

# Charities SORP Committee Minutes

Date	14 December 2020	
Venue	Microsoft Teams meeting	
Joint Chair	Laura Anderson	<i>Office of the Scottish Charity Regulator (OSCR)</i>
	Nigel Davies	<i>Charity Commission for England and Wales (CCEW)</i>
	Damian Sands	<i>Charity Commission for Northern Ireland (CCNI)</i>
Members present	Caron Bradshaw	<i>Charity Finance Group</i>
	Michael Brougham	<i>Independent Examiner</i>
	Daniel Chan	<i>PwC</i>
	Tony Clarke	<i>Clarke &amp; Co Accountants</i>
	Tom Connaughton	<i>The Rehab Group</i>
	Diarmaid Ó Corrbuí	<i>Carmichael Centre for Voluntary Groups</i>
	Tim Hencher	<i>Scottish Council for Voluntary Organisations</i>
	Noel Hyndman	<i>Queen's University Belfast</i>
	Gareth Hughes	<i>Diocese of Down and Connor</i>
	Joanna Pittman	<i>Sayer Vincent</i>
	Max Rutherford	<i>Association of Charitable Foundations</i>
	Neal Trup	<i>Neal Howard Limited</i>
In attendance	Richard Lloyd-Bithell	<i>CIPFA, Secretariat to the SORP Committee</i>
	Milan Palmer	<i>CIPFA, Secretariat to the SORP Committee</i>
Observers	Jenny Carter	<i>Financial Reporting Council</i>
	Jelena Griscenko	<i>The Charities Regulator in Ireland</i>
	Claire Morrison	<i>OSCR</i>
Apologies	Carol Rudge	<i>Grant Thornton</i>
	Jenny Simpson	<i>Wylie and Bisset LLP</i>
	Gillian McKay	<i>CIPFA, Secretariat to the SORP Committee</i>
	Sarah Sheen	<i>CIPFA, Secretariat to the SORP Committee</i>

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| <b>1.</b> | <b>Welcome, apologies for absences and declarations of interest</b>  | <b>Action</b> |
| 1.1       | The Chair welcomed SORP Committee Members to the meeting.  |               |
|           | There were no declarations of interest.  |               |
| <b>2.</b> | <b>Draft Annual Review- report to FRC- CIPFA (PAPER 1)- to note with comments by correspondence</b>  |               |
| 2.1       | The draft of the Annual Review for 2020 was presented to the Charities SORP Committee. It was noted that the letter provides a comprehensive review of the activities of the SORP-making body and the SORP Committee | Committee     |

to date. A committee member commented that the letter was clear and summarised the year but highlighted a typographical error.

It was agreed that the joint chairs would re-examine the timetable in Appendix C of the draft letter for the timing of the exploratory phase (and where necessary subsequent timings). It might be that the February meetings would be the start of the new phase (or the end of the exploratory phase). The joint chairs would confirm this position.

Members were invited to send any further comments on the draft Annual Review letter to CIPFA by 18 December 2020.

*[Note that the Secretariat subsequently requested that comments were provided by 15 January 2020 and the submitted Annual Review has been posted on the SORP site].*

### **3 Recap on SORP Committee's Research Presentations**

- 3.1 The Chair presented paper 3, the recap on the SORP Committee's research presentations including subsequent feedback from SORP Committee Members. This was intended to draw to a close this phase and lead to the topics which would merit further consideration.

### **4. Committee members - Committee Member Top Three Conclusions/ Topics from the Exploration Stage that can be used to Inform the Reflection Stage**

- 4.1 Committee members were invited to present their top three conclusions, during and after the meeting on topics that had arisen as a part of the exploration stage, which they were of the view would inform the reflection stage. These included:

- Consideration of a theme relating to robust accounting and adapting this for the charity sector. There were key themes around managing different stakeholders which the SORP was intending to reach. Another aspect of this theme was tiering – in terms of how to address the issue of smaller and/or larger charities and their requirements.
- How does the SORP interact with the wider requirements in the charities sector?
- How does the SORP integrate hot topics, for example, reporting on environmental and diversity issues, and how prescriptive should this be?
- Consideration should be made of 'what is in the gift of the SORP'. The framework in which the SORP operates and its scope would need to be examined. How far would the committee be able to push the boundaries and requirements? For example, looking at micro reporting for smaller charities. Should reference be made to FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*, Section 1A 'Micro reporting'? Should the SORP committee review the reporting framework for the SORP?
- Signposting of other reporting frameworks or reporting requirements – where might this be used. This should be done properly, for example, consideration might be made of cross-referencing pensions information for pensions disclosures from other reports.

