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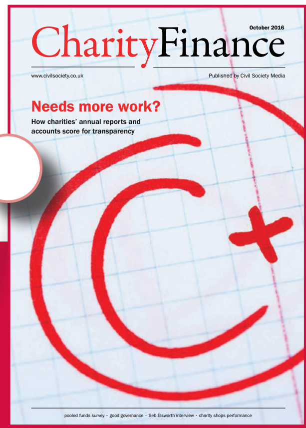

IS POOR REPORTING A THREAT TO PUBLIC TRUST?

Martin Gibson reports on widespread poor reporting practice among small charities.

While the public expect someone is checking up on small charities so they don't have to, the standard of compliance with annual reporting requirements suggests their trust may be misplaced. In 2015 I carried out research at St Mary's University, Twickenham to investigate how well small charities report on their activities, and the results highlighted real areas of concern, with poor understanding of the regulatory framework among charity professionals, particularly accountants.

The trustees' annual reports and accounts (TARs) of 108 charities with incomes below £500,000 (and required to comply with the SORP) were analysed and scored against 13 indicators of compliance with the applicable SORP 2005 regulations. In a second phase of the research, 14 of the charities participated in a survey of their views on the annual reporting process.

Poor compliance

Overall levels of compliance with the SORP were found to be poor. The research suggests that many small charities are at risk of undermining the public trust and confidence that is increasingly demanded by stakeholders. A significant number of charities produced TARs that served little purpose, meeting neither statutory requirements nor the information needs of key stakeholders. Many reports provided little or no idea of the charity's activities or how they delivered any public benefit. Nearly half the charities (47 per cent) demonstrated inadequate performance against the majority of indicators of SORP compliance.

Some 14 charities showed consistent poor performance across several measures of compliance including four with income over £100,000. One charity with an income of £266,000 did not include a statement of financial activities (SoFA), notes to the accounts, TAR or independent examiner's report. There was evidence of an accountant having been involved in the preparation or examination of eight of these 14 sets of accounts (accountants may have been used by some of the other charities but no reference was made to this).

Nine of the 14 did not include a SoFA. Most had no form of narrative report or only a very brief "directors report", which provided almost no useful information.

One charity appeared to be insolvent based on the accounts supplied.

Despite this poor performance, survey respondents rated the importance of producing an annual report and accounts very highly, including those producing poor reports. The process also appears to be viewed as being of broader importance than simply complying with regulation; providing clear, simple information was deemed to be very important. This suggests poor performance is not a result of antipathy towards the reporting process, but more likely poor understanding and skills.

The role of accountants

It appeared likely that charities were entrusting the preparation of their accounts and sometimes the whole TAR to an accountant in the expectation of SORP compliance – when in practice this was often not the case. This is supported by survey results that indicated a high level of trust in accountants to understand SORP and ensure the charity complied. Yet of the ten survey respondents who used an accountant:

- Seven made inadequate disclosure of their reserves policy;
- Three made no reserves disclosure at all;
- Three made no disclosure of trustee expenses and remuneration;
- One failed to distinguish between different types of funds.

Other authors have suggested that small charities fail to realise that advice from professional advisers, particularly non-charity-specialist accountants, is not always of an adequate standard, and that they often need to look to more expensive, larger firms for appropriate expertise. Lack of accountancy training among those filing charity accounts has been suggested in the past as a key reason for errors, but this research suggests the lack of charity-specific training among accountants may be as much, or even more, of an issue.

This gap between the trust placed in accountants by trustees and the actual performance of some firms appears to be one of the most significant issues for small charities. Trustees using non-specialist accountants may gain a false sense of security, believing they are undertaking their duties diligently by seeking professional help.

Several TARs examined appeared to have been produced in whole or in part by a Community Accounting Service (CAS). These were better than average (though not flawless). This is not surprising as these organisations are established specifically to provide support to voluntary sector organisations on issues of financial management and accountancy.

Increased use of CASs could enable charities to improve their reporting and gain access to charity-specialist accountants at an affordable cost. CASs are unevenly spread around the country however, with many areas not covered or under-provided for.

Role of the regulator

Donors and beneficiaries are key stakeholders for charities, but in reality probably very few ever read the annual reports of charities they engage with.

However, there is an expectation that charities are regulated and simply having a charity registration number gives an air of trust. Some 60 per cent of people surveyed by Ipsos Mori believe that charities are regulated and controlled to ensure they are working for the public benefit.

In reality, TARs are not routinely examined. Indeed, the number without a SoFA or an independent examiner's report suggests even cursory checks are not carried out, or if they are then no action is taken.

As the Charity Commission moves further from its advisory role and more towards being a "tougher" regulator, routine checks on accounts need to be introduced to ensure the Commission delivers the regulation the public expects. Even simple checks like ensuring an independent examiner's report is included where required could begin to identify underperforming charities and ensure they improve their reporting.

Highlighting accounts supplied in an incorrect format would also alert charities whose accountants are failing to produce compliant financial statements. Whether the Charity Commission could resource such activity, let alone the follow-up actions required when major failures are identified, is doubtful without additional funding.

With the new Charities SORP recently coming into effect, there is an opportunity for charities to use the change in reporting framework to raise the quality of their own annual reports. There is also an opportunity for the Charity Commission to capitalise on the efforts that went into revising the SORP by taking steps to ensure that charities comply with the standard expected of them.

Key findings among the 108 charities

- 12 per cent of charities omitted either a SoFA or balance sheet.
- 17 per cent did not provide the required statement on public benefit reporting or any information on how the charity's activities benefit the public, despite extensive publicity of the public benefit requirement since its introduction.
- 12 per cent failed to provide any information on their main achievements and a further 44 per cent provided inadequate information.
- The issue of reserves was frequently ignored in TARs. 27 per cent did not mention reserves while only 31 per cent provided adequate or good disclosures. Often the stated policy did not tie in with the figures in the SoFA and balance sheet.
- Nearly a quarter did not disclose whether payments had been made to trustees. In one case, there was clear evidence of such a payment but no disclosure of its nature.
- 7 per cent failed to include an independent examiner's report when obliged to do so.
- 18 per cent provided no analysis at all of charitable expenditure, including seven charities with incomes of over £250,000.

Martin Gibson is director of Big Plans Charity Consultants and a graduate of the Charity Management MA at St Mary's University, Twickenham. *October 2016*

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