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## *The Charities SORP: an ‘engine’ for good?*

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### ***Charities: a Big Sector with a Big Impact***

The charity sector in the UK is large and pervasive. There are approximately 200,000 registered charities, and these have an estimated total income of £80 billion. The sector includes a small number of very large charities, and a large number of very small charities. For example, just over one per cent of charities have an annual income in excess of £5 million (but account for over 70 per cent of the annual income of the sector); while 70 per cent of charities have incomes of less than £100,000 (which, in total, represents only about three per cent of sector income) (Charity Commission, 2017). Among the largest charities are such well-known names as Cancer Research UK (annual income £679 million), Oxfam (£414 million) and Barnardo’s (£298 million). The sector employs over 800,000 people and is heavily dependent on volunteers; approximately 40 per cent of the UK population volunteers to work in charities at some stage each year (National Council for Voluntary Organisations, 2017). Charities are also, among other things: major conduits through which overseas aid is provided, significant funders of critically important medical research and key providers of a range of public and social services. The health of the sector is a common proxy for the wellbeing of the UK as a whole.

### ***Charities: Doing Good, Being Good and Avoiding Scandals***

Common expectations are that charities will both ‘do good’ (create positive change – do things that society values) and ‘be good’ (spend wisely; act ethically). While these expectations hold, key stakeholders (such as donors and the general public) will continue to place trust in charities; when these don’t hold, trust is lost and damage results. Trust and confidence in the sector by the general public (and society at large) are crucial for ensuring its health and growth. Scandals, however isolated, have the potential to inflict considerable damage that often goes far beyond the perpetrating culprit, including undermining the sector’s ability as a whole to access funding. Often these arise when behaviour is at odds with the public’s expectations. For example, in 2015, there was the much-publicised suicide of the 92 year-old poppy seller Olive Cooke (believed to have received almost 3,000 charity mailings in a single year), and there was the collapse of Kids Company amid allegations of financial mismanagement.

### ***How does Accounting and Reporting Speak into this Space?***

While scandals are rare, their potential impact is massive. This is because the sector’s strength comes from the value society places on the social capital it generates. A key argument is that good accounting and reporting underpins good accountability, good accountability supports the building of trust, and trust is essential to the continuing health of the sector. Accountability is about giving an account and holding someone (or something) to account; it is about communicating well and being open and transparent. A key aspect of this (although certainly not the only aspect) is good accounting and reporting. This can:

- Build confidence in a charity – good reporting is valued and expected by donors, and even appreciated by those who don’t fully understand its content;
- Reduce scandals – clear rules, clear procedures, transparent reporting (that acts as ‘sunlight’) and appropriate checks make the possibility of scandal less likely;

- Increase support for a charity – if good reporting breeds confidence and reduces the likelihood of scandals, then people are more inclined to give; and
- Support management – well-thought-out accounting and reporting requirements (for example, via an appropriate required template) can flag issues management should be focusing on.

### ***A History of Poor Charities Accounting***

Up until the late 1980s, accounting and reporting by charities in the UK was frequently extremely poor, evidenced by limited transparency and resulting in weak accountability. In later language used by O’Neil (2006), the information available was often neither accessible (provided) to and/or assessable (capable of being understood) by those who should have received it (or did receive it). The application of accounting standards (which had been largely developed for a business setting) was commonly ignored; there was little pressure to improve accounting or make it contextually appropriate; and wider reporting (such as that relating to governance and performance) was rarely discussed. A trigger for change occurred with the publication of research by Bird and Morgan-Jones (1981). Among the many very dubious, and widespread, accounting treatments identified by the researchers (many of which had the objective of understating surpluses, or overstating losses), was the common practice of crediting legacy income (in full or partially) to capital rather than income. Given that some charities received considerable proportions of their funding from such sources, this had the effect of significantly understating the revenue result (presumably as a means of attracting donations). In 2016, total sector income from legacies was estimated at £2.24 billion (nfpSynergy, 2017): Cancer Research UK received £169.1 million through legacies (38 per cent of its fundraised income), RNLI £112.9 million (66 per cent) and the RSPCA £63.7 million (59 per cent). It is not suggested that these 2016 amounts were accounted for in any misleading manner, but it illustrates the potential distorting effect of applying the 1980s treatment.

