



CHARITY COMMISSION
FOR ENGLAND AND WALES

OSCR
Scottish Charity Regulator

The Charity
Commission
for Northern Ireland

CIPFA

77 Mansell Street
London
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21 January 2021

Mrs Jenny Carter
Director, Accounting and Reporting Policy
Financial Reporting Council
8th Floor
125 London Wall
London
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Dear Jenny,

Charities SORP Annual Review 2020

Introduction and Background

The Charity Commission for England and Wales, the Charity Commission for Northern Ireland and the Office of the Scottish Charity Regulator act together as the joint SORP-making body for charities in the UK and are advised by the Charities SORP Committee. Following the recommendations of the SORP Governance Review, which reported in June 2019, the joint SORP-making body undertook a recruitment campaign to appoint a new Charities SORP Committee. This recruitment process was completed by February 2020 and the SORP-making body appointed the membership of the new SORP Committee with 14 Committee members drawn from the 4 charity law jurisdictions covered by UK-Irish GAAP. A list of Committee members as at December 2020 is given in Annex A attached to this letter. The new SORP Committee had its inaugural meeting on 12 March 2020. In addition, a reserve list of committee members was also established. The reserve members are also included in Annex A.

The SORP-making body also carried out a recruitment campaign for volunteers to serve on a number of engagement panels to assist the advisory Charities SORP Committee and the SORP-making body in developing the next SORP. This UK-Ireland recruitment process was completed in June 2020.

We are committed to continuing to comply with the FRC's *Policy on Developing SORPs* and in accordance with the Policy we have kept the SORP under review with respect to compliance with UK-Irish GAAP. The SORP-making body intend one of the outcomes from our new SORP development process will be to identify desirable changes to accounting standards and also to the law which will enable improvements to the quality and content of charity trustees' annual reports and accounts. It is intended to submit proposals about desirable changes to accounting standards to inform the FRC's own dialogue regarding changes to FRS 102.

In addition, we continue to review any issues relating to the implementation of the SORP as they arise and are identified by members of the Committee or through informal stakeholder outreach. Additional

guidance and clarification will be provided on any such issues as necessary. The joint SORP-making body has issued two Information Sheets and separate guidance on COVID 19 this year to assist charities in their reporting requirements which are discussed in more detail below.

Information Sheets

In our Annual Review 2019 we noted that the now retired SORP Committee considered the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 which came into force on 1 April 2019. These Regulations require quoted companies to report information on greenhouse gas emissions in their directors' reports and also apply to large charitable companies. The SORP Committee was of the view that there was benefit in producing an information sheet for those large charities. It consulted with the Charity Finance Group (CFG) and the response received (following consultation with CFG members) largely supported its issue. As this guidance only applies to large charitable companies, the joint SORP-making body did not see a need to amend the SORP.

The new Charities SORP Committee agreed with the views of the SORP Committee and proceeded with the production of the Information Sheet ie [Information Sheet 5: The Companies \(Directors' Report\) and Limited Liability Partnerships \(Energy and Carbon Report\) Regulations 2018, as applied to Charitable Companies – Update](#). The information sheet aims to assist large charities with the reporting requirements and the scope of the information that will need to be reported. It was issued in June 2020.

The SORP includes merger accounting but this is subject to the limitations of company law. Although adoption of the SORP is voluntary in the Republic of Ireland, the joint SORP-making body recognised the need to advise on the position regarding the application of merger accounting by way of an information sheet. [Information Sheet 6: Irish Charities - Merger Accounting and Republic of Ireland Company Law](#) was also reviewed by a working group convened by Chartered Accountants Ireland to ensure it met the needs of Irish Charities. The Information Sheet was also published in June 2020.

Charities SORP Committee: Implications of COVID-19 Control Measures on Financial Reporting

At its March meeting at the start of the pandemic the SORP Committee recommended that additional advice be provided to practitioners to assist with their understanding of control measures and financial reporting arising from COVID-19. The SORP-making body took the unusual step of issuing advice in the form of [Implications of COVID-19 Control Measures on Financial Reporting](#) on 23 March 2020. The publication provides advice on the financial reporting implications that might arise from the measures being put in place to contain the impact of the COVID-19 virus. The advice included:

- the implications of the COVID-19 control measures taken by governments in the UK and Ireland, particularly at the beginning of the pandemic
- trustees' annual report and risk reporting
- accounting related considerations – including reporting a 'true and fair' view, post balance sheet events and going concern reporting
- audit and external scrutiny
- reporting to the charities' regulator by charity trustees
- filing and going concern, trustees' filing responsibilities and late filing.

Amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland

The Charities SORP Committee considered at its March and April meetings Amendments to FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland - Interest rate benchmark reform* and was of the view that this was a highly specialised area but that there were no issues that required charity specific treatment and no additional guidance was required.

