AUDIT . TAX . ADVISORY

WEBINAR | 9 NOVEMBER 2021 **Charity Financial Reporting** An essential update









Welcome



Sudhir Singh Head of MHA Not for Profit, Partner

There will be a Q&A session at the end of this webinar to address any specific questions you have.

Please submit your questions via the **Q&A button**, located at the bottom of your screens.

A recording of this webinar and copy of the slides will be made available.

You can find related resources on the MHA Trustee Hub and MHA website: <u>mha-uk.co.uk/charity-trustee-hub</u> <u>mha-uk.co.uk</u>

SPEAKERS





Stuart McKay Not for Profit specialist, Partner, MHA



Rich Hall

Head of Sustainability and Stakeholder Assurance,

Partner, MHA



Paul Winrow Technical Partner, MHA



Jim Clifford, OBE

Director & CEO, Sonnet Advisory & Impact Major changes are anticipated in charity financial reporting, both in the UK and internationally.

Agenda

- IFR4NPO Consultation
- Paul Winrow
- Charity SORP Consultation
- Stuart McKay
- Best practice in impact & sustainability reporting

- Rich Hall & Jim Clifford
- Q&A

SECTION 1

IFR4NPO Consultation an update

Paul Winrow, Technical Partner, MHA



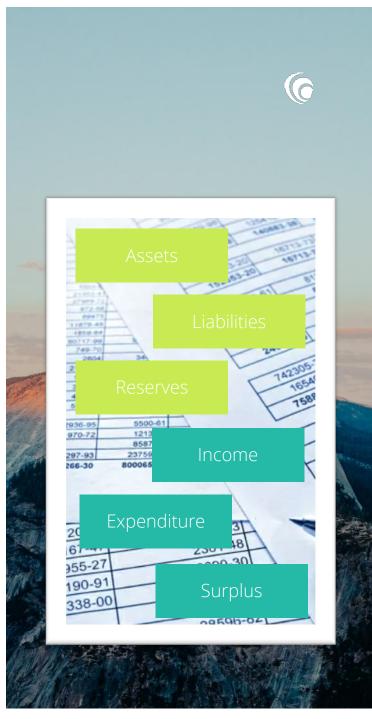
IFR4NPO CONSULTATION

Developing international financial reporting guidance for non-profit organizations



www.ifr4npo.org



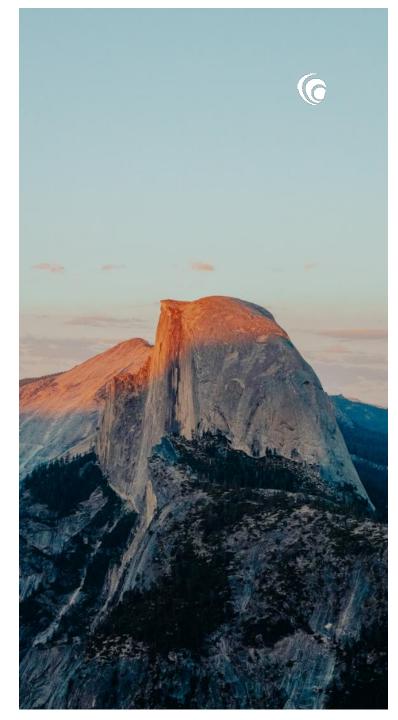


IFR4NPO CONSULTATION

Objectives

- To improve the quality, transparency and credibility of NPO financial reports
- To support the provision of NPO financial information that is useful for decision making and accountability, balancing the needs of preparers and users
- To address specific NPO issues, which will promote increased comparability of NPO financial reports.





Which financial reports?



