

# Minutes

**Board** Charities SORP Committee

**Date** Tuesday 23<sup>rd</sup> February 2021

**Time** 14:00 – 16:00

**Venue** Microsoft Teams

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Joint Chair	Laura Anderson Nigel Davies Damian Sands	<i>Office of the Scottish Charity Regulator (OSCR)</i> <i>Charity Commission for England and Wales (CCEW)</i> <i>Charity Commission for Northern Ireland (CCNI)</i>
Members present	Caron Bradshaw Michael Brougham Tony Clarke Diarmaid Ó Corrbuí Noel Hyndman Tom Connaughton Joanna Pittman Carol Rudge Daniel Chan Neal Trup Tim Hencher Max Rutherford Jenny Simpson	<i>Charity Finance Group</i> <i>Independent Examiner</i> <i>Clarke &amp; Co Accountants</i> <i>Carmichael Centre for Voluntary Groups</i> <i>Queen's University Belfast</i> <i>The Rehab Group</i> <i>Sayer Vincent</i> <i>Grant Thornton</i> <i>PwC</i> <i>Neal Howard Limited</i> <i>Scottish Council for Voluntary Organisations</i> <i>Association of Charitable Foundations</i> <i>Wylie and Bisset LLP</i>
In attendance	Amie Woods	<i>CCEW</i>



To assist review, both papers follow the format provided at the 16 February 2021 meeting and the summaries provided by OSCR.

At the last meeting, the SORP committee agreed that the following eight topics should be taken forward from a user of the accounts perspective:

- summary financial information/ including key financial information in the TAR
- reserves
- impact reporting
- tiered reporting
- support costs
- presentation of the SOFA
- removal of comparison information (the committee noted the relationship with FRS 102)
- permitting charities to account for grants using the accrual model.

Paper 3 presents the range of topics considered from the perspective of the user of the SORP and preparer of accounts – see section B. Since the charity is seeking to tell its story, the eight topics above therefore may well resonate with the user of the SORP.

It was recognised that there was considerable material to consider at this stage and decisions would need to be made about what should be taken forward.

Paper 3 was acknowledged as being quite lengthy; it brings forward the various views from the accounts preparers perspectives from the engagement strands.

Paper 3 presents a range of issues that may not be a priority from the user of accounts perspective but were from a user of the SORP perspective. These are listed in section C of the paper.

A committee member commented that the committee needed to identify the 'big picture' items. It was considered that more time may be needed to set the scene for future stages in SORP development. These will set the parameters for the topics which will be taken forward and will influence the development of the SORP.

It was agreed that all the items from the 16 February 2021 meeting should be taken forward to the next stage of the SORP development process as there were consistent issues for users of the accounts and accounts preparers as users of the SORP.

The Chair noted that a considerable number of issues were proposed to be taken forward.

A committee member also considered that there needed to be a strategic approach to the development process.

The committee agreed that consideration of the removal of comparative information could be included in the Financial Reporting Council's (FRCs) 'listening process' as a part of its triennial review of FRS 102. This reduced the list of topics agreed at the previous meeting to seven.

A committee member remarked on the proposal to encourage trustees to report against their chosen governance standard in the annual report (see paper 3 page 5). It was noted that there were numerous governance codes and in making this recommendation it would be difficult to specify which codes were being referred to. This could be done on a comply or explain basis. The committee questioned that if this were taken forward would the SORP recommend the governance code in question. This might be outside the scope of the SORP.

The Chair raised the issue of what the SORP would be trying to achieve e.g. demonstrating whether a charity was well run.

It was noted that in the Republic of Ireland charities are required to comply with the charities' governance code and make an appropriate statement on its website on a comply or explain basis. The SORP would therefore need to be careful with its scope on this issue to ensure that it did not encroach on the regulatory requirements of each of the jurisdictions.

If this were taken forward consideration would also need to be given to the merits of the different codes.

The committee was of the view that tiered reporting would influence this area. For example, would there be an expectation that very small charities would comply with these reporting requirements? This might be overly onerous.

A committee member was of the view that this issue might link to the discussion on the structure of the SORP on page 13 of paper 3. Rather than by providing a descriptive list of topics or requirements to comply with, there might be an option to pose a list of questions (for example, how do you know the charity is well run?). Posing such questions would help the trustees self-assess on specific areas and be useful to the user of the accounts.

A committee member commented that there was not much value in a generic statement. It would be difficult to separate compliance with the governance code from compliance with the SORP. It must be remembered

that the development process aimed to improve standards. Again, the committee considered, it would be important to decide what the development process for the SORP was trying to achieve.

The committee considered the list of topics in section B of paper 3 and noted that there were nine topics to be considered. It agreed to take forward sustainability reporting commenting at the meeting that this was the future direction of reporting and many charities were engaging with the issues that arise. It was noted that sustainability reporting might be more difficult for smaller charities and again that this would need to be considered from the perspective of tiered reporting.

The committee agreed all 9 topics in section B be taken forward to the next stage of SORP development. These were:

- sustainability
- financial notes
- income recognition
- legacies
- donated goods and services
- expenditure classification
- the funds note
- activity reporting; and
- materiality.

