgamating the reports.

Figure 3. Has the strategic report been separately prepared and signed? (%)

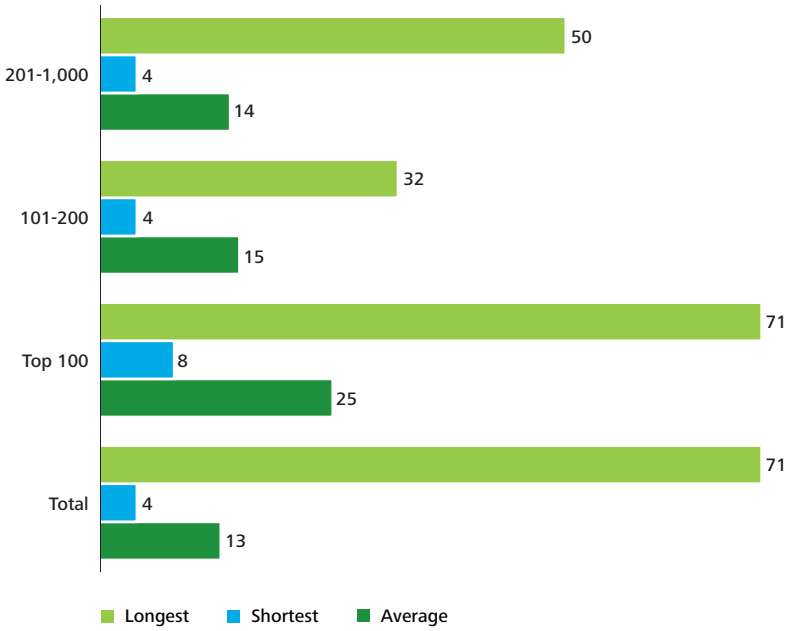


4.4 Length of the trustees' annual report

The median length of the combined financial statements and the trustees' annual report surveyed was 40 pages (2014: 37 pages). The median length of the trustees' annual report was 13 pages (2014: 12 pages). The longest trustees' report at 71 pages (2014: 52 pages) was produced by a charity in the top 100 (2014: outside the top 200). The shortest report was 4 pages (2014: 3 pages) long.

The median and shortest lengths both indicate a trend for trustees' reports to be longer for top 100 charities, though in both cases this is only a matter of a few pages.

Figure 4. Length of the trustees' annual report (pages)



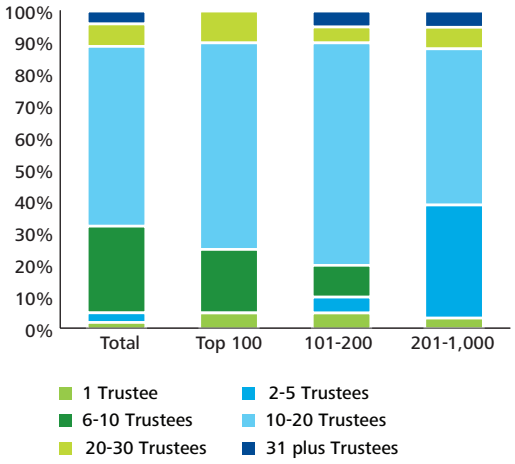
4.5 Trustees, reference and administrative disclosures

The SORP requires charities to disclose details about the names of the trustees and other members of the senior management team to whom day to day management is delegated.

All charities (2014: all) surveyed clearly disclosed their current and former trustees. Of the charities surveyed 4 (2014: 3) who had a corporate trustee, 100% (2014: 100%) disclosed the names of the directors of that corporate trustee or trustees.

The median number of trustees was 13 (2014: 13), with the maximum being 58 (2014: 48) and the minimum 1 (a corporate trustee).

Figure 5. Number of trustees (%)

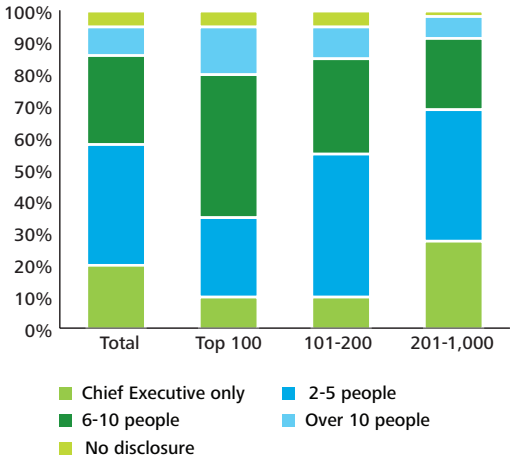


The SORP also requires disclosure of a number of administrative matters, such as the name of the charity, the registration number, address and the names and addresses of its professional advisers. Of those charities surveyed 73% (2014: 60%) included a separate legal and administrative section. However, with the exception of the professional adviser details the information was often repeated on covers and in the body of the report. All charities surveyed, both this year and last, disclosed the relevant reference and administrative details.

4.6 The executive team

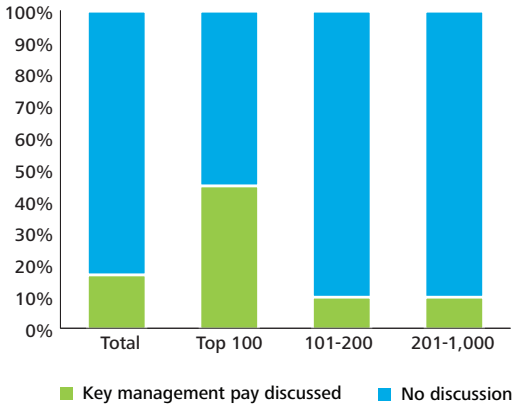
95% (2014: 98%) of charities disclosed the names of the members of the senior management team to whom day to day management of the charity is delegated and the median number of people listed was 4 (2014: 5). Last year the most significant change was in the top 100 category where there was a swing between charities disclosing just the chief executive to the executive team of 6-10 people. This year there is a similar trend in the 101-200 category where 90% of charities disclose more than the chief executive compared to 80% last year. In the 201-1,000 banding 27% of charities named just the chief executive. However, there are a number of charities, 5% of our sample, who for whatever reason have not named their key management personnel this year (2014: 4%).

Figure 6a. Members of the senior management team (%)



Those charities with years ended 31 December 2015 onwards will also have to include some disclosure of the remuneration policies for key management personnel, and the aggregate salaries of their key management team. Whilst this disclosure was not required in these reports 17% of our sample included a discussion of their arrangements for senior management remuneration.

Figure 6b. Charities including a discussion of management pay (%)



4.7 Structure, governance and management

As part of the SORP requirements on the structure, governance and management of the charity, there is a requirement that the annual report provide the reader with an understanding of how the trustees are appointed and trained. Of the charities surveyed, 90% (2014: 92%) complied with the requirement to explain the method of appointing trustees and 82% (2014: 88%) included details of the procedures for the induction and training of trustees.

Although the majority of charities complied with the SORP requirements, compliance remained in many cases minimal. There are still charities disclosing that trustees are elected in accordance with the articles or by other trustees without any further explanation of how individuals may be nominated, selected or assessed. This year 53% (2014: 53%) of charities giving some explanation gave additional detail so that the methods of appointment and election could be more fully understood. However, although more charities gave information on induction procedures, 87% compared to 82% in the prior year, fewer charities 64% (2014: 70%) expanded their information beyond stating that new appointees receive an induction pack or were given appropriate induction training.

Figure 7a. Recruitment of trustees (%)

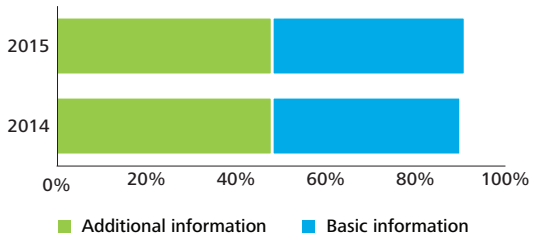
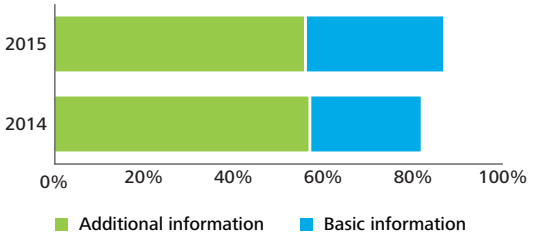


Figure 7b. Training and induction of trustees (%)

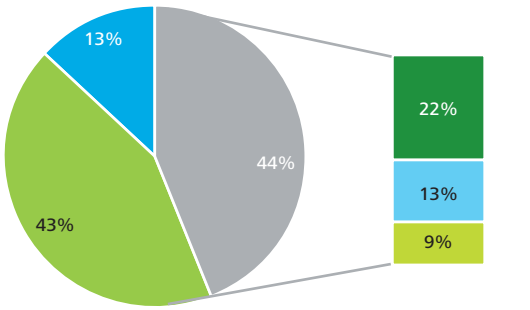


These requirements have been in place for 10 years and will remain 'musts' under the new SORP (all charities for the recruitment of trustees and induction for those larger charities), yet around 10% of our sample still do not comply.

4.8 Charities part of a wider network

The SORP requires that where the charity is part of a wider network (for example charities affiliated within an umbrella group) then the relationship involved should also be explained where this impacts on the operating policies adopted by the charity. Of the charities surveyed, 57% (2014: 48%) considered themselves part of a wider network which extended from descriptions of related charities to influencing and working with government bodies and agencies and partnerships. 44% (2014: 38%) of these included additional information about activities which is shown in the pull-out below. The variety of relationship reflected in the trustees' reports is shown below.

Figure 8. Charities part of a wider network (%)



4.9 Relationships with related parties and payments to trustees

The SORP requires that the trustees' annual report discloses the relationships between the charity and related parties, including its subsidiaries. Of those surveyed, no charities (2014: none) did not make any disclosure in either the trustees' report or the financial statements, however 27% (2014: 31%) made no disclosure about related parties in the trustees' annual report. 27% (2014: 32%) only disclosed related party relationships with the charity's subsidiaries or other corporate entities and did not mention other related party relationships such as with the trustees in their report. Almost three-quarters of charities surveyed, with no commentary in the trustees' report, had a note disclosing substantive related party transactions in the notes to the accounts (i.e. not just a statement that there were no related party transactions).

One key type of related party to any charity will be the trustees. In addition to the trustees' annual report disclosures, the Charities SORP includes requirements relating to the disclosure of the level of trustees' expenses and remuneration and in view of the level of interest in these items the relevant notes to the financial statements were reviewed.

Of those charities surveyed, 17% (2014: 20%) paid trustees remuneration which was disclosed in the notes to the financial statements. Of those, 5% (2014: 5%) related to payments to trustees for their services as trustees. For the remainder the remuneration related to payments for employment services (current or retired) of employees or the chief executive who were invited to be trustees (or required to be trustees). Only two of those making payments to trustees for their services as trustees included explicit discussion of the remuneration in their report (charities in the top 200).

