

Charities SORP Committee Minutes

Date	12 March 2018	
Venue	CIPFA Offices, 160 Dundee Street, Edinburgh	
Joint Chair	Laura Anderson Nigel Davies	<i>OSCR Charity Commission for England and Wales</i>
Members present	Caron Bradshaw Richard Bray Michael Brougham Tom Connaughton Mark Hill Noel Hyndman Simon Ling Kenneth McDowell Sheila Nordon Carol Rudge Jenny Simpson Darren Spivey Mark Spofforth	<i>CFG Cancer Research UK ACIE The Rehab Group Regeneris Limited Queen's University Belfast National Association of Almshouses Saffery Champness Charities Institute Ireland Grant Thornton Wylie + Bissett LLP Royal National Lifeboat Institution Kreston Reeves LLP</i>
In attendance	Mei Ashelford Easton Bilsborough Don Peebles Claire Morrison David Robb Tom Malone	<i>FRC CIPFA, Secretariat to the SORP Committee CIPFA, Secretariat to the SORP Committee OSCR OSCR Charity Regulatory Authority</i>
Apologies	Sarah Anderson James Brooke Turner Pat Dennigan Pesh Framjee Fiona Muldoon	<i>Deloitte LLP ACF Observer, The Nuffield Foundation Focus Ireland Crowe Clark Whitehill, Technical Advisor to CIPFA Secretariat The Charity Commission for Northern Ireland</i>

Action

- 1 Welcome, apologies for absences, confirmation of participants and declarations of interest**
 - 1.1 The Chair welcomed members and observers to the meeting.
 - 1.2 Those apologies for absence received were noted.
 - 1.3 The Committee welcomed David Robb and Claire Morrison who joined the meeting as observers from OSCR. The Committee also welcomed Don Peebles who joined the meeting as an observer from CIPFA, who provide secretariat to the SORP Committee.
 - 1.4 The Chair asked if there were any declarations of interest to be made. No declarations of interest were noted.

2 Approval of the minutes of the meeting of 10 January 2018 and matters arising

- 2.1 The draft minutes of the previous Committee meeting were approved.
- 2.2 The Chair noted that matters arising would be considered by the Committee as part of the main business of the meeting.

3 Update from the FRC

- 3.1 The FRC representative provided an update on the development of UK accounting standards.
- 3.2 She explained that revised versions of those standards amended by the 2017 triennial review were forthcoming.
- 3.3 She then gave an overview of the progress of the other public benefit entity SORP-making bodies on updating their guidance for the recent amendments to FRS 102.

4 Update from Working Groups

- 4.1 The Chair set out the planned approach for the updates from the four working groups which had formed following the Committee meeting in October 2017.

THEME: Tiered reporting

- 4.2 The Convenor gave an update of the working group's progress. They noted the group had been sharing their progress with the group that was focusing on smaller charities, given the overlap between both themes. They emphasised that the group was committed to considering any changes from the perspective of the benefits these could bring for users and preparers of charity accounts, rather than focusing on the potential barriers to any changes based on the existing reporting and legal regime.
- 4.3 The Convenor explained that the group had considered the following areas to date:
 - The approach of introducing additional tiers and the structures which could be used to do so;
 - The creation of a top tier and possible disclosures which could be included in this tier;
 - The appropriateness of Section 1A of FRS 102 being used by charities and the creation of a 'Section 1A SORP' for a subset of smaller charities (a 'bottom tier');
 - Whether examples of effective and transparent reporting practices by for-profit public listed companies (PLCs) could be read across to the not-for-profit sector.
- 4.4 The Committee discussed the group's progress and a number of comments and suggestions were made including:
 - The value added by any additional disclosures prescribed for 'top tier charities' should be considered - who and for what purpose would this information be required?
 - It should be acknowledged that the largest charities will be disclosing information through other channels, therefore introducing additional annual reporting requirements unless addressing the reporting needs of stakeholders could make their accounts bigger and more complex without adding value.
 - The promotion of receipts and payments accounts could be hindered by the accounting profession's non-acceptance of this basis of preparation

and their dependence on accounting software to prepare fully accrued charity accounts.

- 4.5 The group's consideration of the existing reporting practice of large companies and charities was supported by the Committee. It was noted that existing reporting requirements placed on the largest charities through other sources may mean that any information identified as desirable may already be disclosed by these entities in other ways.
- 4.6 The group's focus on the very smallest charities was also acknowledged as worthwhile, given that these charities represent the majority of entities applying the SORP. Members commented on how 'heavy' FRS 102 felt for smaller charities which are required, requested or choose to prepare accrual accounts.