- Thinking small first – this is not just about size, but the understanding of the users of the accounts of the information presented. The language of the SORP is a big part of this for trustees. Smaller charities should see more illustrative instructions and separate guidance documents.
- Consideration of the 'why', 'how' and 'what' information is provided – the framework should be reviewed and promote the importance of the information to be reported. For example, there could be a discussion on why charities have administration costs, why people are paid etc. The SORP can include information on how charities can present information clearly to its users, on important subjects and by doing this reduce prescriptive disclosures.
- The availability of materials for smaller charities to help prepare the trustees annual report and accounts under the SORP, enabling trustees to make better decisions about their reporting. Smaller charities often lack the right information and materials to do this. Consideration is needed of what is the best way to support this large number of charities who don't have resources available for effective accounts production.
- There is a need for greater flexibility for these smaller charities possibly consideration needs to be given to producing guidance in different tiers.
- Revisiting recognition of income from capital grants – it would be worthwhile to have a debate on this and look at the advantages and disadvantages of the current guidance.
- Further consideration of small charities, as they are the largest number of producers of charity accounts. There is a disconnect between engagement and accountability (this group of accounts preparers may perceive compliance as being outsourced as they are reliant on a compilation of the accounts by independent examiners). More education and guidance is therefore needed for trustees not to see trustees annual report and accounts as solely an issue for compliance. Training may help trustees of smaller charities understand the purpose and context of the trustees annual report and accounts (and its constituent parts) to enable them to understand how the information could and should be presented. The appetite to learn exists in smaller charities. If they understand the 'story' of what the trustees annual reports and accounts represent this will improve accountability and engagement.
- The SORP needs to be progressive, in terms of working from the smallest to largest sized charities, though it is recognised that any differentiation between sizes is hard to define.
- The SORP needs to be simplified for smaller charities. Consideration should be given to whether it is possible to have certain concessions or adaptations from FRS 102 to better present information relating to smaller charities. FRS 105 *The Financial Reporting Standard Applicable to the Micro-entities Regime* is similar but not recommended for the charities sector.

- Sample sets of accounts – there is a risk that sample sets of accounts are used as templates and this is not likely to be appropriate to the varying circumstances of individual charities. Instead, examples of particular topics or transactions may be a better approach. Examples can be provided for individual topics, events and transactions and charities can use these as appropriate to their individual circumstances.
- Support for an index to be included within the SORP. The SORP should also use a modular approach. A view was given that disclosure requirements should be included at the beginning of the SORP.
- Training and education – it is vital that training is provided to ensure an understanding of the SORP requirements. It appears that some charities do not fully understand all of the SORP reporting requirements. What needs to be understood is whether the SORP is too onerous for smaller charities or whether compliance would be facilitated by introducing training.
- Smaller first and a tiered approach is the best approach to producing the SORP.
- Irrespective of size, consideration should be given to the user (reader) of the accounts – who is the user of the accounts? The SORP needs to take into account these users when setting out its reporting requirements and the expectations for the trustees annual report and accounts. Narrative reporting needs to provide a summary of the activities and financial performance and position of charities.
- It is considered that some of the templates available to accounts preparers are incorrect as they are not taking a fund approach to the disclosure requirements.
- Any approach should consider consistency – accounts preparers are being directed to different guidance which makes accounts production confusing. Consideration should be given to simplified guidance. Currently, some of the guidance is 90 pages long.
- The importance of reflecting the values of the charities sector in the SORP, rather than the business sector.
- Not all forms of guidance can be included in the SORP so consideration should be given as to how do the SORP might signpost separate reporting requirements.
- Trustees annual report – it is vital the financial statements appropriately present the financial information and the trustees annual report is critical in terms of reporting the financial performance of the charity's activities and financial position of charities. When reported effectively this can promote good practice across the sector and trustees will be able to present their own story.
- Charity expenditure – users need to be able to understand both its importance and relevance (though this may not always be important to users). However, the SORP needs to find ways of reporting this

effectively and also to communicate why administrative expenditure is necessary for the effective running of charities and is not non-charitable.