Figure 9a. Relationships with related parties (%)

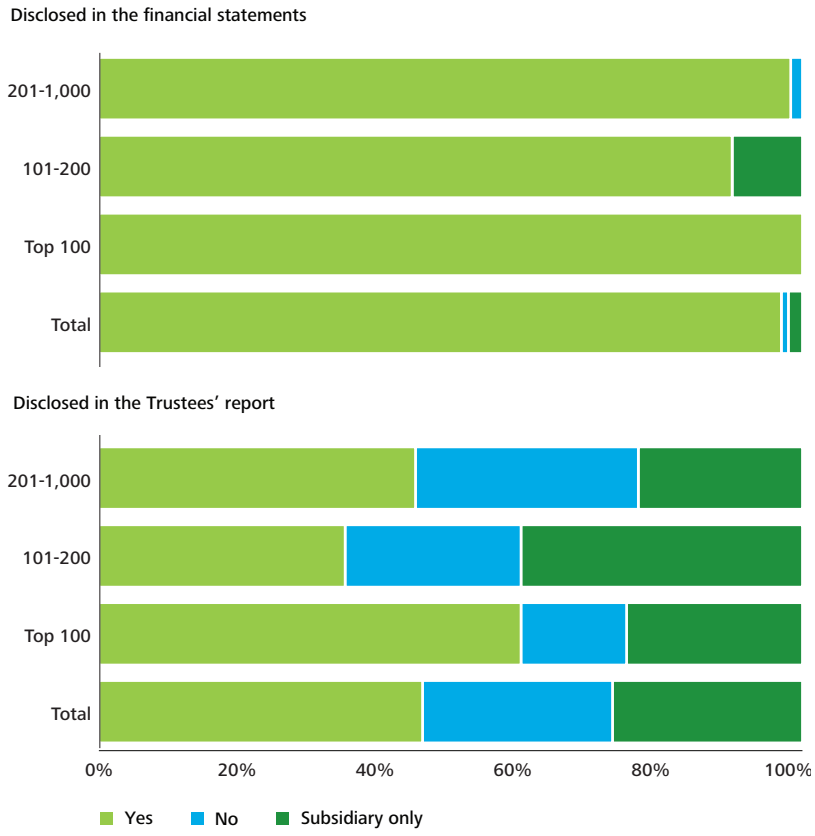
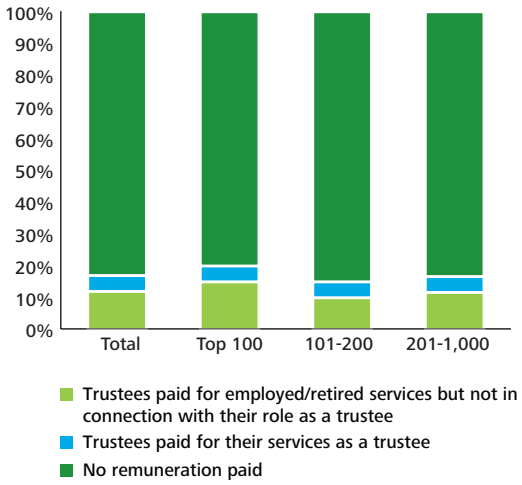


Figure 9b. Does the charity pay trustees remuneration?



The main type of expenses reimbursed to trustees was travel, subsistence and other directly reimbursed expenses, which were incurred by 69% (2014: 68%) of those charities surveyed. Charities should disclose the amount paid and the number of trustees paid. However, a number of disclosures were incomplete, most often with charities omitting the number of trustees paid but this year two charities in our sample stated that trustees were paid expenses but did not disclose the amount paid.

There continues to be a disparity in the treatment of trustee indemnity insurance as some charities included this in their trustees' expenses disclosure while others noted that it was included within a general premium and did not disclose the amount.

25% (2014: 26%) of charities surveyed did not pay any trustees' expenses.

Although a number of charities disclose payments of expenses and trustees' indemnity insurance the values were not clearly disclosed in all cases. Figure 9d details the median travel expenses for the charities that paid expenses and made the disclosure. Indemnity insurance payments ranged from £1,000 to £42,000 (2014: £1,000 – £35,000) with a median of £4,700 (2014: £3,700), but given the small number of charities disclosing this information (33% of the sample (2014:28%)) the results may not representative. The highest percentage of charities not paying expenses was in the 101-200 banding.

4.10 Payments to employees and higher paid employees

The new SORP requires a discussion of key management remuneration policies as discussed at 4.5. Further the total aggregate key management emoluments are required, in addition to the information in the bandings. No charity included in our sample has as yet included the aggregate disclosure, however a number do give the chief executive's (or equivalent's) pay.

In our survey we have looked at the average pay per employee (calculated by taking the total (group where applicable) wages and salaries costs, divided by the number of employees disclosed (group where applicable)) and that of those paid over £60,000 to provide some benchmarking data for charities. The higher paid employee calculation is based on the number of employees multiplied by the mid-point of each disclosed banding.

Median pay per employee was around £27,000 (2014: £26,000) for all charities. The median per higher paid employee was £81,000 (2014: £81,000).

The top 100 charities pay their higher paid employees on slightly average more, £82,000 median compared to £80,000, than the bottom 201-1,000 banded charities in our sample, the difference is lower than in the prior year where the medians were £81,000 compared to £78,000.

Figure 9c. Type of trustees' expense (%)

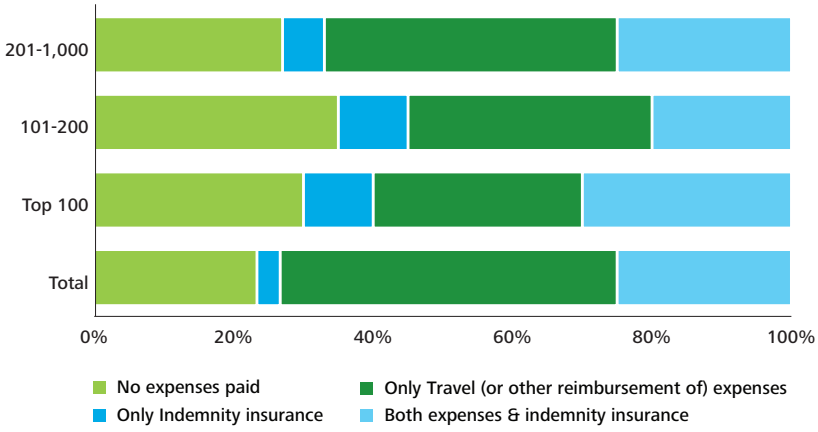


Figure 9d. Quantum of trustees' expense and number making disclosures

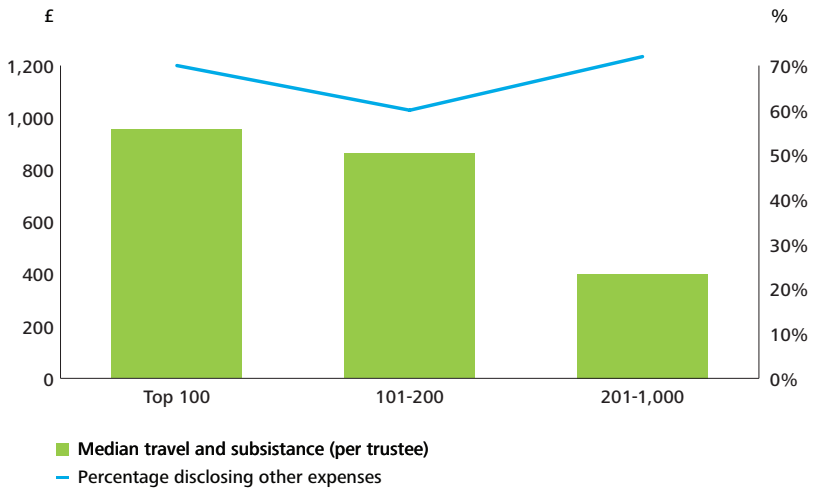
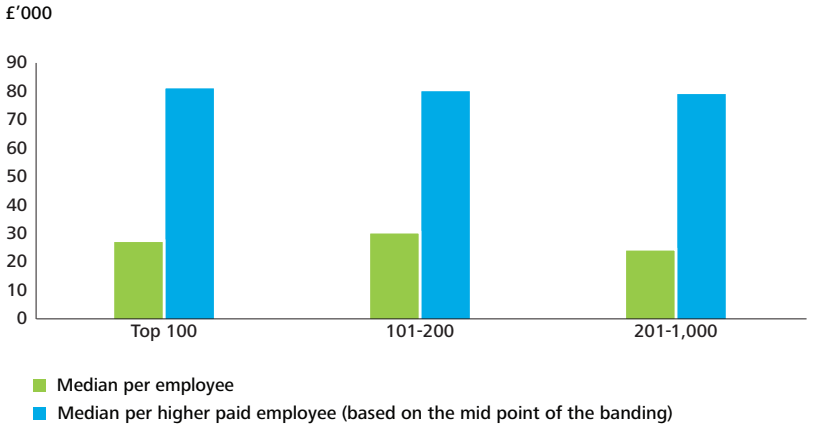
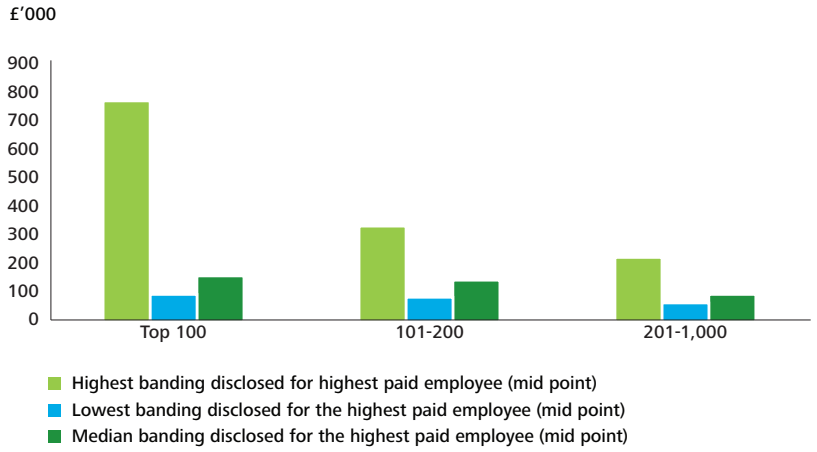


Figure 10a. Median pay per employee and disclosed higher paid employees (%)



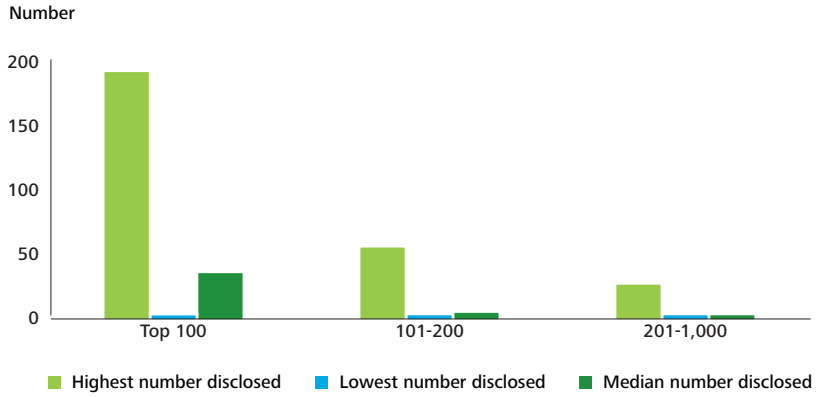
However, when looking at the extremes there is more significant variation. The mid-point of the bandings disclosed have been used for our analysis below which focussed on the highest paid employee included in the banding.