The committee expressed the view that it was difficult to provide guidance on materiality and particularly to be able to assist charities with issues which arise, for example, by quantifying thresholds which are material to a particular charity. There is also an audit perspective to this topic.

The Chair summarised that there were seven issues that the committee had decided to take forward which were issues to be explored from a user of the accounts and as well as accounts preparer perspective. The committee had subsequently agreed to take forward a further nine topics which were largely accounts preparer issues. This was a long list.

The committee agreed that it needed to prioritise how this list of topics would be considered at the next stages of SORP development. The next meeting of the SORP committee with engagement strand convenors would allow the committee to take a 'sense check' on the list of issues.

A committee member commented that as discussed at the previous meeting it might be useful to split into smaller groups to debate the topics and their prioritisation in more detail. It was noted that the committee keeps returning to the issue of tiered reporting. Some of these topics would not be relevant for smaller charities and might be excluded under a tiered reporting regime.

The committee commented that all the issues included in the list of topics have some merit which led to such a lengthy list. Suggestions were made that rather than taking forward all sixteen topics it might be more productive to select the most important eight topics.

The committee was asked to consider how the topics on the list compared with those it had identified as its priorities at its December meeting. This list of topics has been generated by the engagement strand process, but they might not have been high on the agenda of the committee's priorities. Again, prioritisation around a set of principles was deemed to be important. The committee also noted that some topics seemed to cluster under similar headings, for example, presentation of the SOFA. Grouping appropriately may help the process of addressing the issues.

### **Paper 3, Section C "Nuances"**

The Chair commented that section C of paper 3 covered the nuances of some of the decision-making that needed to take place as these topics were not wholly in the gift of the SORP-making process. For example:

- there is potential to seek flexibility around the application of the **FRS 102 framework**. This might include requesting options for smaller charities in terms of the reporting or disclosure framework which might be able to be considered during the 'listening exercise' with the FRC. A paper is being prepared by the joint SORP-making body to collate the evidence supporting having greater charity sector-specific flexibility within the for-profit UK-Irish GAAP framework for submission to the FRC.
- changes to the charities reporting with an option to report on a **receipts and payment basis** does not fall within the scope of the SORP and would require legislative change. It was noted that this is covered to a certain extent by work undertaken by the IPSASB but fell outside of the SORP.
- having **common thresholds across jurisdictions** had been suggested but this was recognised to be a matter for governments and not the joint SORP-making body.
- different measurement and recognition requirements that would be subject of **different SORPs** had been suggested but one strand had opposed this view. A single SORP is to be preferred, although a requirement to comply with FRS 102 may constrain some of the other simplification options suggested.

A committee member sought views on whether the joint SORP-making body might consider an approach to take smaller charities out of the SORP and require them instead to prepare receipts and payments accounts. Extending the receipts and payments regime to companies would require change to company law.

Again, it would be important to consider what the committee is trying to deliver. Is SORP development trying to improve compliance or drive-up standards? If smaller charities are taken out of the SORP then they are also taken outside of the its sphere of influence.

A committee member commented that the users of the accounts do not distinguish between accounts produced under the SORP or accounts produced on a receipts and payments basis. As receipts and payments are not on a true and fair basis there may be gaps in information for what the SORP is trying to achieve.

An alternative view was put forward that some funders only accept applications from charities with SORP based accounts as they see it as providing a level of good financial reporting.

The committee debated the question raised relating to what SORP development was trying to achieve. Charity financial reporting 30 years ago was not particularly well developed and this had undermined public confidence in the sector.

The committee proceeded to debate what were the objectives of SORP development. Was it to encourage transparency and avoid scandals for instance?

Encouraging good management and improvement in reporting is necessary to promote a thriving charity sector. The reporting requirements of the SORP, however, need to be proportionate and not over burdensome to maintain improvement in the sector.

The committee considered that the SORP needs to support growth in social capital. If the SORP does not do this effectively this may discourage good management practices and reduce the attractiveness of donating to the sector.

The committee was of the view that public trust and confidence should drive the direction of SORP development.

The committee moved to debate, as a part of SORP development, who the user of the SORP was and what the users' capabilities might be. There was feedback from the engagement strands that the SORP should be capable of being understood by a layperson. Alternatively should the user of the

SORP (accounts preparers, independent examiners and others interested in the accounts) understand accounting terms?

The committee considered that since FRS 102 (and the SORP) expected the user of the accounts to understand the accounting principles and practice and have a level of understanding of the accounts then there was an expectation that the user of the SORP would need to understand the same accounting concepts, principles and terminology.

The committee was of the view that the accounts were based on accounting concepts and principles established by FRS 102 and the SORP. A lay person is unlikely to be able to fully understand them. A user of the accounts would need to have a basic understanding of what the accounts are trying to achieve. It would be important though that the trustees' annual report was capable of being understood by the layperson which would then be an opportunity to consider the key facts/ financial information.