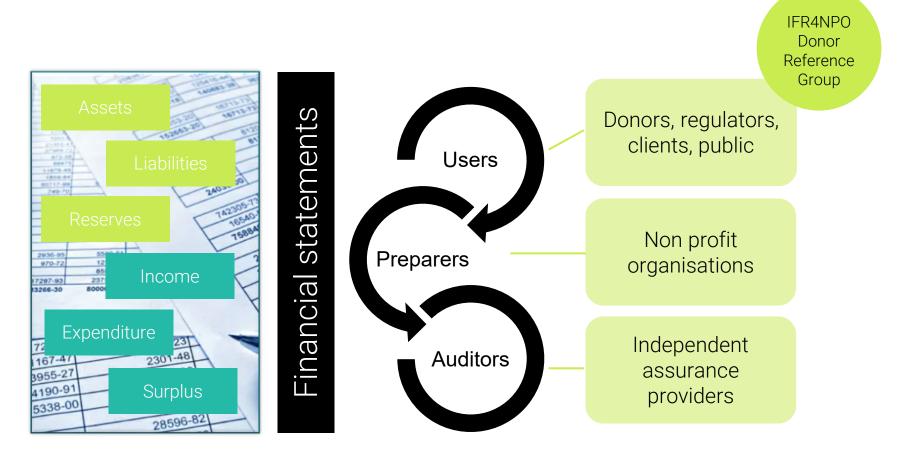


IFR4NPO Project focus is GPFS, (and accompanying narrative reports)

<u>Another project</u> is working to harmonise donor project report formats



IFR4NPO CONSULTATION Which stakeholders?





IFR4NPO CONSULTATION What will IFR4NPO deliver?



Current Problems

- No international financial reporting standards for NPOs
- Inconsistent financial reports
- Don't meet funders' needs
- High costs funders and grantees
- Lack of transparency
- Double funding fraud

Solution

The IFR4NPO Guidance

Country and funder adoption decisions

More resilient an accountable sector

Future Solutions

- Improved usefulness, transparency and consistency of NPO financial reports
- NPOs able to demonstrate capacity and attract funds
- Funders better able to reliably assess NPOs
- Simplified audit assurance provision
- IFR4NPO Community global network of NPO stakeholders

FOR NON PROFIT ORGANISATIONS





IFR4NPO CONSULTATION How we will deliver – advisory groups



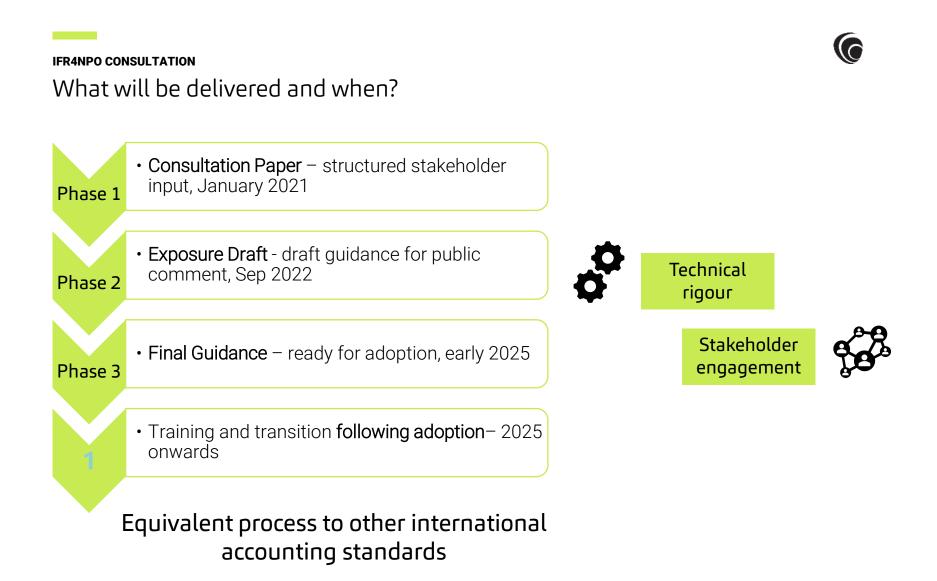
Technical Advisory Group (TAG)



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Practitioner Advisory Group (PAG)





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IFR4NPO CONSULTATION Engagement map







Where are we now?