Figure 10b. Higher paid employees salary ranges (£'000)



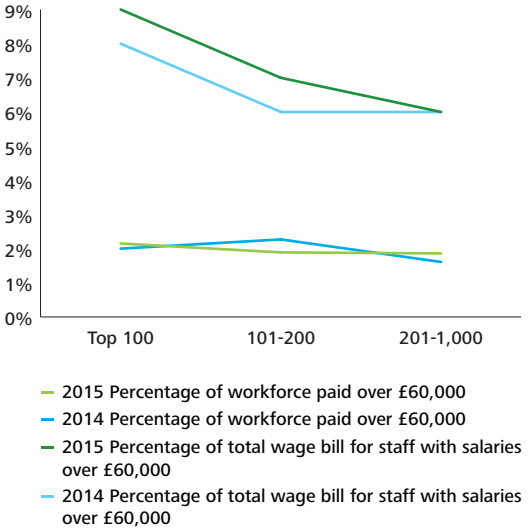
Another significant difference between the charities was the number of employees included in the higher paid employees disclosure which ranged from 195 to none; 9% of our sample had no employees with remuneration of over £60,000. They have not been included in our analysis below.

Figure 10c. Number of higher paid employees disclosed



When considered as part of the overall work force the numbers of higher paid employees represent just less than 2% (2014: 2%) of those employed and the salaries paid to the higher paid staff represent 7% of the total wage bill (2014: 6%). This is illustrated by the band in figure 10d below

Figure 10d. Total number of higher paid employees per charities sampled as a percentage of the total workforce (%)



4.11 Major risks to which the charity is exposed

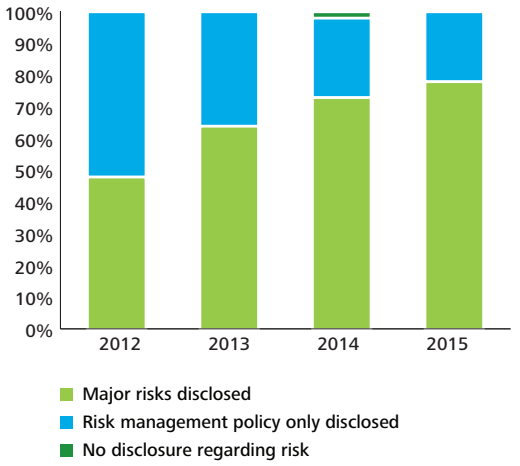
The SORP states that there should be a statement confirming that there are systems or procedures established to manage the major risks to which the charity is exposed. All charities (2014: all but two charities) surveyed complied with this requirement, although in a few cases this was still done simply by stating that there was a system in place without further elaboration.

The SORP itself does not require the major risks to be disclosed; just that there are procedures in place to deal with the major risks. However, charitable companies are required[11] to include a description of the principal risks and uncertainties facing the charity, and guidance produced by the Charity Commission recommends that larger charities disclose such information.

11 Section 414C of the Companies Act 2006

There has been continual improvement in disclosures over the survey years. Of those surveyed, 78% (2014: 73%) of charities (not all which were companies) disclosed details about the nature of the major risks. Also, whereas risks can be put into general categories, the risks disclosed were noted to be less 'boilerplate' and more tailored to the specific circumstances and operations of each charity. With the new SORP requiring further disclosure of mitigating factors we note that 42% (2014: 40%) of charities surveyed are already meeting these requirements.

Figure 11a. How comprehensive is the discussion of risk? (%)



As in 2014, the median number of risks disclosed was 4 with the maximum this year being 10 risks (2014: 11) and the minimum 1 risk (2014: 1).

The top two common types of risks that were disclosed have not changed and remain concerns about reduction in income levels, whether through grant, sponsorship or donations and fundraising reductions and followed by operational issues. Risks relating to beneficiaries include safeguarding and other environmental and health and safety risks relating to beneficiaries and risks relating to reach and membership numbers. The category of financial risk relates primarily to interest rates, lending, borrowing, foreign exchange and covenants.

The effect of regulation and legislation remains in the top four, and personnel matters also fluctuates but remains high. Other risks included matters relating to volunteers and employees; major change management; pensions and capital.

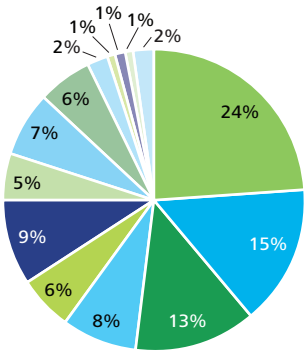
The specific mention of reputational loss as a risk accounts for 8% of the risks, however other risks disclosed (e.g. quality of service provision or safeguarding) have obvious potential to impact on reputation.

Splitting the categories of risk disclosed between financial and operational shows that financial risks remain the majority. Thus, broadly financial matters (fall in income, state of the economy, investment return and pension commitments) account for 46% (2014: 47%) of all risks disclosed, and operational and personnel matters, including reputation, account for the remaining 54% (2014: 53%). The wide range of risks disclosed is illustrated in Figure 11c.

Figure 11b. What major risks are disclosed? (%)

Risk	2015 % disclosed	2014 % disclosed	2013 % disclosed	2012 % disclosed
Fall in income	24	17	21	20
Operational matters	15	13	19	23
Risks relating to beneficiaries	13	11	12	4
State of the economy	9	8	8	12
Regulation & legislation	8	10	8	12
Reputation	7	7	7	10
Personnel matters (including Health and safety)	6	5	13	9
Financial risks	6	9	–	–
Investment return/growth	5	8	6	4
Other (including structure, capital, pension)	7	13	6	6

Figure 11c. Type of risks disclosed (%)



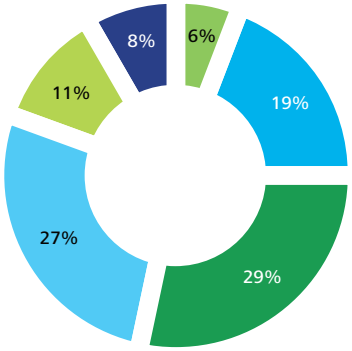
- Fall in income
- Risk relating to beneficiaries
- Financial risks
- Investment return
- Personnel matters
- Reliance on trustees or volunteers
- Pension commitments
- Operational issues
- Regulation and legislati
- State of the economy
- Reputation
- Environmental issues
- Buildings/capital
- Organisational structur

4.12 Strategy to achieve the charity's objectives

The discussion of the significant activities in the trustees' annual report should explain the objectives, activities, projects or services identified within the analysis of charitable activities shown in the Statement of Financial Activities (SOFA).

Last year we reported an improvement in the correlation between activities listed in the trustees' report and the headings listed in the SOFA, with only 6% (2014: 18%) not appearing to have any obvious correlation (excluding those required to follow a different SORP). This year tells a different story as 20% of those charity applying the charities SORP did not appear to have much correlation. There were reasons for this as charities told different developmental stories – managing a merger, organisational change, a story of growth and more detail on funding. In other cases the SOFA remained focused on the input costs for delivery of the service rather than the outputs described in the trustees' report.

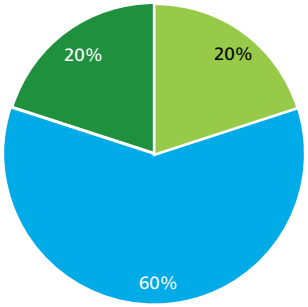
Figure 12a. Comparison of SOFA activities to headings used in trustees' report (%)



- Charity follows a different SORP
- Strong correlation
- More headings in the Trustees report
- No connection
- Some connection
- More headings in the SOFA

In addition, we considered whether the parent charity's operations were separately discussed, in particular whether a separate SOFA for the parent was presented.[12] Whilst the Charities SORP states that the Charity Commission is prepared to accept accounts without an individual parent SOFA, the Scottish regulations do not give an exemption[13] from preparing this additional information. Of the charities surveyed 30% (2014: 33%) were registered in Scotland or had dual registration. 75% (2014: 70%) of these did not provide a separate SOFA alongside their consolidated SOFA. Many of the Scottish registered charities did state that they were taking the Companies Act exemption from providing the individual company statement. We note the change in compliance relates primarily to changes in the sample rather than any trend.

Figure 12b. Charities registered in Scotland providing a separate statement of parent charity activities (%)



- Charity and consolidated SOFA presented
- Consolidated SOFA only
- No consolidated SOFA required

12 Charities SORP paras 396-397

13 Companies Act 2006 s408

4.13 Key performance indicators (KPIs)

The Companies Act requires that the strategic report includes an analysis using financial key performance indicators to the extent necessary for an understanding of the development, performance or position of the company's activities[14] and the SORP recommends the inclusion of quantitative information where it is used to assess achievements.[15] We note also that the FRS 102 SORP states that:

The charity should include a summary of the measures or indicators used to assess performance when it provides evidence of achievements in the reporting period. Examples of such targets include the number of beneficiaries to be reached by a particular programme, or the number of events or interventions planned as part of an activity. Information on activities, outputs and outcomes (or impacts) should always be put in the context of how they have contributed to the achievement of the charity's aims and objectives.[16]

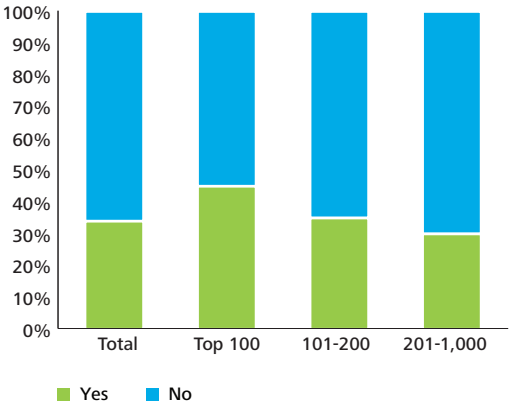
As in our last survey, we have continued to focus on measuring which charities disclosed KPIs and discussed the result in comparison to the target set for that KPI. In many cases there were detailed descriptions of activity but this was not framed in the context of a target and expected result or goal.

We found that 34% (2014: 36%) of charities did this for at least one KPI (the disclosure of targets in regard to investment performance and reserves have been captured separately and are discussed in section 4.14 and 4.17).