- Emerging issues such as the environment and diversity – there is a great danger that too much consideration may be given to these issues which are important but it is not yet clear that the SORP is the place to focus on them. A member considered that it was important not to 'chase' the hot topics but focus instead needs to be given to the long-standing issues facing preparers of charity accounts.
- It is vital that the purpose and scope of the SORP is clearly understood. Does the SORP need to be 'one size fits all'? In the charity sector, there are so many different business models, e.g. some have a substantial administrative structure (and therefore employee costs) and some have shops. One set of guidance cannot cover all of the different business models and their different reporting needs. The SORP needs to help its users to tell their story and should support accounts preparers to report their individual circumstances.
- Tiering is important – this should allow more accessibility to the SORP's provisions.
- Accessibility – in producing the next SORP the committee needs to be aware of where value is added to the reporting process in terms of providing information that is accessible and meaningful to the reader as opposed existing information or possible changes where it does not.
- Simplification of requirements and gaining more than simple compliance with them – how this might be achieved? Again this might be by analysing what adds value to the presentation of the trustees annual report and accounts where preparers can understand and value the information given as helpful and meaningful and what doesn't. If it doesn't add value, for example, but it is unchanging from year to year, for example, charitable purposes, or more administrative in character, for example, office address then perhaps the information is better reported elsewhere with a link to where it might be found.
- Increasing the trustee's ownership of accounts – this should increase compliance and improve narrative reporting as the 'story' is reported.
- Exploring how expenditure is reported in the Statement of Financial Activities (SOFA).
- Small charities being at the heart of the new SORP – consideration should be given to a building blocks (or jigsaw pieces) approach for the SORP's guidance. This would prescribe, a 'base' position for small charities and the reporting requirements would increase where charities are larger or have more complex transactions. Small charities are the largest users of the SORP. A committee member commented that the main accounts preparers are external accountants and independent examiners.
- Stakeholders of smaller charities – primarily, they want to know what charities have achieved during the reporting period. This necessitates

being able to tell the story simply but clearly. Accounts produced under the SORP can be hard for some stakeholders to understand and they are also sometimes considered to be too long.

- More support around education is very important to achieve the outcomes desired by the SORP committee in terms of effective financial reporting.
- The SORP should be considered to be an enabling framework – allowing charities to present information that is both accurate and informative and present it in a way which is easily accessible to the users of the accounts.
- The committee should focus on making the module on the requirements for the trustees’ annual report as simple as possible.
- Reporting under FRS 102 and making the SORP understandable by trustees (other than qualified accountants) will be difficult to achieve.
- Even if SORP reporting were to move away from FRS 102, the underlying accounting principles would still make it challenging to write a SORP that a lay person could understand.
- Is it necessary for trustees to understand the non-narrative reporting sections of the SORP? Private sector board members preparing accounts under FRS 102 may not fully understand all of the provisions of the standard. They are content to rely on financial reporting expertise within the company.
- Smaller charities need to be removed from the reporting requirements of the SORP (including limited companies). Regulators could augment the narrative reporting for small charities while allowing them to prepare a simplified set of receipts and payments accounts.
- Trustees of smaller charities can struggle to afford professional help for accounts preparation. If the accounts are simplified then this problem will be reduced.
- The treatment of capital grants should be reviewed particularly for smaller charities
- Reserves reporting should be reviewed.

