

Charities SORP Committee Minutes

Date	22 October 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>
Members present	Caron Bradshaw	<i>Charity Finance Group</i>
	Michael Brougham	<i>Independent Examiner</i>
	Daniel Chan	<i>PwC</i>
	Tony Clarke	<i>Clarke & Co Accountants</i>
	Tom Connaughton	<i>The Rehab Group</i>
	Diarmaid Ó Corrbuí	<i>Carmichael Centre for Voluntary Groups</i>
	Noel Hyndman	<i>Queen's University Belfast</i>
	Joanna Pittman	<i>Sayer Vincent</i>
	Carol Rudge	<i>Grant Thornton</i>
	Max Rutherford	<i>Association of Charitable Foundations</i>
	Neal Trup	<i>Neal Howard Limited</i>
	Gareth Hughes	<i>Down and Connor Diocesan Trust</i>
In attendance	Gillian McKay	<i>CIPFA, Secretariat to the SORP Committee</i>
	Milan Palmer	<i>CIPFA, Secretariat to the SORP Committee</i>
	Sarah Sheen	<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	Sarah Finnegan	<i>Charity Commission for Northern Ireland (CCNI)</i>
	Tim Hencher	<i>Scottish Council for Voluntary Organisations</i>

1. Welcome, apologies for absences and declarations of interest **Action**

1.1 The Chair welcomed SORP Committee Members to the meeting.

Congratulations were extended from all to Caron Bradshaw for her award of Woman of the Year (non-CCAB) 2020 by the Women in Accountancy and Finance awards.

There were no declarations of interest.

2. Minutes of the meeting of 21 September 2020 and matters arising

- 2.1 The draft minutes of the previous committee meeting were agreed as being an accurate record of the meeting. The Chair invited any members with any typographical amendments to email CIPFA directly.

3. Research papers

- 3.1 The Chair noted that he would welcome comments from committee members after each presentation and encouraged members to provide any feedback.

3.2 CCEW SORP paper – user research and feedback

Background to the presentation

The committee received a presentation from the Charities Commission in England and Wales (CCEW) on the user research on the SORP microsite and the Commission's register. It was informed that of all the different services online the Commission's register is the most used and the main way the public interact with the Commission. The SORP Micro site, in comparison, by its nature is much more specific with a specialised audience.

Google analytics coding has been put onto the CCEW website for English and Welsh charities to capture user behaviours over the period 1 September 2019 to 31 August 2020.

Access

User access - 84% of users were using their desktop with 10% were using mobile and 6% using tablets. The average age of a user is someone in their 60's. The vast majority accessing were new visitors.

Popular pages

The committee was presented with the top 10 pages viewed on the SORP microsite, the most popular being the home page, followed by downloads of the full SORP and other financial accounting resources.

It was noted that the new COVID-19 page was very popular with users. The committee considered that, perhaps in future it would be worth monitoring the interest in other hot topics as they arise.

The new charity register was released in September this year. CCEW are working to try to understand what people look for when they come onto the register, for example, trustees ensuring their charity's information is correct.

The committee's discussions suggested that it may be useful to consider whether the register should have a link to the SORP Microsite download pages.

Limitations

It was noted that Google analytics may not be picking up all users. If the user does not accept cookies then Google analytics cannot track their journey, so there are some unknowable limits to the data collected.

Downloads and views of accounts

The research considered the top 5 charities whose accounts were downloaded. In terms of views, the top 10 charities viewed are very predictable and usually include Cancer UK, RNLI and Macmillan. Accounts which are downloaded are very different. In this top 10 the aforementioned charities do not appear, instead the downloaded accounts are all family grant giving trusts. The main use of downloads is those seeking funding to determine the nature and the amounts awarded. In the last month there were 125,174 downloads of charity accounts.

When assessing the numbers of charities and the numbers of downloads of the SORP from the SORP Microsite it appeared that there was some disparity. However, the committee considered that the majority of charities preparing accounts do not have to use the SORP so there may not be much correlation between the use of the SORP microsite and download of accounts.