We noted that many charities discussed having and using KPIs without including them. Many discussions of performance included percentages and actuals without reference to the prior year or a target making it hard to assess whether their achievements exceeded, met or were below the charity's objectives. Where information was not complete enough to demonstrate reporting against a target it was not included as a KPI. The prevalence and presentation of financial or non-financial figures as means of measuring each charity's achievements varied widely, with some charities showing KPIs in a table format and others integrating them into the narrative reporting of objectives and achievements. For some financial and employee-related KPIs, the link to the charity's objectives for the year was not always obvious, but otherwise there was a clear link for nearly all figures presented.

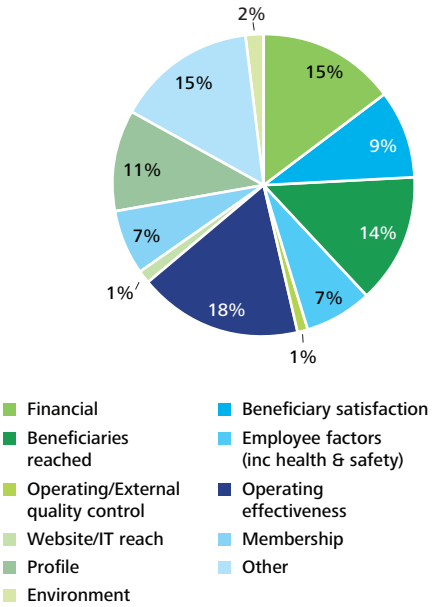
From the charities surveyed it is clear that use of performance indicators is something that could be strengthened. Performance indicators could be used to good effect, particularly under the new SORP where we expect more emphasis to be placed on balanced reporting of successes, failures and challenges.

Figure 13a. Are key performance indicators disclosed and related to targets? (%)



As seen in prior years, the most common type of KPI was related to the number of beneficiaries who benefitted from the charities' activities. However, this year we noted an increasing number of operational and financial targets being disclosed.

Figure 13b. Type of key performance indicators (%)



14 Companies Act 2006 s414C(4)

15 Charities SORP para 53

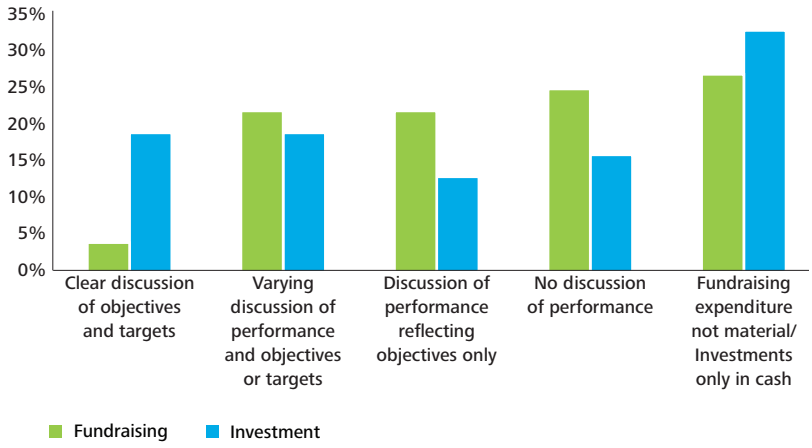
16 FRS 102 SORP 1.44. FRSSE SORP 1.45

4.14 Fundraising and investment performance

The SORP requires that where material fundraising is undertaken or material investments held, the performance should be compared to the objectives set, commenting on any material expenditure for future income generation and explaining the effect on the current period's fundraising return and anticipated income generation in future periods. Of the charities surveyed, 66% (2014: 71%) included a discussion of fundraising performance and 77% (2014: 84%) of those charities surveyed with investments included discussion of investment performance. The fall in overall compliance reflects both the change in the sample, as charities fell out of the 201-1,000 band, and changes in the charities holding investments. We noted that a number of charities have disposed of their investments in year and others have invested.

However there was an improvement in the quality of the disclosure of those reporting, as of the charities that discussed investments 37% (2014: 33%) directly assessed their performance against objectives and targets. Of the charities that discussed fundraising performance, the proportion specifically comparing fundraising performance to objectives was low with only 8% (2014: 8%) including fundraising targets.

Figure 14. Fundraising and investment performance (%)



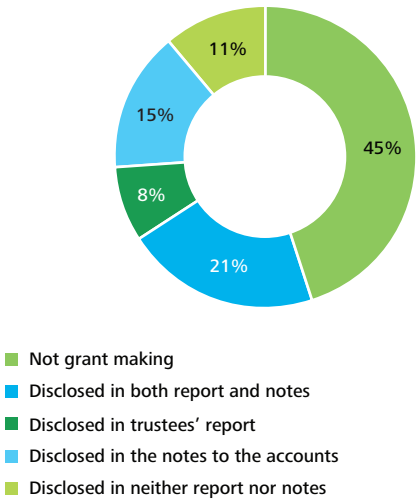
4.15 Grant-making policy

The SORP requires that where the charity conducts a material part of its activities through grant-making, a statement should be provided setting out its grant-making policies. Of the charities surveyed that gave grants (i.e. disclosing grants paid), 20% (2014: 19%) did not disclose the grant-making policy in either the trustees' report or the notes to the accounts. The new SORPs extend this requirement further such that larger charities must also:

explain how its grant-making activities contribute to the achievement of its aims and objectives.[17]

This is a new requirement that many charities will need to make more explicit in their policies and explanations. Whilst this disclosure in the trustees' report cannot be avoided, the existing disclosure of grants to institutions can now be given either in the notes to the accounts (as previously), the trustees' report or on the charity's website,[18] a minimum summary table is still required in the notes to the accounts.

Figure 15. Grant making policy (%)



17 FRS 102 SORP 1.38.
FRSSE SORP 1.39

18 FRS 102 SORP 16.13/17.
FRSSE SORP 16.13/17

4.16 Use of volunteers

The SORP includes a requirement that where a charity makes significant use of volunteers in the course of undertaking it's charitable or income generating activities this should be explained. The SORP recognises that there may be measurement issues, which is the reason why the amounts are not included in the SOFA, but suggests that readers should be given sufficient information to understand the role of volunteers and suggests measures such as hours worked, staff equivalents and an indicative value. The new SORPs make no change but say that the explanation should help the user understand the scale and nature of activities undertaken.

Of the charities surveyed, 61% (2014: 63%) acknowledged the support of volunteers, this ranged from a "thank you" to detail of the activities performed. However, of those that acknowledged the support of volunteers, 28% (2014: 29%) included no details of the assistance given by volunteers. For those who described the contribution of volunteers the most popular quantifying measure that was used was the number of volunteers who assisted the charity in the year.

Figure 16a. Description given of volunteers' support (%)

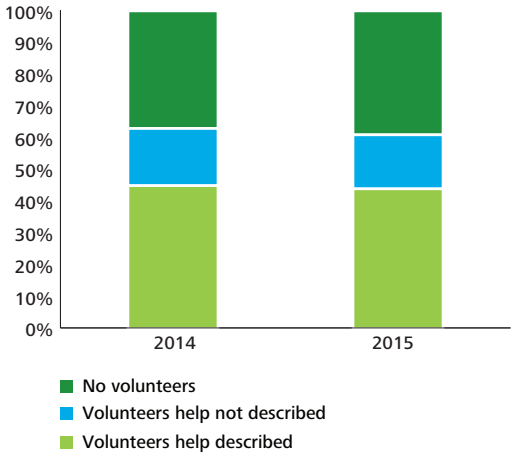
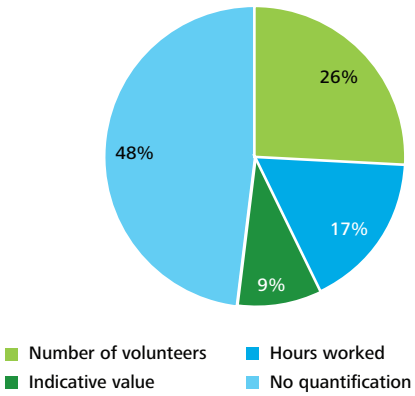


Figure 16b. Quantification of use of volunteers



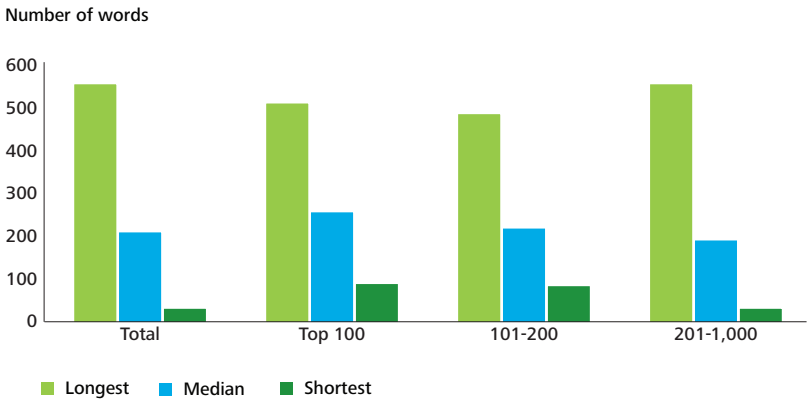
4.17 Reserves policy

As part of the financial review, the trustees' annual report should include a statement of the policy on reserves stating the level of reserves held and why they are held. Where a charity has reserves in deficit this should be explained. Of the charities surveyed 31% (2014: 34%) had deficit reserves and of those 68% (2014: 64%) related to pension deficits. Only 68% (2014: 76%) with a deficit reserve fully explained the deficit or the action being taken. These requirements have not changed in the new SORPs.

All except one charity in the survey included a section on the reserves policy (2014: all) although the usefulness of this section varied considerably.

In terms of the length of the section, the median length of the statement was 216 (2014: 219) words. The longest statement was 563 (2014: 729) words and the shortest was 37 (2014: 31) words.