The committee considered that the responsibility for preparing the accounts sits with the trustees, but it is unlikely that trustees themselves will be always able to prepare it. The trustees will rely on independent examiners and other professionals to produce the accounts.

The committee underlined the need to consider the reporting requirements for small charities. For many a receipts and payments basis may be appropriate as this would look little different from accruals accounting for the relatively simple transactions that they have. Again, it was recognised that this raised the issue of tiered reporting.

## **4 Next Steps**

4.1 The next meeting with the convenors would include a feedback discussion. But this would also be the opportunity to consider the following three elements:

- review and redefine the timelines for SORP development i.e. how the next few months would be utilised
- focus on the issue which has been at the heart of the debates on SORP development i.e. tiered reporting and simplification
- feedback from the engagement strands.

The committee enquired whether this was the opportunity to take some time to consider what the priorities are and to debate them in smaller groups.



The Chair commented that this was an important point and that the joint chairs were discussing the use of smaller groups in the next phase. The chairs were assessing the practicalities of using working groups including ways to ensure that the process was effective, for example, ensuring that the debates of the working groups were not repeated in committee .

## **5 First thoughts on undertaking a feedback exercise on the experience of the new process**

- 5.1 The committee was of the view that broadly the process was going well and that the committee, the joint chairs and engagement strands are 'finding their feet' together.

The committee considered that it needs to develop the way forward as it progresses its way through the stages for SORP production. The committee recognised that the feedback exercise was a new one it had been useful to have more regular meetings to allow sufficient time for discussion and debate. It was of the view that it will be useful to continue to meet with the engagement strands which while this was a bigger grouping, it provides a useful insight into the issues being raised.

The committee recognised that it is useful to have more contributors, but that this does raise the risk that a long list of topics is put forward which need to be prioritised.

The committee considered, however, that the long list of priorities was a useful starting point. It was acknowledged that some of the topics might have been raised before but the committee was mindful that new information and new contributors may mean that new perspectives on the topics could be considered and new solutions found.

The committee was of the view that now was the time to frame the discussions and start shaping the expectations of stakeholders. Some areas may result in substantial change while others not. Tighter framing may also help the questions raised to be more targeted and find better solutions to the topics raised.

## **6 FRC update**

- 6.1 The FRC is at the planning stage of its periodic review of FRS 102. At the last triennial review, the FRC issued a press release to request feedback on what is working well with the standard and what is not.

The FRC representative commented that it would be useful if stakeholders when considering issues that might be causing difficulties could support their responses with evidence and include proposals for change. It is

anticipated that the press release will be issued in the next couple of months.

The committee sought views on the anticipated date for the issue of the updated FRS 102 post the triennial review. It was noted that the FRC's tentative plans were for an issue date, perhaps as early as the end of December 2022 with a planned implementation date of January 2024.

## **7 Next steps**

- 7.1 The committee indicated that it was in broad agreement with the issues raised and the matters to be carried forward. The next steps will allow engagement with the convenors at the joint meeting on 8 March 2021. This will allow the final deliberation as to what topics will be taken forward to the reflection phase.

A committee member sought views as to whether there might be any benefit of breaking into smaller groups to consider the topics in more detail. This would allow for a freer discussion and might allow issues to be considered in more detail and consider issues not raised at the meeting.

## **8. Future Committee Meetings**

- 8.1 The committee noted that the next meeting on 8 March with the convenors of the engagement strands was likely to generate a full discussion on how to take matters forward.

The Chair commented that CIPFA would seek views on looking at post-Easter dates. This meeting would consider a paper by the SORP-making body as to the proposed changes to GAAP and a further look at the IFR4NPO project.

The committee was invited to suggest any issues which should be included on future agendas.

The papers for the meeting on 8 March would be issued prior to the meeting to allow appropriate time for consideration.

It was noted that the joint chairs would look to finding an appropriate date to facilitate smaller group discussions.

## **9. AOB**

- 9.1 A committee member enquired whether there might be any revised guidance on reserves following the issues raised by the 'Kids Company' case.

It was noted that OSCR is in the process of updating its guidance on reserves following the impact of the COVID-19 pandemic.

The link to the IFR4NPO project was issued in the chat section of the meeting. The consultation is available [here](#).

The committee considered that it may be useful to have an agenda item for current issues for charities, for example, on issues such as section 172 of the Companies Act 2006 reporting or further guidance on streamlined carbon energy reporting.

The Chair noted that following feedback from the working group, that the CCEW anticipated issuing illustrations of reporting under the COVID-19 pandemic (the illustrations are a restatement of the two existing examples of the grant-maker and the theatre and arts centre).

It was noted that the digital code was a useful tool for charities. It would be useful for the committee to be aware of it and how it links to other reporting issues such as integrated reporting.

The forthcoming consultation from the CCEW on CC14 on charity investments (and whether more emphasis should be on mission alignment rather than financial return) was highlighted with a committee member commenting that this has the potential to be significant particularly for foundations that have endowments and could be relevant to the SORP in terms of reporting against this new requirement.

The chairs thanked the committee for their contributions and looked forward to the next meeting on 8 March 2021.