THEME: Smaller Charities

- 4.7 The Convenor gave an update of the group's progress and explained that the following areas had been considered to date:
- The potential for receipts and payments accounts to be prepared by the very smallest charities, given the simplicity and cost saving associated with this basis of preparation;
 - What information would be required for the trustees' annual report of a small charity preparing receipts and payments accounts;
 - The application of FRS 102 Section 1A by charities as a means to reduce the reporting requirements for small entities;
 - The root of those SORP disclosures which are not specifically required by FRS 102 and the potential for these to be removed for smaller charities;
 - Reformatting the SORP modules to separate 'application guidance' from the specific disclosure requirements in order to create a more accessible document;
 - The potential to develop an online version of the SORP, enabling users to 'build their own SORP' using an 'expanded disclosure checklist' model with an enhanced tailoring function;
 - The potential of a greater range of example accounts being provided as a means to support small charities and improve reporting.
- 4.8 The Committee discussed the group's progress. One member questioned the perceived benefits of encouraging charities to prepare receipt and payments accounts versus accruals accounts. They noted the potential advantages of accrual accounting and whether the perceptions around the complications and users' understanding of this basis of preparation should be challenged. They felt more should be done to encourage smaller charities to account on this basis, as it offered the potential for finance to be seen as an enabler within these organisations rather than simply a compliance/'tick box' exercise. This led onto a discussion about whether the group's recommendations should be aspirational or achievable within smaller charities' current operating environment.

THEME: Governance

- 4.9 A representative from the group gave an update of progress and outlined those areas considered to date. These included:
- The existing governance disclosure requirements contained in the SORP and the positioning of governance in the introduction of Module 1 as a 'call to arms' for charities;

- The scope which exists to improve the level and quality of reporting in the trustees' annual report and the benefits of raising the standard in this area by encouraging charities to be creative and experimental in their approach to reporting;
- Revisiting the findings of the 2016 Research Exercise and reimagining what respondents recommendations would look like as SORP requirements;
- Mapping the existing governance disclosure requirements against the current [Charity Governance Code](#) which is intended for use by charities registered in England and Wales.

- 4.10 The Committee acknowledged the significance of governance for all charities using the SORP. Members noted the importance of the requirements in this area speaking to each 'tier' of charities using the framework and remaining proportionate. The need to ensure the requirements were written in simple language and understandable by the variety of individuals charged with preparing a trustees' annual report was emphasised.
- 4.11 One member welcomed the group's assessment of the importance of the trustees' annual report and the potential to improve the quality of narrative reporting in a way that acknowledges the unique focus of charity reporting. However, they felt the association between the 'front' and 'back' of charity's reports should be acknowledged and more could be done to encourage charities to more effectively link the information presented in the trustees annual report to the information contained in their financial statements. They believed either section should not be considered at the expense of the other.

THEME: Transparency

- 4.12 A representative from the group gave an update of progress and outlined those areas considered to date. These included:
- What transparency means in the context of charity reporting and whether transparency can lead to greater public trust;
 - Revisiting the SORP's objectives in relation to transparency;
 - Acknowledging the imitations of what can be achieved in this area by the SORP and financial reporting alone;
 - Acknowledging the limitations of the 2016 SORP Research Exercise which captured the views of a limited number of stakeholders and excluded users of charity accounts;
 - The impact of changes in the way that charities report about themselves in a digital age and the consequence of this on the role of the SORP
 - The areas considered to be key in the context of transparent reporting and public interest (e.g. support costs, executive pay, reporting fraud), and the scope to bring greater consistency in how these are reported on.
- 4.13 The Committee offered comments on the group's consideration of what transparency means in the context of charity reporting. The following was raised:
- The extent to which transparency is a 'state of mind' rather something that can be prescribed through mandatory disclosure
 - The restricted role annual reporting has in achieving 'transparency' should be acknowledged. However, its ability to signpost readers to ask the right questions was emphasised.
 - The need for more accessible reporting may involve considering what more can be done to encourage charities to be more selective about which

information they include in their annual report – whether a principle similar to ‘true and fair’ could be developed for narrative reporting.

- 4.14 The Chairs welcomed the progress being made by all groups and commended how far their discussions had advanced in a relatively short amount of time.
- 4.15 The Chairs agreed that the groups should continue to focus on the possible solutions that exist to the issues being explored as part this exercise, rather than on those practical obstacles or barriers which may exist as these would need to be addressed by changes to law and applicable regulations. They reinforced the benefits of this approach as the Committee reflected on the existing framework in advance of the development of the new SORP.