Figure 17a. Length of the reserves policy



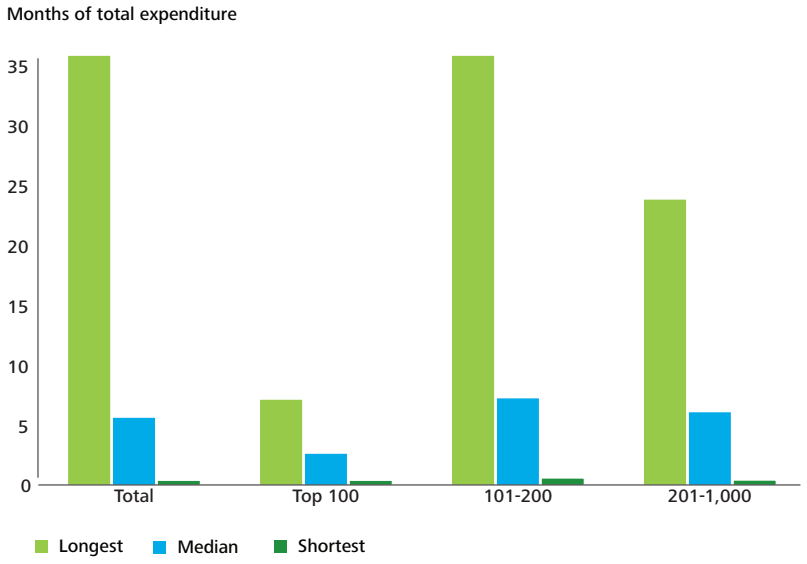
The new SORPs give a rather more didactic approach to explain reserves than previously available. The review of the charity's reserves should (but not must):

- *state the amount of the total funds the charity holds at the end of the reporting period;*
- *identify the amount of any funds which are restricted and not available for general purposes of the charity at the end of the reporting period;*
- *identify and explain any material amounts which have been designated or otherwise committed as at the end of the reporting period;*
- *indicate the likely timing of the expenditure of any material amounts designated or otherwise committed at the end of the reporting period;*
- *identify the amount of any fund that can only be realised by disposing of tangible fixed assets or programme related investments;*
- *state the amount of reserves the charity holds at the end of the reporting period after making allowance for any restricted funds, and the amount of designations, commitments (not provided for as a liability in the accounts) or the carrying amount of functional assets which the charity considers to represent a commitment of the reserves they hold; and*
- *compare the amount of reserves with the charity's reserves policy and explain, where relevant, what steps it is taking to bring the amount of reserves it holds into line with the level of reserves identified by the trustees as appropriate given their plans for the future activities of the charity.*[19]

This year 63% (2014:61%) of charities analysed free reserves as part of their reserves policy and therefore should be more prepared when addressing the requirements of the new SORP. 78% (2014: 81%) of charities disclosed their target level of reserves either in terms of months of expenditure or in terms of a monetary amount. 3% (2014: 6%) of charities who did not state their target level of reserves still explained whether they considered levels of reserves to be satisfactory or not, leaving a remaining 19% (2014: 13%) discussing neither their level nor their target. We noted that two of those charities had a deficit on general reserves, and in such cases it is perhaps even more important to ensure the readers of the accounts understand the direction and approach of the charity for the future.

Although targets varied from cash amounts to months of expenditure we have approximated all targets given to months of total expenditure to allow better comparison of those charities giving targets.

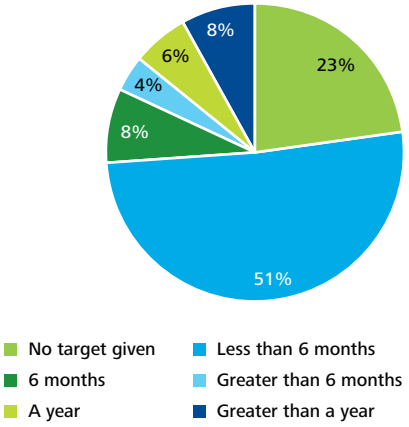
Figure 17b. Targets for free reserves (months of total expenditure)



19 FRS 102 SORP 1.48, FRSSE SORP 1.49

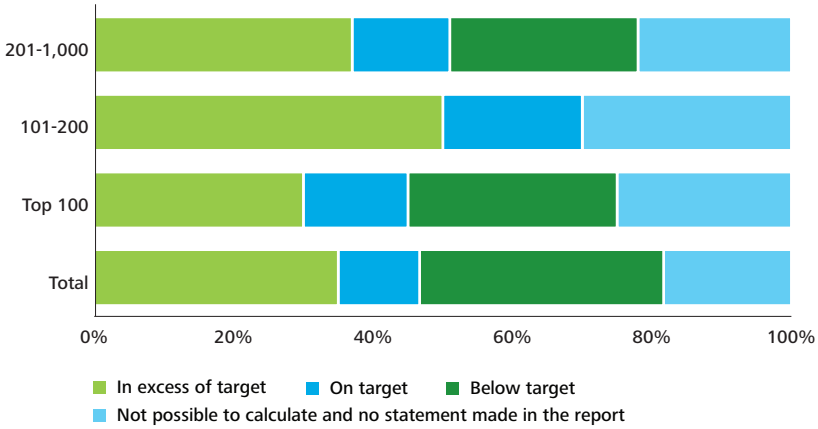
51% (2014: 50%) of the charities sampled had targets of less than 6 months of total expenditure. The median target was just under 6 months (2014: just over 5 months) with the greatest target being 36 months (2014: 24 months) of expenditure and the smallest approximately 5 days (2014: 9 days) of expenditure. These shorter periods related mainly to charities who set their reserves target as an amount rather than a number of months' cover.

Figure 17c. Targets for free reserves (months of total expenditure)



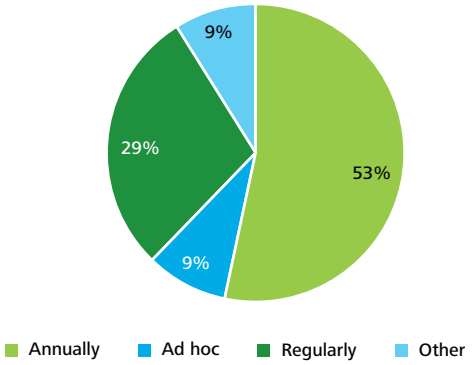
From those charities surveyed 78% (2014: 85%) made some sort of statement about whether their reserves were satisfactory (regardless of whether they gave a target). For some charities the complexities of the target calculation or the types of expenditure the reserves policy was intended to cover meant that it was impossible to understand whether the policy had been met from the financial statements without further information. Of those charities surveyed stating a result 35% (2014: 32%) were below their targeted level of reserves and 65% (2014: 68%) were either on target or exceeded their targeted level of reserves.

Figure 17d. Level of reserves against target (%)



45% (2014: 38%) of charities included in their trustees' annual report how frequently they reviewed their reserves policy. Of those disclosing a review period 53% (2014: 68%) disclosed that they reviewed their reserves policy on an annual basis and 47% (2014: 32%) had some ad hoc or other arrangement. The most popular phrase being used to describe these other review periods was 'regular' which was used by almost a third of charities compared to a fifth last year.

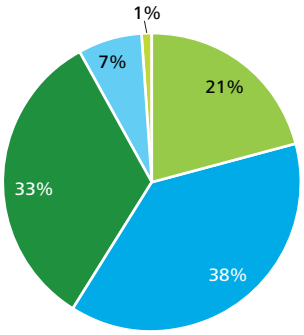
Figure 17e. Frequency of review of reserves policy (%)



Where material funds have been designated, the reserves policy statement should quantify and explain the purpose of the designations and the likely timing of that expenditure. This remains a 'must' requirement under the new SORPs and compliance is currently poor in our sample.

Of those charities surveyed, 39% (2014: 40%) disclosed information on the designated funds in the trustees' report. However, 7% (2014: 6%) of charities surveyed did not disclose details about the purpose of their designated funds.

Figure 17f. Disclosure of purposes and timing of designated funds (%)



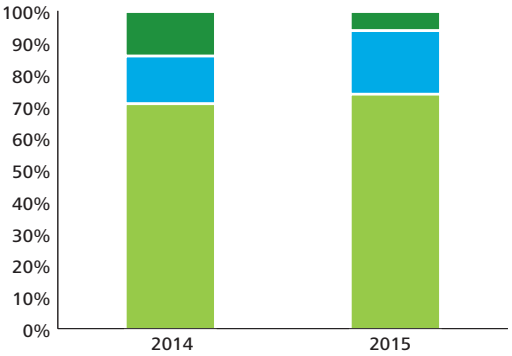
- No designated funds
- Designated funds disclosed in trustees report and notes
- Designated funds disclosed in the notes only
- No description of designated fund uses in trustees reportor notes
- Designated funds described in the trustees report only

4.18 Plans for future periods

The SORP requires that the trustees' annual report should explain the charity's plans for the future including the aims and key objectives it has set for future periods together with details of any activities planned to achieve their plans.

In our survey, 6% (2014: 14%) of charities did not include a looking forward section and 20% (2014: 15%) included such a section but did not clearly describe the key objectives and activities planned to achieve them.

Figure 18. Plans for future periods (%)



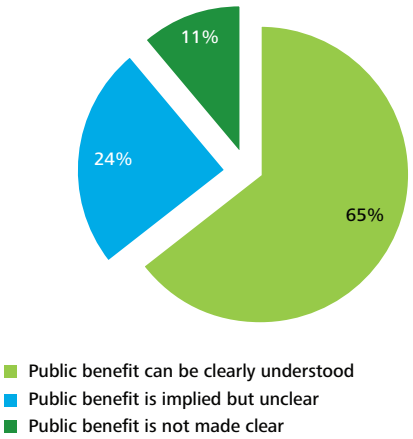
- No discussion of plans for future periods
- Discussion of plans but not objectives and activities to achieve them
- Discussion of plans and objectives and activities to achieve them

4.19 Public benefit

10% (2014: 10%) of the charities sampled did not mention public benefit in the trustees' annual report. The level of detail of the discussion varied with some charities assuming that public benefit was obvious and others taking the reader through the objectives and the understanding of how those objectives applied to public benefit. Some charities extended the awareness of public benefit throughout their report, this was the case particularly for those who reported by activity giving objectives, performance, future plans and the public benefit by each activity.

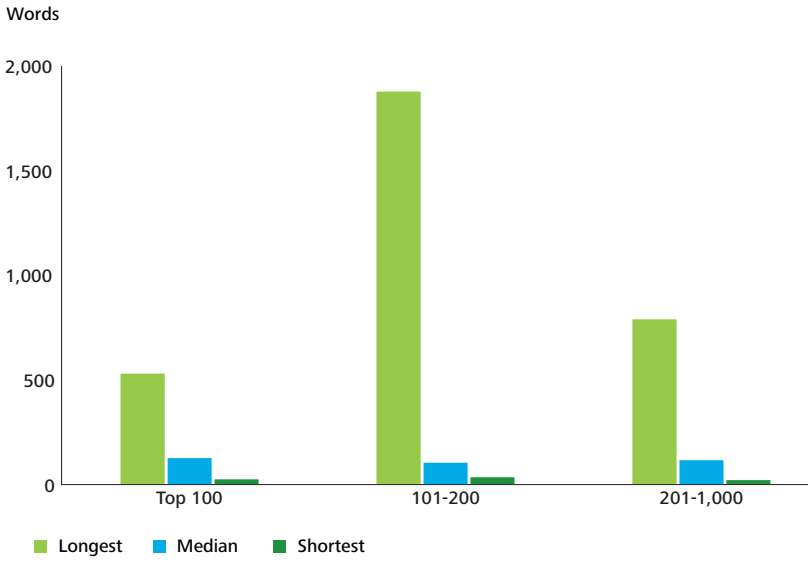
Of those charities making a statement, the number of charities that stated only that they had complied with the charity commission guidance without further comment or indicating where further information could be found fell from 14% in 2014 to 11%. However, almost a quarter of charities presumed that public benefit was obvious from the rest of the report and therefore did not make an effort to fully explain the public benefit provided by the charity.