Surgeries to support respondents

Outreach on Part 1 – 12 regional roundtables 5 webinars on Part 2

Consultation Paper launched

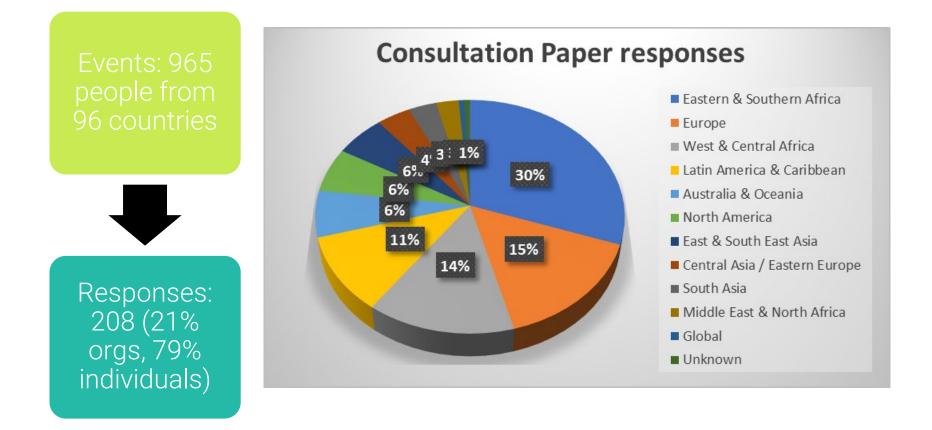
28 Jan 21

INTERNATIONAL FINANCIAL REPORTING FOR NON PROFIT ORGANISATIONS

Closed

7 Oct 21

CP engagement & response



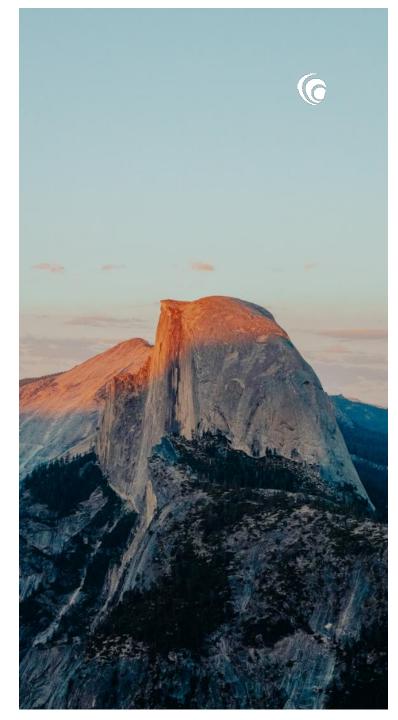


IFR4NPO CONSULTATION Audit firm engagement

Responses from

- MHA
- Baker Tilly Ecuador
- RSM
- Individuals in two individual firms in Ghana and Georgia