5 FRC observations for consideration

- 5.1 The Chair explained that the exposure draft of Update Bulletin 2 had been taken to the UK GAAP Technical Advisory Group (TAG) and Corporate Reporting Council (CRC) as part of the FRC approval process. The Chair outlined the suggestions which had been raised by these groups and the response of the chairs, as the joint SORP-making body.

Mergers (Information Sheet item)

- 5.2 TAG had suggested that the SORP could include guidance for unincorporated charities which are incorporating for the first time about how to apply merger accounting to the pre-transfer period. This issue was addressed in the LLP SORP. It was acknowledged that the issue was out with the scope of the current Update Bulletin, which was limited to those changes arising from the amendments to FRS 102.
- 5.3 The Chair recommended that this was considered by the Committee at a later date as a potential Information Sheet item.

Section 1A and lessons from abridged accounts (UK company law)

- 5.4 TAG had suggested that joint SORP-making body revisits the application of FRS 102 Section 1A by charities.
- 5.5 The Chair noted that this is currently being considered by the working group looking at Smaller Charities. They acknowledged that the existing SORP is currently silent on the application of Section 1A. They explained the conclusion reached when issue was previously considered by the Committee and joint SORP-making body, where it was felt that the exemptions offered by Section 1A did not offer much simplification for those charities which meet the definition of a small company, given the requirement for financial statements to be prepared to give a ‘true and fair’ view and how this had been interpreted. They noted that this issue might be addressed by amendments to the applicable legal frameworks.

Timing of the next SORP – sooner than 2022?

- 5.6 The CRC expressed concerns about the timing of the next fully revised version of the SORP, which is planned to be published in 2021 and effective for periods from 1 January 2022. They felt the proposed timings may not be responding quickly enough to the issues that were raised in the 2016 Research Exercise.
- 5.7 The Chair explained that the current [Invitation to Comment](#) made no reference to the timing of the next SORP. They went on to explain that the next version of the SORP would be informed by the findings and recommendations of the working groups, which would be presented and discussed by the Committee by the end of

2018. Therefore the existing timings for the next SORP would be revisited following the Committee's meeting in October 2018.

6 Discussion: Greater funder and other engagement around Committee consultation

- 6.1 The Chair provided a background to the discussion. They explained that when previously consulting on changes to the SORP the joint SORP-making body had been successful in engaging with sector umbrella bodies and finance professionals working with and for charities. However, it was acknowledged that this represented a specific group of stakeholders. The Chairs were keen to reflect on ways that they could more effectively engage with funders and general users of charity accounts, where previous engagement has been mixed. It was noted that the SORP-making body's updated [statement of drafting aims and principles](#) identified funders, donors and financial supporters as the primary audience for the information contained in charity reports and accounts.
- 6.2 The Committee considered the various methods that could be used to engage with these stakeholder groups – including focus groups and academic research. This developed into a discussion about engagement with stakeholders more generally. The discussion included the following observations and suggestions from members:
- Any approach to engagement should be 'tiered', given the range of stakeholder groups. Different approaches may need to be used to reach different groups.
 - Grant assessors and other funders' interest in charity accounts is limited as they have the ability to ask for the information they required directly from applicants. It was acknowledged that this observation might not hold true when applied to the narrative information included in the trustees' annual reports.
 - There are substantial costs and difficulties associated in attempting to gather the views of 'general users'. This group is tremendously varied and each will have different levels of interest in charities and charity reporting.
- 6.3 Several members cited the results of previous research conducted in this area. One member noted that prior research has identified charity accounts as possessing a 'disinfectant' quality for the general public – i.e. they are reassured that this information is required, prepared and made available by charities. CIPFA Secretariat observed prior research had been carried out into the users of Local Authority accounts in Scotland. The research found the general public were not using the accounts, but were interested in the information and wanted it in a summarised format. They explained the findings had resulted in the development of the voluntarily 'Summary Statement of Accounts' for UK Local Authorities.
- 6.4 The Committee then reflected on the potential barriers associated with engaging with these stakeholder groups. The general public's interest and understanding about the purpose of accounting and financial reporting in charities was identified as a potential barrier. One member commented that satisfying the public's desire for more accessible and comparable information about charities may require less detail and flexibility in the requirements and guidance contained in the SORP. The Committee agreed that there was a balance which could be achieved, which should be considered as part of the development of the next SORP.
- 6.5 The Committee agreed that considering this issue was both timely and necessary. A member noted the FRC's 'Financial Reporting Lab' initiative and their research on developments in corporate reporting from the perspective of investors. It was suggested that the Lab's approach could be replicated for the charity sector and developments in charity reporting could be considered from the perspective of

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fundes and the general public as donors. It was suggested that the possibility of a research project in this area should be raised with the Lab.