Observations

Charitable versus non-charitable expenditure

The committee noted that research indicated some evidence that general public opinion is that anything spent on a beneficiary is charitable, anything spent otherwise is not charitable. Surveys and other information suggest that users view the information on sites such as the CCEW register to consider whether the donations they make are being used efficiently and focus on issues such as administration costs and chief executive officer's salaries. The information included in the annual return relating to staff costs has been popular with the public, albeit perhaps not so much with charity users.

The committee considered whether there was an opportunity for the SORP Microsite to start a re-education so that the public might understand that all money spent on direct charitable activities and back office costs meets the definition of charitable expenditure. It was felt that the education opportunity could be taken by charities to explain what the figures mean. This is not available on the register. It was thought important that this education opportunity would help avoid misinterpretation by the press.

In addition, it was noted that, the majority of charities do not have to apply the SORP and/or file accounts. This makes a difference when considering the statistics in relation to the number of downloads. However, it was also noted that about 25% of those charities qualifying for the receipts and payments form of accounts choose to adopt the SORP.

Investigations

The committee also considered whether there might be a link between Commission investigations and accounts downloads.

The committee was informed that if a charity is subject to an enquiry report there is now a link to that report in the register. It was noted that there is an increase in views to a charity when an enquiry report is issued. It is possible to measure activity and how much traffic to the site is driven

from enquiry reports. A recent high-profile case meant the relevant charity views increased after being considered by users.

Uses for small practitioners

The committee considered that some small charities practitioners might download accounts for research purposes and use the accounts to compare the layout and compliance with their own. Other uses might occur when practitioners consider new clients.

Downloads general usage

The committee considered that users might download the SORP to save keeping a hard copy and download information may also represent this activity.

SORP microsite future development

The Chair commented that the SORP Microsite needed redevelopment, particularly with respect to meeting the requirements of European reporting. So, there is now a challenge as to how to make the SORP Microsite more accessible and consider ways to promote the Charities SORP and increase user awareness. The committee was asked to consider who are the audience for the microsite. How would the layout of the site best meet those needs and did the committee have any other suggestions they would like to add?

Treatment of fundraising costs

The Chair highlighted the importance of the description of charitable activities and the treatment of fundraising costs. It was noted that consolidated accounts presented a different context and that not all the costs presented in consolidated accounts could be deemed to be charitable expenditure.

Users of the accounts

The discussions had again highlighted the important question about who the reports and accounts should be aimed at. Tiered accounting was a part of this, but consideration should be made of who are the main groups of users within these tiers.

3.3 Small charity research

- 3.4 The small charity research paper and presentation focused on the challenges facing smaller charities when they prepare their annual reports and accounts. It would identify improvements in reporting most valuable to readers of the accounts. This includes regulators and funders.

It was considered that 87% of registered charities have an income below £250k in England and Wales. This varies a little in Scotland and Ireland, but similar proportions apply.

The Power to Change Trust has offered financial support for this research as a part of National Lottery funding. The project will establish a steering

group to consider the relevant issues which arise. Though the scope of the research only includes English charities, the project group will endeavour to make its recommendations relevant across the UK and Republic of Ireland.

The research will look at how the SORP can work better for small charities, what is the best way to tell the story and how can consistency across the sector be improved?

Focus group

A focus group was established as a part of the research. The project established a focus group of 17 individuals, from a range of levels of seniority within charities, to consider the issues facing small charities. It was recognised that the focus group did not meet any tests of statistical significance. But nevertheless, the feedback from the group was useful and interesting.

Views on the trustees' annual report

The focus group considered whether the trustees annual report was produced solely for compliance purposes or whether it was used as an opportunity for telling the story of the charity. It was noted that some participants saw it as both, but many charities still saw the need to prepare additional reports to tell their story.

As part of the research an example one page 'at a glance' report was produced and presented in the paper. 88% of the focus group members thought that it would be useful. It was noted that the content of the example report may need to be reviewed.

A poll of the focus group concluded that regulators and grant funders were the main users of accounts. There was also a view that users struggle to understand the accounts. The focus group considered that stakeholders had difficulty understanding issues of going concern and sustainability, the level of reserves and the recognition of grant income.

The focus group also maintained that although the trustees annual report and accounts was not used by many it was still viewed as being very important.

The committee noted that the focus group considered that there was a tension between transparency and compliance.