4.2 The joint chairs presented their views on the exploration stage these included:

- Building a better bridge between the narrative story in the trustees annual report and the numbers in the financial statements.
- The format of the SORP and how it is presented – further consideration needs to be made about who is using it and how we communicate the requirements of the SORP to those users

- A tiered approach to SORP production – providing an appropriate focus for the reporting requirements. Income isn't always the best option for distinguishing which of the requirements should apply. The specification of the reporting requirements on this basis is perhaps the easiest to use but might not be the best one to properly present charities' financial performance.
- Technical reporting requirements – the SORP committee will need to consider what is in its gift to change. The SORP is developed under the FRC Policy on the Developments of SORPs. It will be important to understand the issues (including the volume of issues) that will need to be considered by the FRC.
- The importance of training as a bridge to the outcomes required.
- The FRC is anticipated to review FRS 102 in the spring of 2021. This will need to be included in the committee's work and plans.
- The importance of the thinking small first approach and building from this stood out as a priority, 'what is a small charity' needs to be specifically considered including the impact of size in complexity.
- Training and education – the number of charities using the SORP are in the minority, albeit still a significant number but some of the accounts aren't SORP compliant. Would training have a role in increasing compliance?
- Language and stakeholders – it is important to consider who is using the accounts and whether the SORP's provisions provide adequate guidance to enable accounts preparers to produce accounts which are easily understood by their users.
- Consideration of 'what is in our gift' – Section 1A of FRS 102 could be explored.
- Where greater accommodation under FRS 102 is needed for accounts users and preparers. This issue can be evaluated with CIPFA and then considered by the FRC.
- Some of the changes proposed might need legislative changes but these were not within the gift of the joint SORP-making body.

## **5 Summary discussion of the exploration stage outcomes**

- 5.1 The SORP committee noted that the reflection stage will be shaped more than the exploration phase, which was deliberately planned to be free-flowing.

The joint SORP-making body will prioritise the issues which will need to be reviewed by the FRC.

The SORP committee will need to review the SORP against the issues raised to frame the thinking for the reflection phase and highlight the issues which can be changed and those which cannot.

Consideration would need to be given to what this means for the following three different elements:

- how SORP and other materials are framed
- needs of funders as users of reports and future-proofing their needs
- structure of the framework and 'tiering' of charities.

The SORP committee will need to consider the areas of debate ie the structure of SORP framework, for example, whether tiers are used and framing of trustee's report to do this. Advice needs to be sought from stakeholders on how to frame the solutions for these areas of discussion. It would be important to shape how the engagement strands work with the SORP committee. The start of this process will be to review the SORP from the perspective of the users of the accounts and accounts preparers.

Committee members were invited to submit further ideas through email discussion or to informally meet in volunteer groups and feedback in further meetings of the Charities SORP committee.

The Chairs want the committee and the engagement strands to have as much opportunity as possible to feedback on the issues raised.

The exploratory phase needs to reach a conclusion and therefore the Chairs wish to ensure that they have captured all the issues raised.

It was recognised that there needed to be a clear plan for how the issues are to be taken forward particularly as there was a crossover of issues raised by the engagement strands.

## **6. Concluding comment from the chairs**

The SORP committee will meet twice in February. It was important to frame how to move things forward, consider how much these issues have been not addressed and which issues have to be particularly considered by the FRC. Particular areas of consideration are:

- how SORP and other materials are positioned
- the needs of the users of the accounts and accounts preparers
- future-proofing the SORP, and
- the structure of the framework.

## **7. Future Committee Meetings**

- 7.1 CIPFA would seek members views on suggested dates for the two meetings in February. It was also agreed that a second joint meeting between the Charities SORP committee and convenors would take place before Easter, again CIPFA would seek members views on the most appropriate date for this meeting.

## **8. Minutes from Previous Meetings**

- 8.1 It was noted that the draft minutes of the research meetings and the meeting with the convenors in October and November had been circulated with the papers. These will not be published until they had all been



reviewed. It was noted that one set of minutes had identified names of individual charities and these should be removed. Members were requested to contact CIPFA with their changes.

*[Secretariat note these were subsequently requested by 15 January 2020].*

The committee considered that it would be useful for the research presentations to be able to be submitted online (papers were issued on line to promote openness of discussions and demonstrate the Committee's findings).