Next steps

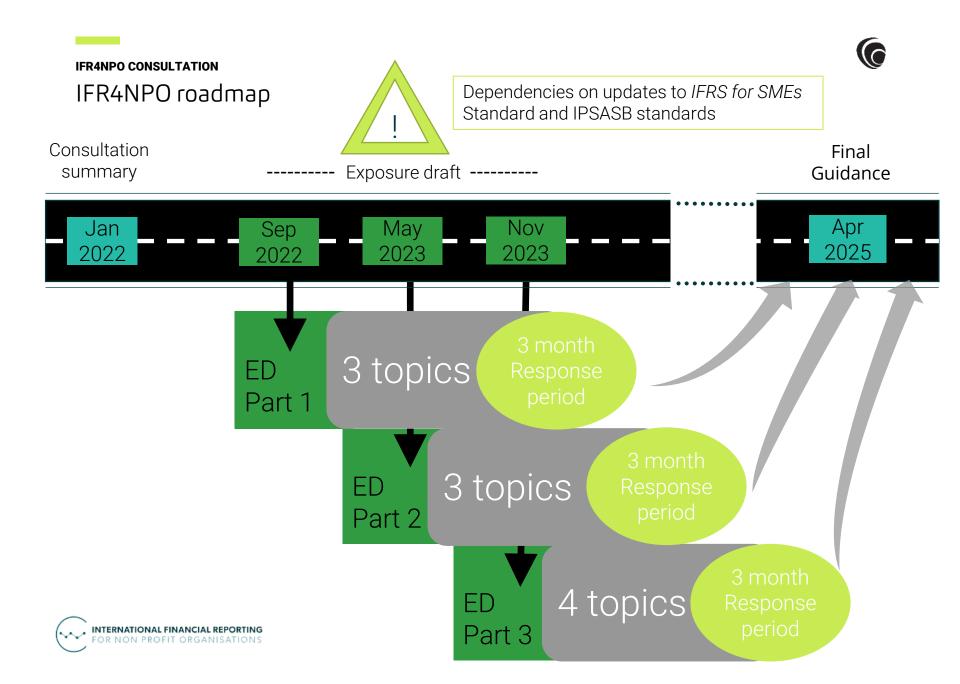
Analysis of response

Issue Consultation response Jan 2022

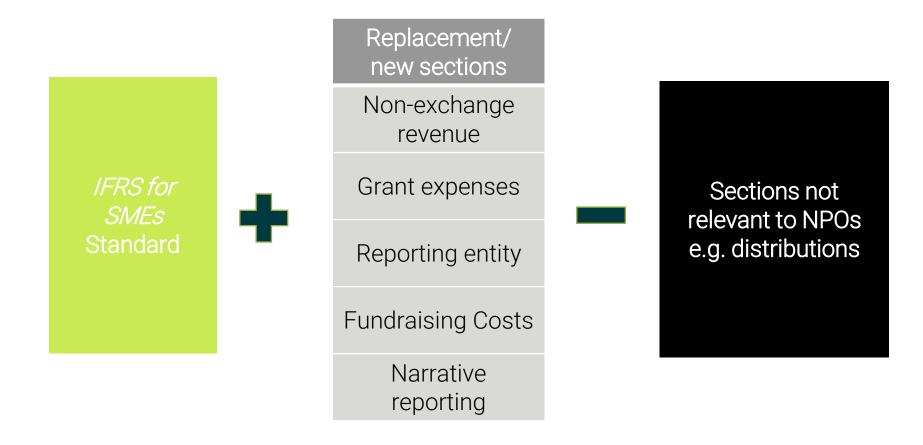
Finalise the roadmap

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INTERNATIONAL FINANCIAL REPORTING FOR NON PROFIT ORGANISATIONS



What might the guidance look like?





SECTION 2

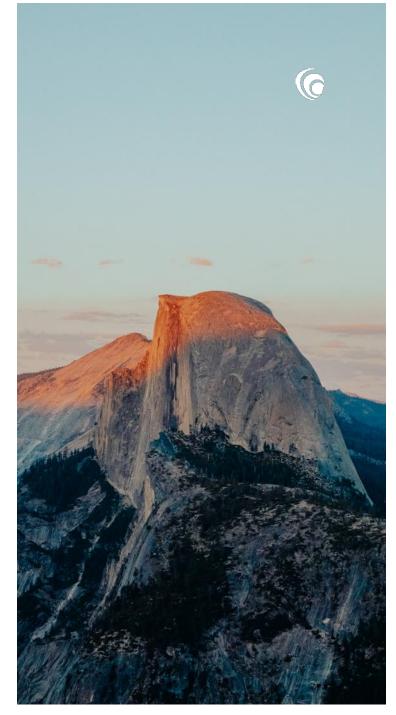
Charity SORP Consultation – an update

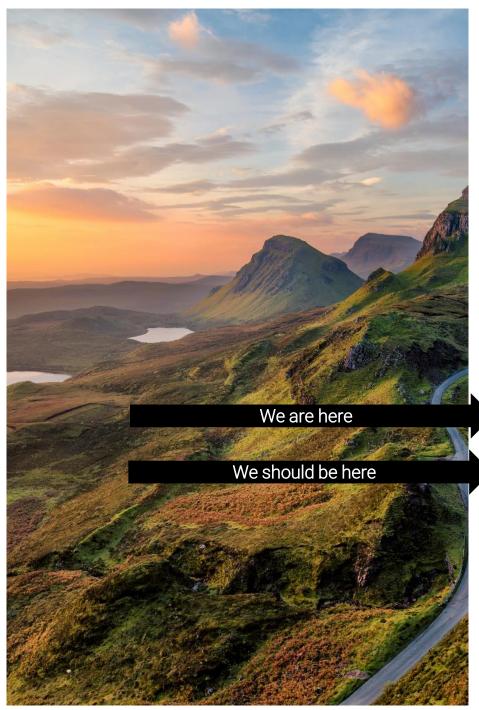
Stuart McKay, Partner, MHA

CHARITY SORP CONSULTATION

The planned SORP development process

Without taking the current framework as a given, we will work with the SORP Committee and our engagement partners to look at the needs of the users of the report and accounts and identify any emerging issues. Preparers of reports and accounts will be invited to consider any beneficial Exploration changes to the form and content of the SORP to better serve their needs. Consider how well the SORP (and accounting standards) meet the needs that Committee members and our engagement partners have identified and with advice from the SORP Committee agree areas for change and discussion with our engagement partners and identify potential changes and Reflection solutions Following the exchange of ideas and solutions with the engagement partners, the SORP Committee and the SORP-making body will identify areas of consensus and disagreement, the scope for simplification including identifying essential elements necessary for 'true and fair' accounting, and draw conclusions to inform the drafting of the next SORP and any changes Problem required to law to put to Government and changes to accounting standards to put to the FRC solvina Undertaken by the SORP-making body in partnership with the SORP Committee and supported by the Chartered Institute of Public Finance and Accountancy (providing the Secretariat to the SORP Committee). During the writing stage the SORP Committee and SORP-making body may wish to Drafting test possible solutions with the engagement partners before finalising the draft SORP. • When the draft SORP is put out for public consultation, the SORP-making body and SORP Committee will work with our engagement partners to engage with and promote the consultation so that we can get the widest possible range of responses to it. Consultation At this last stage we need to demonstrate that the feedback from the public consultation exercise has been properly considered, agree the changes to be made to the SORP and then obtain FRC approval to publication. During the final edit the SORP Committee or SORP-making body may wish to test elements of the SORP with the engagement partners before finalising the text. Publication