7 Update on Committee arrangements

- 7.1 The Chair provided an update on the joint SORP-making body's intention to review the governance processes for developing the SORP including membership of the Committee.
- 7.2 The Chair explained that the Charity Commission for Northern Ireland and the Charity Regulatory Authority had been invited to join the existing joint SORP-making body. They noted that the invitation was currently being considered by both regulatory bodies, and if accepted would require FRC approval. The Chair observed that the proposed change to the constitution of the SORP-making body made the intention to review the current governance process for developing the SORP timely. However, it had been agreed that the review should be deferred until any reconstitution of SORP-making body has been completed.
- 7.3 The Chair went on to discuss the observations shared by a former Committee member regarding the SORP-making process and the improvements they believed were needed to solve the financial reporting challenges facing the charity sector. The Committee reflected on these observations. It was agreed that many of the suggestions had merit and would be considered in greater detail at a future Committee meeting. It was also acknowledged that several suggestions sit within a wider context as they refer to areas outwith the scope of the joint SORP-making body and are aimed at charity regulators.
- 7.4 A member queried whether those members that resign from the Committee would be automatically replaced by new members or observers that hold similar skills and interests. The Chair explained that of the two members who had resigned since the current Committee had formed in 2014, one had been replaced with an observer member who represented the same sector umbrella body. It was agreed that the decision to replace members who resigned would be taken by the new SORP-making body.

8 Background briefing on new revenue recognition standard (IFRS 15)

- 8.1 CIPFA Secretariat introduced Paper 2 on IFRS 15, the new revenue recognition standard. It was welcomed by the Committee as providing a useful overview of the standard and its potential future impact for charities.
- 8.2 CIPFA Secretariat highlighted that the impact for charities was dependent on the standard being reflected in UK and Irish GAAP, FRS 102. They noted that the FRC's timetable and approach for reflecting the principles of IFRS 15 in FRS 102 is not currently known.
- 8.3 A member queried the impact of the potential changes on how grants and contracts would be treated for VAT purposes. The Secretariat noted that the briefing did not cover the interplay between the treatment of grants and contracts for accounting and VAT purposes, however, it could be considered as part of any future work on this topic. The Committee felt this would be worthwhile, given that the topic was of significant interest to many charities and HMRC's had recently updated their guidance on this area. It was observed that HMRC's updated guidance now included the grantees accounting treatment as a factor which indicates whether the income is a grant or contract and is eligible for VAT.

9 Any other business and dates for next meetings

- 9.1 CIPFA Secretariat introduced a supplementary paper which gave an overview of the issues raised by attendees at several events and meetings were the

consultation on Update Bulletin 2 had been discussed. They outlined the key issues which were detailed in the paper. They noted that this feedback would be summarised together with the written responses received and shared with the Committee advance their next meeting.

- 9.2 The supplementary paper would be circulated to the Committee electronically following the meeting. **CIPFA**
- 9.3 A member raised the concern about how the clarification around the accounting treatment for gift aid payments should be presented in trading subsidiary accounts and whether it should be included as a change of accounting policy or prior year error. They acknowledged that whilst it was a primarily for-profit accounting issue, it represented a concern for charitable groups which were current preparing their year-end accounts.
- 9.4 Several members raised the query regarding how 'apply immediately' should be interpreted by preparers for those amendments set out in Section 3 of the draft Update Bulletin 2. They felt it was not currently clear when these amendments should be applied by charities, i.e. straight away or once the Update Bulletin was approved. It was agreed to raise this query with the FRC and share the response with the Committee. **CIPFA**
- 9.5 A member raised the concern about the change to paragraph 10.31 of the SORP, which removed the undue cost or effort exemption for depreciating assets comprising of two or more major components which have substantially different useful economic lives. The Chair explained that the proposed amendment aligned the accounting treatment for these assets with the current treatment required by FRS 102. As the proposed amendment had not arisen as a result of the 2017 triennial review, it is deemed to be a 'clarifying amendment'. The member noted that the amendment realigned the accounting treatment for these assets with the requirements of the 2014 Housing SORP, which offered no undue cost or effort exemption. They observed that those charities which had been able to choose between applying the Charities or Housing SORP had elected to adopt for the former, given that it offered an exemption from adopting component accounting and the challenges this presented for smaller charities.
- 9.6 There was no other business and the meeting was closed.