Figure 19a. Public benefit discussion (%)



90% (2014: 90%) of charities explicitly stated that they had regard to the Charity Commission guidance when preparing the trustees' annual report, but only 6% (2014: 6%) of charities mentioned 'detriment or harm' in their explanations. The median length of the statements on public benefit remained stable at 125 words compared to 124 in the prior year.

Figure 19b. How long is the public benefit statement? (number of words)



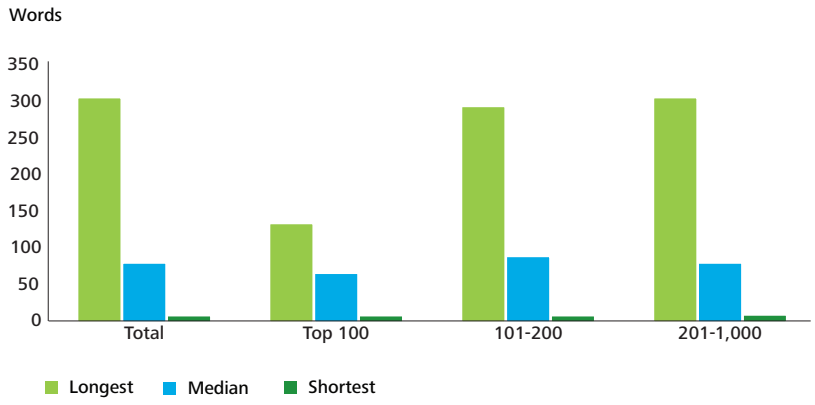
90% (2014: 90%) of charities explicitly stated that they had regard to the Charity Commission guidance when preparing the trustees' annual report, but only 6% (2014: 6%) of charities mentioned 'detriment or harm' in their explanations.

4.20 Compliance with FRC guidance on going concern

The Financial Reporting Council guidance "Going Concern and Liquidity Risk: Guidance for Directors of UK Companies" continues to apply to companies, including charitable companies, that do not apply the UK Corporate Governance Code. The guidance also states that "it may also be useful to the management of other entities that produce financial statements that are intended to give a true and fair view", which would be the case for charities preparing accounts under the Charities SORP. The number of charities that followed FRC guidance fell slightly to 59% (2014: 62%).

The median length of the going concern statement was 82 words (2014: 60 words). The uncertainties in the going concern statement included concern about the ongoing uncertain outlook, uncertainty over funding streams and specifically government and local government funding, and longer term funding levels. Whilst last year concerns also included general donations and levels of support from the public this year's concerns focused on government funding which perhaps reflected the uncertainty over the outcome of the general election at the time these reports would have been written.

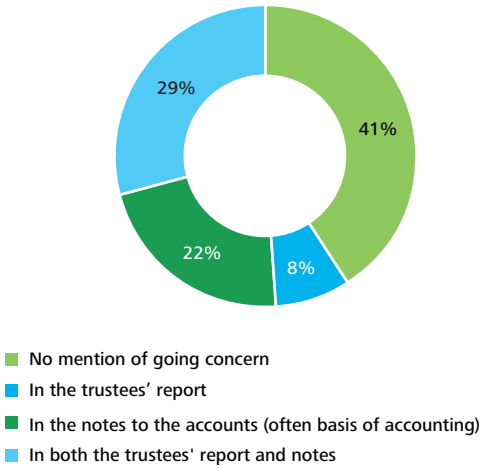
Figure 20a. Length of the going concern statement (number of words)



Of those charities that included a discussion of going concern, 63% (2014: 56%) included their comments in the trustees' report and 22% (2014: 15%) of those charities linked their reporting on going concern to their risks and uncertainties.

Of the 35% (2014: 32%) of charities which explicitly stated that their reserves were below their target level (figure 16d), 29% (2014: 12%) linked their going concern statement to their risks and uncertainties, whilst 48% (2014: 37%) did not include any statement on going concern.

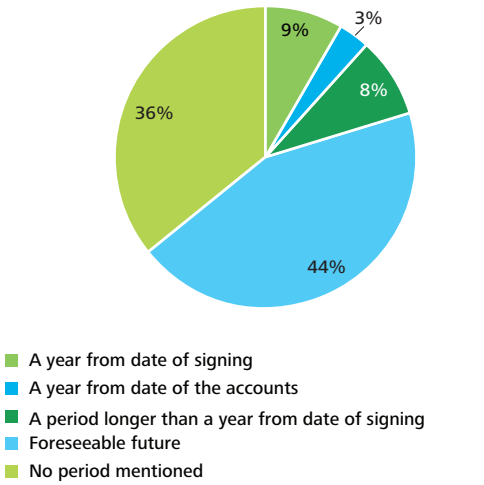
Figure 20b. Location of the going concern statement (%)



One charity had an emphasis of matter paragraph in its audit report relating to going concern (2014: none).

The FRC guidance recommends that directors, in this case trustees, should consider a period at least 12 months from the date the accounts are approved[20] and this is also reflected in the requirements of the new SORPs.[21] Of our charities surveyed that reported on going concern 17% referred to a period of at least 12 months from the date of signing.

Figure 20c. Period considered in going concern review



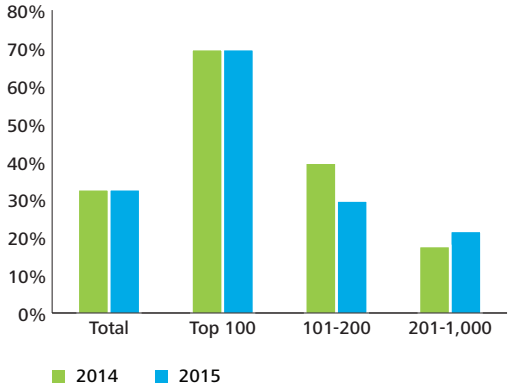
20 Principle 2 – The Review Period

21 FRS 102 SORP 3.14, FRSSE SORP 3.14

4.21 Visual appearance of the financial statements and trustees' annual report

The trustees' annual report should be comprehensive and understandable. While the majority of the trustees' annual reports remain very plain to look at, consisting mainly of long sections of narrative not broken up by the use of pictures, charts, colour or highlighting. 33% (2014: 33%) of charity reports surveyed were judged to be visually interesting. There has been little change in style or format between this year and last which perhaps reflect the waiting for the introduction of the new SORPs.

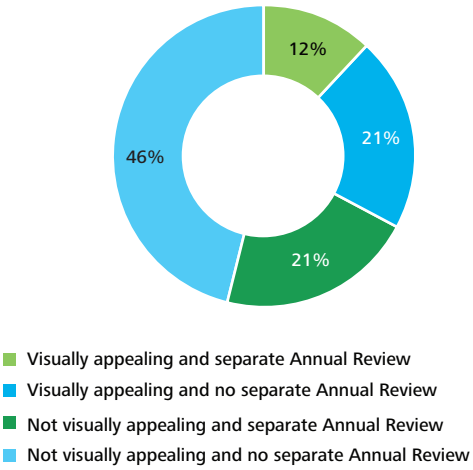
Figure 21a. Financial statements and the trustees' annual report are visually stimulating (%)



The charities' websites were also reviewed to see if any annual reviews were also prepared and some interesting changes in practice were observed here. The survey showed that a separate annual review was produced by 33% (2014: 38%) of charities.

Of those charities that did not produce a visually stimulating set of accounts, 31% (2014: 27%) did produce a separate annual review, which meant that overall, 46% (2014: 49%) of charities' financial statements were not visually stimulating nor did they produce a separate annual review.

Figure 21b. Is a separate annual review produced? (%)



The use of graphs and tables can assist in adding clarity to the narrative elements of the trustees' annual report. Of the charities surveyed, 25% (2014: 19%) used one or more graphs to aid the reader of the accounts in their understanding of events. As in 2014, graphs were used principally to analyse income sources and types of expenditure. The number suggests that visual aids are still not being used effectively in the sector.

Figure 21c. Number of graphs in the trustees' annual report (%)

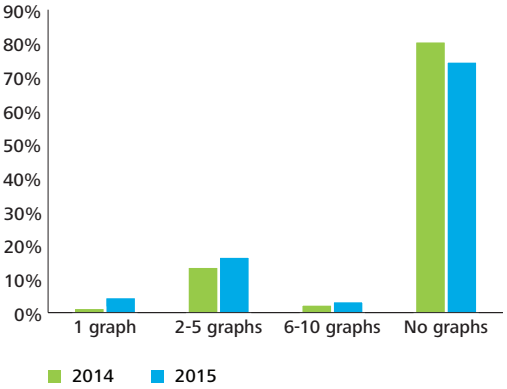
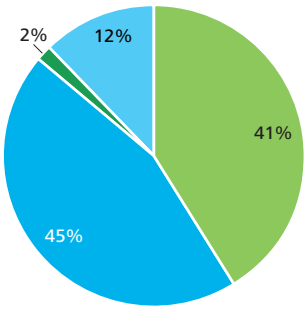


Figure 21d. What areas do these graphs cover? (%)

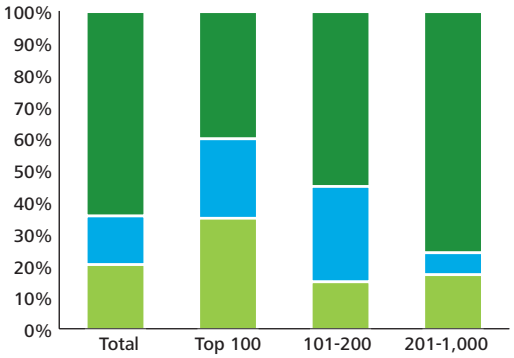


Income
Expenditure
Reserves
Beneficiary information or reach

In the prior year 8% of graphs were on investments, however, there were no graphs covering investments in our reports surveyed this year.

A highlights page or opening statement from the chairman or chief executive of a charity can be used to summarise the key information and achievements of the charity. Of the charities surveyed, 35% (2014: 30%) had such a summary, not lasting longer than a double-page spread.

Figure 21e. Is there a highlights page or opening statement? (%)

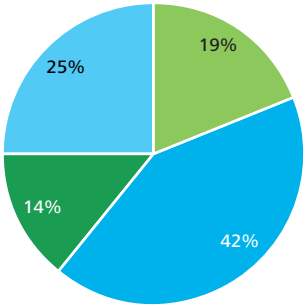


No highlights or clear summary
Chairman's statement or other executive summary
Highlights page

Whilst statutory reporting can be seen as a cost it is an opportunity to reach a wide audience.

75% (2014: 73%) of charities surveyed had either an annual review or financial statements available to download from their website. 61% (2014: 57%) of charities had their full accounts available. As the use of digital media continues to expand the availability of information is likely to become an expectation from supporters, funders, and those as yet undecided on whether to give.