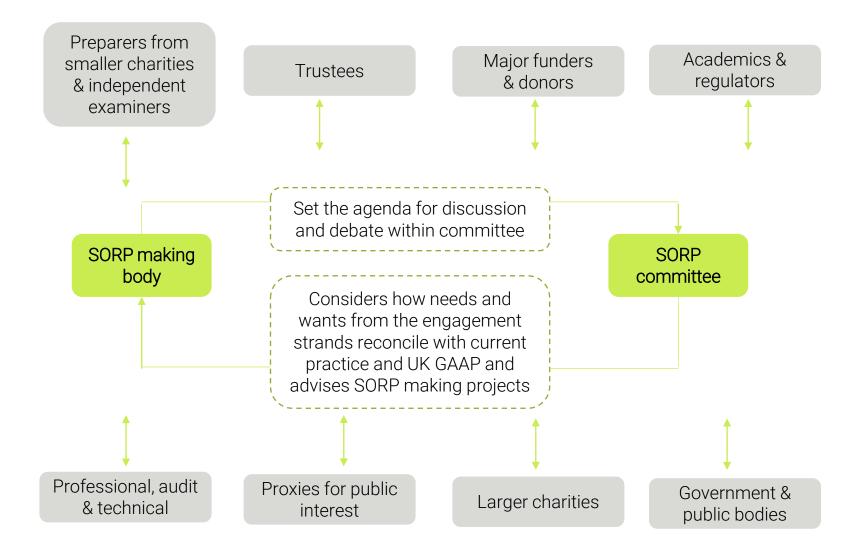




CHARITY SORP CONSULTATION The expected timeline

Stage	Approximate time	Completed by earliest timing (latest timing)
Exploration	3 to 6 months	June 2020 (September 2020)
Reflection	3 to 6 months	September 2020 (March 2021)
Problem solving	3 to 6 months	December 2020 (September 2021)
Drafting*	6 to 12 months	June 2021 (March 2022)
FRC review and public consultation*	6 months	December 2021 (March 2023)
Final edit and FRC approval*	3 to 6 months	March 2022 (September 2023)
Effective date* (allowing 3 month lead in)	-	Reporting for years beginning 1 August 2022 (1 December 2023)

The new SORP engagement process – why the delay?



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CHARITY SORP CONSULTATION Exploration phase - complete

TAR

- Readability and information content
- Link between TAR and FS's is weak
- More focus on telling the story
- Summary sheet of key facts

Financial Statements

- Reserves are misunderstood by preparers and readers
- More disclosure on going concern / financial viability
- More focus on impact reporting
- Support costs are misinterpreted
- Is the SOFA understood should it be upside down?

Technical Accounting

- Comparatives add clutter
- Income recognition is too complex
- Legacy recognition is unclear and too judgemental
- Why don't more take use of natural classification



CHARITY SORP CONSULTATION Revised timetable – what next?

• FRS102 is being revised and will be issued in 2023 wef a/c periods starting 01/01/2024

- New SORP needs to be published October 2023
- Drafting needs to be complete by December 2022.
- Reflection and problem solving should be combined and completed by Jan 2022.
- 15 topics selected from Exploration phase
- First topic is tiering



charity sorp consultation Does size matter?