It was recognised that for small charities there is a significant reliance on external resources as it is very rare for the relevant experience to be available internally. Costs can be prohibitive and the skills available are very variable.

3.5 Legitimising accounting change in charities: when values count more than regulation

3.6 The committee considered that the aim of the paper is to explore the way key organisational actors involved in the implementation of the *Charities SORP* (SORP 2015) which adopted FRS 102 were able to understand, interpret and legitimate (or delegitimate) the changes required. The paper

tracks the development of the SORP and examines how professionals must implement it. In particular the paper considered whether they consider the changes in the SORP valid or not.

The project based its research on asking accountants within large charities in both UK and Republic of Ireland about the changes which were in the new SORP including those resulting from the adoption of FRS 102.

The paper considered that when changes in accounting are imposed if they are not legitimated (justified) then they will be resisted and an outcome other than that anticipated may occur.

It was noted that sometimes change can be apparently imposed but nothing happens. Sometimes a change is introduced as a replacement to what went before but rather than change the provisions it layers on top of what has gone before.

The paper set out the view that sometimes in charities changes have been perceived as being led by changes from other sectors (i.e. it is done in the public or private sectors therefore it should be done in charities). Charitable organisations have been asked to operate business-like standards. The paper considers whether this is appropriate.

Charities can legitimate changes and embrace values from the outside world, but it is important that internal legitimation takes place for them to see the changes as reasonable.

There are six legitimisation strategies by which people legitimate or delegitimize (criticise) change. These include, authorisation, rationalisation, normalisation, pathos, moralisation and narrativisation.

The methodology of the study included 21 charities which were all large. They were asked about changes to the trustees' annual report, financial statements and the SORP.

Most interviewees legitimated the changes, they justified them and in general were supportive. The SORP is compulsory in the UK but only best practice in Republic of Ireland, nevertheless legitimation did not show a difference across jurisdictions.

The changes which were delegitimized were the changes to the financial statements and income recognition arising from the adoption of FRS 102 and details of CEO salaries etc.

Many more interviewees approved of the annual report changes as this resonated with the charities' ethos. Charities defend their own systems and charity finance directors embraced the charity ethos more than the accounting ethos. They are therefore very defensive about what the charity is about and interpret changes according to how they see it fitting with the charity's own values.

4 Next steps

4.1 The Chair requested that committee members contact the research presenter with suggestions for the development of the small charities project directly.

4.2 Reflections on the two research projects

4.3 The Chair noted that there was not time for a summary of the conclusions and that this would be sent separately to the committee. In the meantime, the committee's initial reflections were sought.

4.4 A committee member required clarification on the commentary in the small charities research project ie that trustees annual report and accounts are not viewed very much but are still seen as important.

The committee considered that this reflects the assurance that the public can have generally from a set of accounts having been prepared and audited. For example, there are expectations of what happens in an audit which is maintained without the need to examine audit working papers.

The committee recognised that in the small charity sector that the accounts are not used widely but where they are used this is by a narrow range of specific stakeholders such as funders, the stakeholders who use them are important to the charities.

The Chair noted that given good trustees annual reports and accounts, what they show and explain can sometimes be misunderstood.

A committee member questioned, as the small charities project did cover ground which was familiar, was there a possibility that the scope could consider new ideas and areas of challenge? It was noted that this should be referred to the project leaders.

A committee member suggested that full accounts may not be the best method for communicating the messages for every charity. Consideration may need to be given to the number of small charities that were also companies. If they were not companies then many would not have to compile accruals accounts and could prepare receipts and payments accounts instead. Many of the Companies Acts requirements included disclosures that were useful for companies of a certain size covering issues such as sustainability and diversity, but it was less clear that this worked for small charities.

It was noted that the 'at a glance' summary would promote accountability and transparency though it needed to be principles based so each type of charity would be able to produce the facts relevant to its individual circumstances and the charity's understanding of their users' needs.

The committee noted that it was not just size that was relevant in deciding reporting needs but also to reflect the type of charity and what it does.

5. AOB

5.1 The committee was invited to email CIPFA with any further feedback or reflections.

The Chair will also send out a set of tentative conclusions on the research for comment by the committee in advance of the next research meeting in November.