Figure 21f. Is information available on the charity's internet page? (%)



Accounts on website and annual report on website
Accounts on website only
Annual report on website only
Neither on website

Appendix 1 – Disclosure checklist FRS 102 and FRSSE SORPs

The following SORP checklist has been based on the trustees' annual reporting requirements in the FRS102 and FRSSE SORPs. Requirements applicable only to larger charities, currently those requiring an audit, are shaded. The checklist highlights the 'must's of the reporting requirements in blue and the 'should's in *italic* type.

The new SORPs uses the term '**must**' to indicate those elements that are important to the reader of the trustees' annual report that must be included within the report or to identify particular accounting treatments, disclosures or presentational requirements that are likely to affect the ability of the accounts to give a true and fair view if not applied to material transactions or items. Where this SORP states that a recommendation is one which must be followed, non-adherence to that recommendation is a departure from the SORP.

*The new SORP uses the term '**should**' for an item in the trustees' annual report or the accounts for those recommendations aimed at advancing standards of financial reporting as a matter of good practice. While charities are encouraged to follow all the SORP's recommendations, a failure to follow a 'should' recommendation with respect to the report or the accounts is not regarded as a departure from the SORP.*

Many of the SORP requirements have not changed. However, we have included in bold where the requirement is new or has changed significantly.

FRS102 AND FRSSE SORP REQUIREMENTS **Requirements for larger charities only are shaded**[22]	**Ref.**	**Yes**	**No**	**N/A**
Objectives and Activities				
The report provides information intended to help the user understand how the charity's aims fulfill its legal purposes, the activities it undertakes and what it has achieved.	FRS 102 SORP 1.17, 1.19			
All charities must provide a summary of: • the purposes of the charity as set out in its governing document; and	FRSSE SORP 1.18, 1.20			
• the main activities undertaken in relation to those purposes.				
The report should explain the activities, projects or services identified in the accompanying accounts. As far as practicable, numerical information provided in the report about the resources spent on particular activities should be consistent with the analysis provided in the accounts.				
Charities in England and Wales must also: • explain the main activities undertaken to further the charity's purposes for the public benefit; and	FRS 102 SORP 1.18			
• include in their report a statement confirming whether the trustees have had regard to the Charity Commission's guidance on public benefit.	FRSSE SORP 1.19			
The report of larger charities must provide an explanation of: • its aims, including details of the issues it seeks to tackle and the changes or differences it seeks to make through its activities;	FRS 102 SORP 1.36 FRSSE SORP 1.37			
• how the achievement of its aims will further its legal purposes;				
• its strategies for achieving its stated aims and objectives;				
• the criteria or measures it uses to assess success in the reporting period; and				
• the significant activities undertaken (including its main programmes, projects or services provided), explaining how they contribute to the achievement of its stated aims and objectives.				
Larger charities in their report should also provide the user with a more detailed understanding of their short-term and longer-term aims and objectives. ***A charity with longer-term aims and objectives should explain how the aims and objectives set for the reporting period relate to its longer-term aims and objectives. When explaining activities, it is important for the user to understand their scale and the resources used in their delivery; for example, it may be helpful to provide details of the amount spent on, or the number of staff engaged in, undertaking a particular activity.***	FRS 102 SORP 1.37 FRSSE SORP 1.38			
The report must include an explanation of the use the charity makes of the following: • Social investment, when this forms a material part of its charitable and investment activities. In particular, the report must provide an explanation of its social investment policies **and explain how any programme related investments contributed to the achievement of its aims and objectives.**	FRS 102 SORP 1.38 FRSSE SORP 1.39			
• Grant-making, when this forms a material part of its charitable activities. In particular, the report must explain the charity's grant-making policy **and explain how its grant-making activities contribute to the achievement of its aims and objectives.**				
• Volunteers, when their contribution is significant to a charity's ability to undertake a particular activity. The explanation should help the user to understand **the scale and nature of the activities undertaken.**				

22 **Larger charities** is a term used in the SORP to identify those charities subject to audit under charity law in their jurisdiction(s) of formation, registration or operation which the SORP requires to make additional reporting disclosures.
The current consultation proposes a threshold of £500,000 or 500,000 Euros for larger charities.

FRS102 AND FRSSE SORP REQUIREMENTS Requirements for larger charities only are shaded[22]	Ref.	Yes	No	N/A
Charities reporting on the contribution of general volunteers may provide an explanation of the activities that volunteers support or help to provide; and details of the contribution in terms of volunteer hours or staff equivalents.	FRS 102 SORP 1.39 FRSSE SORP 1.40			
Achievements and performance				
The report must contain a summary of the main achievements of the charity. *The report should identify the difference the charity's work has made to the circumstances of its beneficiaries* ***and, if practicable, explain any wider benefits to society as a whole.*** Good reporting sets out how well the activities undertaken by the charity and any subsidiaries performed and the extent to which the achievements in the reporting period met the aims and objectives set by the charity for the reporting period. **Good reporting provides a balanced view of successes and failures along with supporting evidence, and demonstrates the extent of performance and achievement against the objectives set and the lessons learned.**	FRS 102 SORP 1.20/1.40 FRSSE SORP 1.21/1.41			
In particular, the report must review: • the significant charitable activities undertaken;	FRS 102 SORP 1.41 FRSSE SORP 1.42			
• the achievements against objectives set; *The charity should include a summary of the measures or indicators used to assess performance when it provides evidence of achievements in the reporting period. Examples of such targets include the number of beneficiaries to be reached by a particular programme, or the number of events or interventions planned as part of an activity. Information on activities, outputs and outcomes (or impacts)* ***should always be put in the context of how they have contributed to the achievement of the charity's aims and objectives.***	FRS 102 SORP 1.41/1.44 FRSSE SORP 1.42/1.45			
• the performance of material fundraising activities against the fundraising objectives set;	FRS 102 SORP 1.41 FRSSE SORP 1.42			
• investment performance against the investment objectives set where material financial investments are held;				
• if material expenditure was incurred to raise income in the future, the report must explain the effect this expenditure has had, and is intended to have, on the net return from fundraising activities for both the reporting period and future periods.				
The report should comment on those ***significant positive and negative factors both within and outside the charity's control*** *which have affected the achievement of its objectives and, where relevant, explain how this has affected future plans. These factors might include relationships with employees, service users, beneficiaries and funders and the charity's position in the wider community.*	FRS 102 SORP 1.45 FRSSE SORP 1.46			
Financial review				
The report must contain a review of the charity's financial position at the end of the reporting period.	FRS 102 SORP 1.21 FRSSE SORP 1.22			
The charity must explain any policy it has for holding reserves and state the amounts of those reserves and why they are held. If the trustees have decided that holding reserves is unnecessary, the report must disclose this fact and provide the reasons behind this decision.	FRS 102 SORP 1.22 FRSSE SORP 1.23			
If, at the date of approving the report and accounts, there are uncertainties about the charity's ability to continue as a going concern, the nature of these uncertainties should be explained.	FRS 102 SORP 1.23 FRSSE SORP 1.24			
The report must also identify any fund or subsidiary undertaking that is materially in deficit, explaining the circumstances giving rise to the deficit and the steps being taken to eliminate the deficit.	FRS 102 SORP 1.24 FRSSE SORP 1.25			
The report must also comment on the significant events that have affected the financial performance and financial position of the charity during the reporting period. In particular the report must explain: • the financial effect of significant events;	FRS 102 SORP 1.46 FRSSE SORP 1.47			
• where the charity holds material financial investments, the investment policy and objectives set;				
• **a description of the principal risks and uncertainties facing the charity and its subsidiary undertakings, as identified by the charity trustees, together with a summary of their plans and strategies for managing those risks; and**				
• **any factors that are likely to affect the financial performance or position going forward.**				

FRS102 AND FRSSE SORP REQUIREMENTS Requirements for larger charities only are shaded[22]	Ref.	Yes	No	N/A
The financial review should also explain: • ***the principal funding sources of the charity in the reporting period and how these resources support the key objectives of the charity;***	FRS 102 SORP 1.47 FRSSE SORP 1.48			
• *the impact, if any, of a material pension liability arising from obligations to a defined benefit pension scheme or pension asset on the financial position of the charity; and*				
• *where the charity holds material financial investments, the extent (if any) to which it takes social, environmental or ethical considerations into account in its investment policy.*				
The review of the charity's reserves should: • *state the amount of the total funds the charity holds at the end of the reporting period;*				
• *identify the amount of any funds which are restricted and not available for general purposes of the charity at the end of the reporting period;*				
• *identify* and explain any material amounts which have been designated or ***otherwise committed as at the end of the reporting period;***				
• *indicate the likely timing of the expenditure of any material amounts designated or* ***otherwise committed at the end of the reporting period;***				
• ***identify the amount of any fund that can only be realised by disposing of tangible fixed assets or programme related investments;***				
• *state the amount of reserves the charity holds at the end of the reporting period after making allowance for any restricted funds, and the amount of designations,* ***commitments (not provided for as a liability in the accounts)*** *or the carrying amount of functional assets which the charity considers to represent a commitment of the reserves they hold; and*				
• *compare the amount of reserves with the charity's reserves policy and explain, where relevant, what steps it is taking to bring the amount of reserves it holds into line with the level of reserves identified by the trustees as appropriate given their plans for the future activities of the charity.*				
Structure, governance and management				
The report must provide details of: • the nature of the governing document (e.g. trust deed, memorandum and articles of association, Charity Commission scheme, Royal Charter, etc	FRS 102 SORP 1.25 FRSSE SORP 1.26			
• how the charity is (or its trustees are) constituted (e.g. limited company, unincorporated association, trustees incorporated as a body, charitable incorporated organisation, community benefit society, industrial and provident or friendly society etc.).				
• the methods used to recruit and appoint new charity trustees, including details of any constitutional provisions for appointment, for example election to post. Where any other person or external body is entitled to appoint one or more of the charity trustees, the report should explain this and give the name of that person or body.				
The report must provide the user with an understanding of how the charity is constituted, its governance and management structures, and how its trustees are trained. In particular, the report must explain: • the charity's organisational structure and, where relevant, those of its subsidiary undertakings;	FRS 102 SORP 1.51 FRSSE SORP 1.52			
• how the charity makes decisions, for example which types of decisions are taken by the charity's trustees and which are delegated to staff;				
• the policies and procedures for the induction and training of trustees;				
• **the arrangements for setting the pay and remuneration of the charity's key management personnel and any benchmarks, parameters or criteria used in setting their pay;**				
• if the charity is part of a wider network (for example if it is affiliated with an umbrella group), how, if at all, this impacts on the operating policies adopted by the charity;				
• relationships between the charity and related parties, including its subsidiary undertakings, and with any other charities and organisations with which it cooperates in the pursuit of its charitable objectives.				