The Charities SORP Committee also considered the draft amendments to FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* and FRS 105 *The Financial Reporting Standard applicable to the Micro-entities Regime* issued by the FRC both by correspondence and at its September 2020 meeting. The joint SORP-making body concurred with the advice of the committee that there were no issues relating to this amendment to FRS 102 which required commentary from the joint SORP-making body, or when the FRED was included as an amendment to FRS 102, that any changes were required for these amendments.

SORP Governance Review

In 2018 the joint SORP-making body established an Independent Oversight Panel to take forward a governance review of the SORP development process. The Panel undertook a public consultation process, an outreach process and held events and one to one interviews. It issued its report [Guiding the Development of the Charities SORP](#) in June 2019.

The report and review included 36 recommendations. They can be summarised as follows:

- In terms of promoting engagement there is a new emphasis on the reporting needs of the smaller charities and the proxy user in their representative roles. This requires a greater simplification of reporting requirements for smaller charities and more support for trustees.
- The SORP Committee needs to be retained but refocused. The respective roles of the joint SORP-making body and SORP Committee should be clarified.
- Broader engagement with a wider range of stakeholders will be needed to ensure that the SORP remains fit for purpose.
- The joint SORP-making body needs to ensure that the redesigned SORP development process takes effect (in accordance with the FRC's *Policy on Developing SORPs*).
- The sector and charity regulators should codify best practice in non-statutory financial reporting.

The joint SORP-making body is committed to implementing the recommendations and continues to take them forward. It includes a [SORP Review recommendations tracker](#) on the Charities SORP microsite to aid transparency of the work being undertaken in response to the review.

The joint SORP-making body has embarked on its new development process for the SORP and has developed its new engagement process including recruitment of the new SORP Committee. The new SORP Committee met ten times in the year to consider and advise the joint SORP-making body on the new engagement process.

Engagement Process – The Establishment of the Engagement Strands

Following the SORP Governance Review, the joint SORP-making body initiated an ambitious and innovative engagement process in November 2019. It sought engagement partners to support this new process to join engagement strands. There were six engagement strands proposed at that juncture.

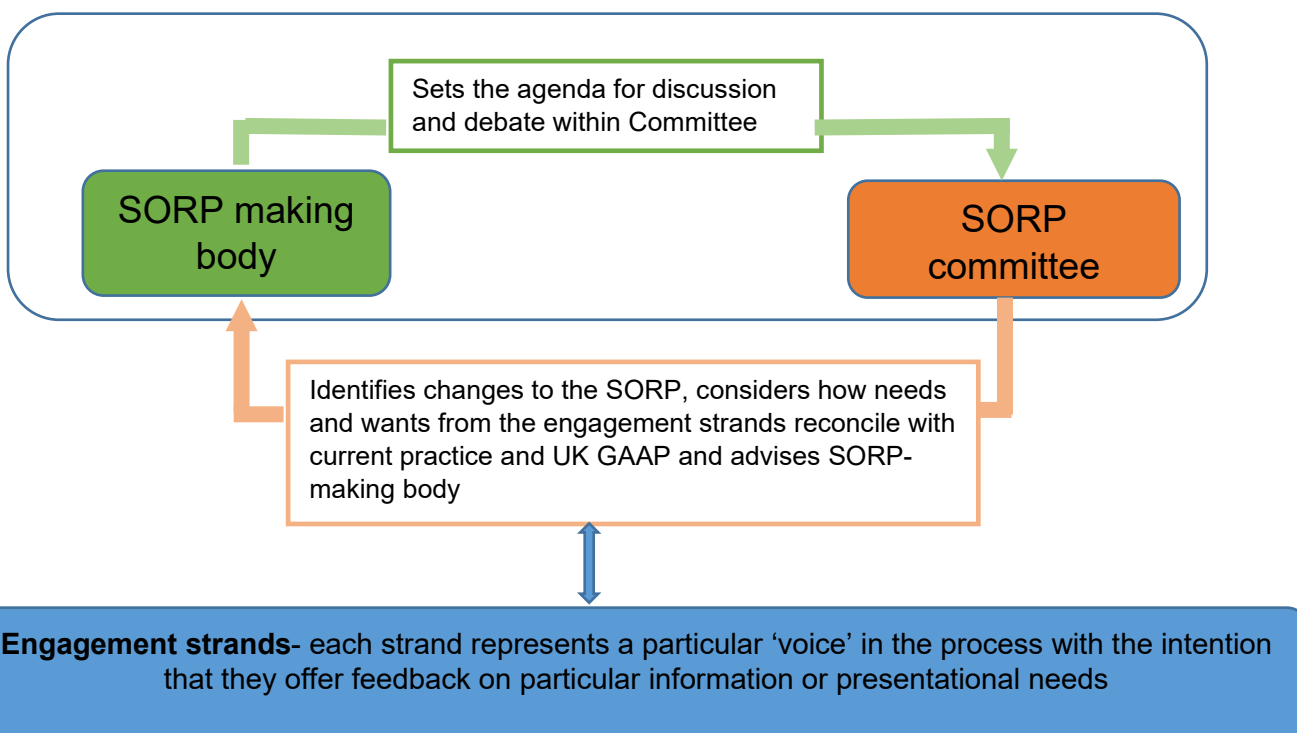
Recruitment to the engagement strands closed in February 2020 with 91 volunteers, serving as individuals or nominees of organisations, taking part across the UK and Ireland. Following discussions with the Charities SORP Committee, the engagement strands were agreed as the following:

- Charity trustees
- Smaller charities and independent examiners
- Professional and technical
- Larger charities
- Major funders and donors and government and public bodies, and
- Academics and regulators and proxies for the public interest.

A list of the engagement strands its convenors and facilitators is provided at Annex B

The process for engagement is outlined below:

Figure 1: The new SORP development process



The engagement strands are led by volunteer convenors and supported by a representative from the charity regulators across the UK and Ireland. The six engagement strands, comprising seven panels (professional and technical split into two panels), have met a number of times and have identified some initial common areas for consideration. These were discussed with the advisory SORP Committee on 17 November with further work planned to focus on key areas for change.

The issues discussed so far in the 'exploration stage' include more tiered reporting, ensuring the trustees annual report and accounts tells the story of the charity, going concern, reserves and technical issues including accounting for the income from grants.

The process for drafting a SORP envisaged a number of stages in the engagement process with each engagement strand moving at their own pace through the different stages:

- *Exploration* - without taking the current framework as a given, look at the needs of the users of the report and accounts, the information needed to inform their decision-making and identify any emerging issues. Additionally, users of the SORP will be invited to consider any beneficial changes to its form and content to better serve their needs.
- *Reflection* - consider how well the SORP meets the identified needs and identify areas for change and potential solutions to effect beneficial change and how accounting standards may need to be changed to facilitate a better framework.
- *Problem solving* - exchange ideas and solutions between engagement strands to identify areas of consensus and disagreement, the scope for simplification, and draw conclusions to inform the drafting of the next SORP and changes required to law and accounting standards to facilitate some of these changes.
- *Making a case for change* - based on the conclusions drawn and judgement around costs and benefits of potential changes, inform the drafting of the SORP Exposure draft, differentiating those changes that can be accommodated within the existing framework of law and standards from those that cannot be progressed due to constraints arising from law and standards.

Due to the process being a new one the SORP-making body is deliberately being flexible in its approach as it proceeds. The tentative timetable allowing for each of these stages is set out in Annex C.

The Engagement Process – Research Meetings

In addition to the work of the engagement strands the Charities SORP Committee has participated in an intensive set of three meetings in October and November to consider eight areas where research has been or could be undertaken into charity reporting, the impact that charities have on their beneficiaries and public trust in charities. This is intended to provide a rich backdrop for the committee's consideration of the work of the engagement strands and/or to provide ideas of topics that the committee could itself take forward for SORP development. The topics which have been considered are listed in Annex D.

Charity SORP Microsite

The joint SORP-making body is committed to transparency and openness in our work. Action points from the meetings of the joint SORP-making body as well as the agenda and selected papers from the SORP Committee meetings are published via the Charities SORP microsite. The microsite (www.charitysorp.org) is also regularly updated to inform those interested in our work about the progress in taking forward the recommendations of the SORP Governance Review. A major update to the site is planned for March to capture the latest developments.

Yours sincerely,



Laura Anderson
Joint Chair of Charities SORP Committee
Senior Manager – Higher Risk Cases & Quality
Assurance
Office of the Scottish Charity Regulator



Nigel Davies
Joint Chair of Charities SORP Committee
Assistant Director of Accountancy Services
Charity Commission for England and Wales



Damian Sands, BA(Hons) ACA MBA
Joint Chair of Charities SORP Committee
Senior Accountant
The Charity Commission for Northern Ireland

Charities SORP Committee Members (December 2020)