### ***The Arrival and Renewal of the Charities SORP***

The Bird and Morgan-Jones (1981) research sparked a widespread concern that, if left unchecked, such reporting practices could potentially undermine confidence in the sector by, at worst, making the likelihood of major scandals much greater. Accordingly, the Accounting Standards Committee undertook a lengthy consultation to develop a Charities Statement of Recommended Practice (SORP). Eventually (from 2006) responsibility for developing the SORP passed jointly to the Charity Commission of England and Wales and the Office of the Scottish Charity Regulator, who operate through a SORP Committee. SORPs are recommendations on accounting practice for specialised ‘industries’ (one such ‘industry’ being the charity sector). The first Charities SORP was issued in 1988 and subsequently ‘refreshed’ (in 1995, 2000, 2005), with the extant iteration being published in 2014 (Charity Commission, 2014). During this process of evolution, the Charities SORP has developed virtually beyond recognition:

- Becoming an ‘accounting and reporting’ SORP rather than purely an ‘accounting’ SORP;
- Becoming *de facto* mandatory for large UK charities, rather than merely ‘recommended’;
- Resulting in charity accounts that are very different from commercial accounts and more appropriate to a charity context; and
- Providing a much greater emphasis on the need to report and explain a charity’s ‘performance’ (arguably, something of much greater importance than merely providing a financial ‘account’).

The SORP Committee has been central in driving this change. While in its early days this Committee was dominated by accounting professionals, over time, particularly through the

influence of government, more wide-ranging stakeholder voices have been added (particularly those relating to funders, academics and wider sector-interest groups) (Hyndman and McMahon, 2011). Moreover, later iterations of the SORP have gathered views/evidence via extensive consultation/research exercises both to provide opportunities for voices to be heard beyond those on the Committee, and to ‘test’ key ideas before deciding whether or not to include them in any revised SORP (see, for example, Charity Commission, 2009). This has resulted in the SORP being both ‘fresh’ and relevant.

### ***The SORP: An Engine for Good?***

A number of years ago, Donald MacKenzie (*MacKenzie, 2006*) wrote a book where he raised the question of whether economic theory was an ‘engine’ of inquiry (which can change the world), or a ‘camera’ to reproduce faithfully what the world looks like. It is an idea (and use of metaphor) that strikes me as powerful in the context of the Charities SORP and the SORP-making process. Is the SORP a ‘camera’ that allows us to see the charity sector and what it is doing; a benchmark to judge the quality of accounting and reporting in the sector? Or is the SORP, and the SORP-making process, an ‘engine’ that can drive accounting and reporting change in the sector? It certainly can be, and is, used as a ‘camera’, helping us to evaluate how good (or bad) charity reporting is; to judge charities’ reporting against a framework of best practice. But much more than this, the history of the SORP and the SORP-making process show it as an important ‘engine’ of change. As issues are raised and discussed, and as the SORP Committee engages with wider stakeholder groups, the content and shape of the SORP emerge. In such, issues of accountability and transparency are frequently to the fore; and the fact that such deliberations are so pervasive is evidence in itself of the outworking of key elements of accountability and transparency. And the framework that emerges is, as a consequence, imbued with legitimacy and trust by charities, by the sector and by the wider public. As a result, its promotion, as a basis for supporting accountability and transparency, is intuitively attractive and very powerful.

Accounting and reporting by charities is not, and should not be, the same as accounting and reporting by commercial organisations. This is because charities do not have the same focus as commercial organisations, their performance cannot be measured in the same way and the information needs of their stakeholders are very different. Therefore, a considered, appropriate, creative and bespoke framework to steer and support charities (and the periodic renewing of it to reflect the ever-changing context in which charities operate) can provide the basis for a more legitimate, better-managed, more-accountable and healthier sector. This is the objective of the journey that is reflected in the continuously evolving Charities SORP and Charities SORP-making process, and reflects an ‘engine’ that supports, and is consistent with, the goals of all those with a heart for the varied, valuable and socially-desirable activities engaged in by charities.

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