FRS102 AND FRSSE SORP REQUIREMENTS Requirements for larger charities only are shaded[22]	Ref.	Yes	No	N/A
Reference and administrative details				
The report must provide the following reference and administrative information about the charity and its trustees: • the name of the charity, which in the case of a registered charity means the name by which it is registered.	FRS 102 SORP 1.27 FRSSE SORP 1.28			
• any other name which the charity uses;				
• the charity registration number(s) for the jurisdiction(s) in which it is registered as a charity and, if applicable, its company registration number;				
• the address of the principal office of the charity and, in the case of a charitable company, the address of its registered office.[23]				
• the names of all those who were the charity's trustees on the date the report was approved or who served as a trustee in the reporting period.				
• where a charity has any corporate trustees, the names of the directors of the body corporate on the date the report was approved.				
• the names of any trustee for the charity holding the title to property belonging to the charity (for example custodian trustee or nominee) on the date the report was approved; or				
• who served as a trustee for the charity in holding the title to property belonging to the charity in the reporting period.				
The report must state to whom the trustees' delegate day-to-day management of the charity and from whom trustees are taking advice. In particular, the report must provide: • the name of any chief executive officer or other senior management personnel to whom the charity trustees delegate day-to-day management of the charity on the date the report was approved or who served in such a position in the reporting period in question.	FRS 102 SORP 1.52 FRSSE SORP 1.53			
• the names and addresses of any other relevant organisations or persons providing banking services or professional advice to the charity, including its solicitors, auditor and investment advisers.				
Plans for future periods				
The report must provide a summary of the charity's plans for the future, including its aims and objectives and details of any activities planned to achieve them.	FRS 102 SORP 1.49 FRSSE SORP 1.50			
The report should explain the trustees' perspective of the future direction of the charity. It should explain, where relevant, how experience gained or lessons learned from past or current activities have influenced future plans and decisions about allocating resources to their best effect.	FRS 102 SORP 1.50 FRSSE SORP 1.51			
Funds held as a custodian trustee				
Where a charity has acted as custodian trustee[24] during the reporting period it must disclose in the trustees' annual report (or as a note to the accounts): • a description of the assets, classes of assets or categories of assets which they hold in this capacity; • the name and objects of the charity (or charities) on whose behalf the assets are held and how this activity falls within the custodian charity's objects; and • details of the arrangements for safe custody and segregation of such assets from the charity's own assets.	FRS 102 SORP 19.13 FRSSE SORP 19.14			

23 On occasions, the disclosure of the names of trustees or of the charity's principal address or the disclosure of the name(s) of any chief executive officer or other senior staff member(s) could lead to that person (or others) being placed in personal danger (e.g. in the case of a women's refuge). In such circumstances, the applicable law and regulations may permit the withholding of these details. Where a report omits the name of a trustee, chief executive officer or senior staff member or the charity's principal address, it should give the reason for the omission. Charities in England and Wales may omit the names of those persons and the charity's principal address from their report provided the Charity Commission has given the charity trustees the authority to do this. In Scotland there is also a provision under charity law for such information to be excluded. The directors of charitable companies registered in the UK should note that, with the exception of the name of the auditor, or senior statutory auditor in the case of an audit firm (section 506 Companies Act 2006), there is no corresponding dispensation in relation to the disclosure of names.

24 Note where a charity has acted as an agent it must make disclosures in the notes to the accounts

Appendix 2 – Charitable companies trustees' annual report additional disclosure checklist

This disclosure checklist summarises the requirements as at 31 July 2015 of the Companies Act 2006 and the relevant accounts and reports regulations.

This checklist should be read in conjunction with the Charities SORP and other applicable guidance.

COMPANIES ACT 2006 STRATEGIC REPORT REQUIREMENTS	Ref.	Yes	No	N/A
A strategic report is only required for large and medium-sized charitable companies.				
The strategic report must be approved by the board of directors and signed on behalf of the board by a director or the secretary of the company.	s414D(1)			
The strategic report must contain- (a) a fair review of the business of the company, and (b) a description of the principal risks and uncertainties facing the company. The review required is a balanced and comprehensive analysis of the development and performance of the business of the company during the year, and the position of the company at the end of that year. This analysis is consistent with the size and complexity of the business. The review includes an analysis using financial KPIs, to the extent that they are necessary for an understanding of the development, performance or position of the business of the company. For large companies, where appropriate, the review must also include an analysis using non financial KPIs including information relating to environmental factors and employee factors. The review, where appropriate, includes references to, and additional explanations of, amounts included in the annual accounts of the company.	s414C			
The strategic report may also contain such of the matters otherwise required by schedule 7 of the accounting regulations to be disclosed in the directors' report as the directors consider are of strategic importance to the company.	s414C(11)			

COMPANIES ACT 2006 DIRECTORS' REPORT REQUIREMENTS	Ref.	Yes	No	N/A
A separate statutory directors' report does not need to be prepared for charitable companies provided that the trustees' annual report contains all the information required to be provided under the Companies Act 2006. There is inevitably some duplication between the Companies Act requirements and those of the Charities SORP, but they have been included in the interests of completeness.				
The directors' report should be approved by the Board of directors and signed by a director or the company secretary on its behalf. The name of the director or company secretary so signing should be stated.	s419(1)			
The names of all of the persons who were directors during the period should be given.	s416(1a)			
Disclose the following for political donations and expenditure in the EU area (separately identified by reference to each subsidiary). The scope of this requirement includes donations made to any independent election candidate: (a) the name of each registered party or other EU political organisation which has been the recipient of a donation; (b) the total amount given to that party or organisation in the financial year; and (c) the total amount of EU political expenditure incurred by the company in the financial year. This disclosure is only required if the aggregate amount of all donations and expenditure made by a company and its subsidiaries exceeds £2,000. Disclosure is also required for contributions to non-EU political parties as a single aggregate figure for the financial year.	Acc Regs Sch7:3-5/ Small Co Acc Regs Sch 5:2-3			
Provisions for the benefit of one or more directors of the company. If – (a) at the time when the directors' report is approved any qualifying third party indemnity provision (whether made by the company or otherwise) is in force for the benefit of one or more directors of the company, or (b) at any time during the financial year, any such provision was in force for the benefit of one or more persons who were then directors of the company, the directors' report must state that any such provision is or (as the case may be) was so in force.	s236(2)(3)			

COMPANIES ACT 2006 DIRECTORS' REPORT REQUIREMENTS	Ref.	Yes	No	N/A
Provisions for the benefit of one or more directors of an "associated company". If the company has made a qualifying third party indemnity provision and (a) at the time when the directors' report is approved any qualifying third party indemnity provision made by the company is in force for the benefit of one or more directors of an associated company, or (b) at any time during the financial year, any such provision was in force for the benefit of one or more persons who were then directors of an associated company, the directors' report must state that any such provision is or (as the case may be) was so in force.	s236(2)(3)			
The report must contain a statement to the effect that, in the case of each of the persons who are directors at the time when the directors' report is approved, the following applies: (a) so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware, and (b) he/she has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.	s418			
The following disclosures are only required where the average number of employees exceeds 250:				
State the company's policy as to: (a) employment of disabled persons, (b) continued employment and training of persons who become disabled while in the company's employment, and (c) training, career development and promotion of disabled people.	Acc Regs Sch 7:10/ Small Co Acc Regs Sch 5:5			
The following disclosures are only required for large and medium-sized charitable companies:				
Where a company has chosen in accordance with section 414C(11) of the Act to set out in the company's strategic report information required by schedule 7 to the accounting regulations to be contained in the directors' report it shall state in the directors' report that it has done so and in respect of which information it has done so.	Acc Regs Sch7:1A			
In relation to the use of financial instruments by a company and its subsidiary undertakings, the directors' report must contain an indication of: (a) the financial risk management objectives and policies of the company and its subsidiary undertakings included in the consolidation, including the policy for hedging each major type of forecasted transaction for which hedge accounting is used; and (b) the exposure of the company and its subsidiary undertakings included in the consolidation to price risk, credit risk, liquidity risk and cash flow risk. This is not required if the information is not material for the assessment of the assets, liabilities, financial position and profit or loss of the company and its subsidiary undertakings included in the consolidation.	Acc Regs Sch 7:6(1)(2)			
Particulars of any important events which have occurred since the end of the financial year in relation to the company and its subsidiary undertakings should be given.	Acc Regs Sch7:7			
An indication of likely future developments in the business of the company and its subsidiary undertakings should be given.	Acc Regs Sch7:7			
An indication of any activities in the field of research and development in relation to the company and its subsidiary undertakings should be given.	Acc Regs Sch7:7			
An indication of the existence of branches of the company outside the UK, unless it is an unlimited company.	Acc Regs Sch 7:7(d)			
Describe the action that has been taken during the financial year to introduce, maintain or develop arrangements: (a) to provide employees systematically with information on matters of concern to them; (b) regularly to consult employees, or their representatives, for views on matters affecting them; (c) to encourage employee involvement in the company's performance through share schemes or otherwise; and (d) to make all employees aware of financial and economic factors affecting the performance of the company.	Acc Regs Sch7:11			

Appendix 3 – Additional resources and contacts

Strategic Reports

Charity briefing on strategic reports available at

www2.deloitte.com/content/dam/Deloitte/uk/Documents/charities-not-for-profit/deloitte-uk-charities-%20alert-strategic-report.pdf

The Charity Commission has issued charity Information Sheet 5 – the Strategic Report to summarise the requirements for large and medium sized charitable companies. The charity information sheet is available at

www.gov.uk/government/uploads/system/uploads/attachment_data/file/357605/SORP_information_sheet_5.pdf

Charity reporting and accounting the essentials

Charity briefings on what trustees need to do when preparing trustees' annual reports, accounts and annual returns are available on the Charity Commission website for financial years ending 30 march 2015:

https://www.gov.uk/government/publications/charity-reporting-and-accounting-the-essentials-cc15b

and for accounting periods ending on or after 31 March 2015:

www.gov.uk/government/uploads/system/uploads/attachment_data/file/427362/CC15c.pdf

The new SORPs

Charity briefings on the FRS102 SORP and the FRSSE SORP (entitled which SORP) are available at

www2.deloitte.com/content/dam/Deloitte/uk/Documents/charities-not-for-profit/deloitte-uk-which-sorp.PDF

Downloads of the SORPs are available at

www.charitysorp.org/

The consultation documents on further changes to the FRS 102/FRSSE SORPs are available at www.charitiessorp.org/the-sorp-consultation-process/sorp-consultation-–-your-views-sought/

Deloitte dedicated Charities And Not For Profit Group

Our dedicated Charities and Not For Profit Group is made up of specialists with expertise and a passion for working with clients in the sector. Please visit www.deloitte.co.uk/charitiesandnotforprofit for more information about the Group.

With access to a group of specialists spread across the country, we will provide truly local expertise and service, backed up by the resources of a National Team.

Please feel free to contact any of the team members if you would like more detailed information and advice or would like to meet with us to discuss any current issues for your charity.

www.deloitte.co.uk/charitiesandnotforprofit/

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