Name	Organisation	Job Title	Jurisdiction
Joint Chairs/Charity Regulator Members:			
Laura Anderson	Office of the Scottish Charity Regulator	Senior Manager – Higher Risk Cases & Quality Assurance	Scotland
Nigel Davies	Charity Commission for England and Wales	Assistant Director of Accountancy Services	England & Wales
Jelena Griscenko	Charities Regulator	-	Republic of Ireland
Damien Sands	Charity Commission for Northern Ireland	Senior Accountant	Northern Ireland
Financial Reporting Council Nominee:			
Jenny Carter	Financial Reporting Council	Director, Accounting and Reporting Policy	UK & Ireland
Members with a smaller charities background:			
Michael Brougham	-	Independent Examiner	Scotland
Tony Clarke	Clarke & Co Accountants Limited	Director	Northern Ireland
Diarmaid Ó Corrbuí	Carmichael Centre for Voluntary Groups	Chief Executive Officer	Republic of Ireland
Neal Trup	Neal Howard Limited	Director	England and Wales
Members with a charity sector or accounting professional background:			
Caron Bradshaw	Charity Finance Group	Chief Executive	England and Wales
Tom Connaughton	The Rehab Group	Head of Internal Audit	Republic of Ireland
Gareth Hughes	Down and Connor Diocesan Trust	Chief Operating Officer	Northern Ireland
Joanna Pittman	Sayer Vincent	Partner	England and Wales
Carol Rudge	Grant Thornton	Partner-Head of Not-for-profit	England and Wales
Tim Hencher	Scottish Council for Voluntary Organisations	Director of Delivery	Scotland
Jenny Simpson	Wylie + Bissett LLP	Partner	Scotland
Yui Chit Daniel Chan	PwC	Senior Manager	England and Wales
Members with a funder or stakeholder interest:			
Max Rutherford	Association of Charitable Foundations	Head of Policy	England and Wales
Noel Hyndman	Queen's University Belfast	Professor	Northern Ireland

Reserve List Members

Name	Organisation	Job Title	Jurisdiction
Úna Curtis	KPMG	Director	Republic of Ireland
Dr Rosemary Peters Gallagher	Moore (NI) LLP	Partner	Northern Ireland
Naziar Hashemi	Crowe UK LLP	Partner, National Head of Non-Profits	England and Wales
Nick Sladden	RSM	Partner, Head of Charities and Independent Schools	England and Wales

Engagement Strands and Convenors (note the hyperlinks provide more detail about the engagement strand and the convenor)

Engagement strand	Charity regulator facilitator	Convenor
Trustees	Charity Commission for Northern Ireland - Damian Sands	The Chartered Governance Institute (ICSA), Louise Thomson
Smaller charities and independent examiners	Office of the Scottish Charity Regulator - Claire Morrison	Chris Bolt
Professional and technical (Group A)	Charity Commission for England and Wales - Deirdre O'Dwyer	Charity Finance Group, Roberta Fusco
Professional and technical (Group B)	Charity Commission for England and Wales - Clare Thomas	Institute of Chartered Accountants of Scotland, Christine Scott
Larger Charities	Charity Commission for England and Wales - Amie Woods	The Wheel, Tony Ward
Major funders and donors and government and public bodies	Charities Regulator - Jelena Griscenko	Sue Wilson
Academics and regulators and proxies for the public interest	Office of the Scottish Charity Regulator - Laura Anderson	Diarmuid McDonnell

Timetable for the SORP Development Process (note that this timetable had to be updated due to the pandemic)

Stage	Approximate time	Completed by earliest timing (latest timing)
Exploration	3 to 6 months	October 2020 (March 2021)
Reflection (input to FRC Spring 2021 review)	3 to 6 months	April 2021 (July 2021)
Problem solving	3 to 6 months	July 2021 (January 2022)
Drafting (Based on exposure draft FRS 102 with final FRS 102 published early in 2023)	6 to 12 months	January 2022 (January 2023)
FRC review and public consultation	6 months	July 2022 (July 2023)
Final edit and FRC approval (Subject to FRS 102 published in final form and faithfully reflected in the SORP text)	3 to 6 months	October 2022 (January 2024)
Effective date (allowing 3-month lead in)	-	Ideally publish no later than October 2023 Reporting for years beginning 1 January 2024

Topics Considered by the Charities SORP Committee at its October and November Meetings

	Topic Area	Presenter	Organisation
1	On-line use of charity accounts and register display	Laith Hamid and Ian Roughley	Charity Commission for England and Wales
2	Small charities	Neal Trup	Neal Howard Limited and Power to Change
3	Legitimising accounting change in charities: When values count more than regulation	Noel Hyndman	Journal of Accounting & Organizational Change
4	Key findings from research on trustees' annual reports and accounts filed with the Charity Commission for England and Wales	Alan Rawling and Jeff Prescott	Charity Commission for England and Wales
5	Sustainability reporting	Clare Thomas	Charity Commission for England and Wales
6	PwC Building Public Trust Awards	Daniel Chan, Freya Johnson and Harry Hayes	PwC
7	SORP and Irish charities	Tom Connaughton and Diarmaid Ó Corrbuí	Benefacts, Charities Institute Ireland, Carmichael and the Wheel
8	Trust in charities	Judith Turbyne and Jo Edwardes	Office of the Scottish Charity Regulator and Charity Commission for England and Wales