Tiering approach

• SORP Committee concluded that a clear case was made for moving away from two strands

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- key to ensure that the lowest tier of reporting had the lightest reporting burden
- accepted that a third tier was now needed for the very largest charities
- Application of S1A of FRS102 was felt like a deal breaker (so formal permission has been submitted to FRC)
- Decision expected during drafting phase.
- Working on the basis that the existing tiers remain:
- Small: Less than £500k income
- Medium: income between £500k and X
- Large: income of more than X (TBC)



CHARITY SORP CONSULTATION Reflection & problem solving

15 topics – to be completed by 10 January 2022

1	Summary financial information/key facts page
2	Impact reporting (the difference a charity makes)
3	Sustainability reporting
4	Reserves
5	Support costs
6	Expenditure classification
7	Activity reporting (describing how money was spent)
8	Accrual basis of accounting for grants
9	Donated goods and services
10	Income recognition
11	Legacies
12	Presentation of the SOFA
13	Notes on financial information
14	Funds nots
15	Materiality



CHARITY SORP CONSULTATION Problem solving

Live issues

- RPTs and Redundancy disclosures can be problematic as sometimes NDA's have been signed
- Grant expenditure disclosures could be simplified and grouped (website disclosures can go out of date)
- Legacy recognition using a more prescriptive method (developed by a legacy expert) or cash basis (if permitted)
- Upside down SOFA
- Abolition of support costs
 - Impact reporting to be rebranded
 - Difference made to beneficiaries
- Impact of the charity on the wider public
- Reserves to include a separate note in the accounts which calculates free reserves

SECTION 3

Charity Reporting

Rich Hall, Head of Sustainability and Stakeholder Assurance, Partner, MHA

> Jim Clifford, OBE Director & CEO Sonnet Advisory & Impact



CHARITY REPORTING

Major development in two particular arenas

- Impact Reporting
- ESG Environmental, Social & Governance





CHARITY REPORTING What's the difference?

ESG Reporting

 Focuses on explaining and measuring the efforts an organisation makes to reduce and address its environmental, and social risks across its operations and supply chains, and the governance over such.

Impact Reporting

 Focuses on the change - in social, environmental and economic terms – that an organisation is trying to, and does, achieve by its activity.





CHARITY REPORTING Impact reporting – what's happening?

- Impact...Social what do we mean?
- Resources GECES; G8; Impact Management Project
- Organisations are:
 - Articulating what, how and for whom
 - Identifying stakeholders in that change
 - Building frameworks
- Be proportionate
- Delivery leadership influence
- Growing interest from stakeholders





CHARITY REPORTING Impact - articulating the value



NHS England and NHS Improvement



Leading the way: the role and value of nurses in general practice







How Safe Families' approach changes lives



Effectiveness of the national online self-exclusion scheme



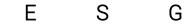


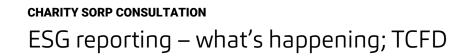


CHARITY REPORTING ESG reporting – what's happening

• Increased scrutiny and analysis

- Pressure from investment community
- Increase in both compliance and voluntary reporting
- Evolution and development across each strand





Actual and potential impacts, risks and opportunities on the organisation's business, strategy and financial planning.

The metrics and targets used to assess and manage relevant climaterelated risks and opportunities.



The organisation's governance around climate-related risks and opportunities.

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The processes used by the organisation to identify, assess and manage climaterelated risks.

Better climate-related disclosures support better financial decision making.



CHARITY REPORTING An example of ESG reporting from the social sector

...engaging with funders, commissioners, delivery partners



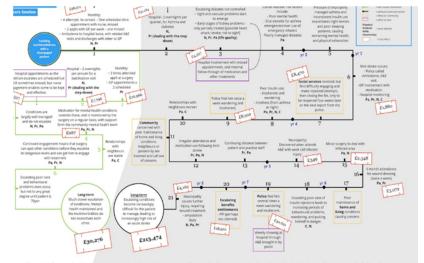
Three areas of eight indicators

- Meets SRS in all aspects, but goes beyond it where relevant to Hyde's targets and places
- Builds an internal benchmarking and decision map











CHARITY REPORTING Impact reporting - considerations

- Clear and engaging explanation of how we do what for whom
- Framework of relevant outcomes aligned to needs
- Situational analysis
- Metrics matched to outcomes
- ...but what about:
 - SDGs ?
 - Stories ?
 - £ evaluations ?
 - Publish separately or in the report and accounts ?

CHARITY REPORTING ESG reporting – what's happening?

- Audience
 - Investors
 - Media / social media
 - Commissioners
 - Corporate partners
 - Wider stakeholders
- Methodology can be as important as outcomes
- Needs to be proportionate
- How should it look...what should it cover?
- Do fewer things well!





CHARITY REPORTING

The opportunity to engage through your reporting

- Will you articulate your value ?
- Will you explain your ESG strategy?

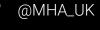




Questions?

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Now, for tomorrow

