

Report

To: Charities SORP Committee

From: Sarah Sheen, CIPFA, Secretary

Date: 26 January 2022

Subject: Charities SORP Drafting (Follow-up to Paper 5)

Purpose

The purpose of this report is to consider the processes to be followed to draft the SORP.

Report

1. Introduction

- 1.1 The Committee received a paper on drafting from the joint Chairs at its last meeting on 12 January 2022. That paper is included for information as Annex 1 to this paper.
- 1.2 The Committee discussed:
 - publication of the new SORP by December 2023 would be necessary
 - some elements of the timetable are outside the control of the SORP Committee
 - it will be necessary to think about the consistency of the SORP across modules during drafting.
- 1.3 Subject to confirmation of the minutes, Committee Members accepted the proposals in paragraph 7.5 of Paper 5.
- 1.4 Discussions at the last meeting also identified the need to leave contingency time for addressing emerging issues, such as changes to FRS 102, which may require substantial amendments to the SORP. It was suggested that a meeting may be allocated to this.
- 1.5 Note the CIPFA Secretariat has suggested the proposed approach to drafting to fit into the time available as set out in paper 5 of the last meeting ie April 2022 to end January 2023. It is assumed for this report that the issue date for the SORP will be October 2023. This report also assumes that the SORP production will comply with the FRC's [Policy on Developing Statements of Recommended Practice \(SORPs\)](#), January 2021.

2. Drafting Proposals – Approach to Drafting the Next Edition of the Charities SORP

Topic Review including the Potential Changes to FRS 102 The Financial Reporting Standard Applicable in the UK and Republic of Ireland

- 2.1 Aside from tiered reporting, the need for comparative information relating to the Statement of Financial Activities and the Funds Note and the issues relating to donated goods and services there are no other fundamental changes expected to the provisions of the SORP. However, all the 15 topics required some review and changes to the SORP's provisions. In addition, there are likely to be the five areas of change emanating from the periodic review FRS 102 *The Financial Reporting Standard Applicable in the UK and Republic of Ireland* suggested in paragraph 4.3 of paper 5.
- 2.2 The Secretariat would add that the list of recommendations outlined in paragraph 5.2 of paper 5 at Annex 1 raised by the SORP Governance review (which includes such issues as a '*new approach is needed by the SORP to better meet the needs of smaller charities reporting under the SORP*') are with one exception not specific 'topics' for change but perhaps should be considered to be additional principles that any proposed changes should be reviewed against. The exception is that a '*future SORP should include a statement to the effect that where a charity reports on financial matters out with the SORP compliant accounts, the other financial information reported should be consistent with that detailed in the formal accounts.*' This could be added to one of the relevant groupings (see below).
- 2.3 The Secretariat would suggest that when reviewing any proposed changes to the SORP that the Committee consider them and the issues under review against the recommendations of the SORP Governance review. The Committee will be aware that the SORP amendments will also need to be reviewed against the [SORP-making body's statement of drafting aims and principles](#) that has previously agreed with the joint SORP-making body.
- 2.4 The Secretariat recommends that the topics subject to review should be grouped in a manner which will hopefully to a large extent, address the issues of consistency.
- 2.5 The list of 15 topics were grouped by one of the joint chairs as is demonstrated in Table 1 below. The Committee is asked to consider whether they think this grouping is appropriate or whether it should be changed for a grouping which would better enable the issues that arise to be considered.

Table 1: Groupings of the 15 Topics

Topic Number	Topic
Group 1 - Narrative Reporting	
1	Summary financial information/key facts page
2	Impact reporting (the difference a charity makes)
3	Sustainability reporting (<i>considered as a separate topic</i>)
4	Reserves
Group 2 - Expenditure	

Topic Number	Topic
5	Support costs
6	Expenditure classification
7	Activity reporting (describing how money was spent)
Group 3 - Income	
8	Accrual basis of accounting for grants
9	Donated goods and services
10	Income recognition
11	Legacies
Group 4 - Presentation of Financial Statements (including the Notes to the Accounts)	
12	Presentation of the SOFA
13	Notes on financial information
14	Funds note
15	Materiality

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- 2.6 In addition to this, the Secretariat would suggest that the last two meetings of the drafting period should consider the whole SORP (perhaps in two parts). This would give the Committee an opportunity to consider the consistency issue again. In addition, it would allow modules which have not been changed to be reviewed for consistency with newer text and the need to be updated for events and circumstances. Unless fundamental or an emerging issue is raised no new changes should be brought forward at this point.

Process Issues

2.7 The Charities SORP Committee will also need to consider the timing of issues such as the outcome of the letters to the FRC that will need to be built into the drafting programme.

2.8 The Secretariat would suggest that:

- at each meeting **one of these groupings and tiered reporting** is reviewed by the SORP Committee (tiered reporting would be considered across the topics) with the proposed changes to the SORP, **two hours of** each meeting being allocated to this exercise
- **tiered reporting** should be considered as soon as the FRC provide comments on the letters sent to it with regard to the periodic review, and should also be considered as each topic is brought forward
- ideally the drafting papers be sent **10 days before** a committee meeting (which is longer than the normal 7 days) to allow members sufficient time to review and consider the proposals
- the following meeting would **present the results of the review** (and consider **the next grouping**)
- each meeting should also include a **time slot for emerging issues** which could include the FRC's response to the letters on the periodic review and (when they are available) consideration of the Exposure Draft changes to FRS102 and an assessment of what this might mean for the Draft SORP, this might be done on a topic basis and/or as a complete session depending on the timing of information available
- if this is not needed it could allow a longer time frame for reviewing the previous meetings' conclusions and reviewing progress to date and to consider the impact of tiered reporting on the topics reviewed.

(The Secretariat would note that to accommodate the amount of work necessary for effective review of the Charities SORP drafts that meetings would need to be longer than the 'short' virtual meetings (2-hour meetings) and may need to be 3 hours long and on occasions may be a little longer).

2.9 This would mean that **five meetings** would be necessary for first stage drafting (for tiered reporting and each of the groupings of topics). It is suggested that **one additional meeting** be included to consider both the changes to FRS 102 and to consider **sustainability reporting**. In line with the comments in Paper 2 (and subject to the review by the Charities SORP Committee) it is suggested to allow for more time to understand the latest position with sustainability reporting and that this be considered towards to end of the drafting stage. As discussed earlier **two additional meetings would be useful at the end of the process to review the complete SORP** in two parts making this a total of **8 meetings** for drafting.

2.10 It is suggested that to allow sufficient time for drafting and committee review appropriate time is allowed between meetings. Monthly meetings would not allow for this though there would need to be 8 meetings allowed from April 2022 to end January 2023.

	Recommendation
1	<p>The SORP Committee is asked to consider the suggested approach to drafting and:</p> <ul style="list-style-type: none">• agree the overall approach to the drafting of the SORP (see paragraphs 2.1 – 2.5)• agree the approach to timing and the arrangements for the meetings and the subject matter considered at each meeting (see paragraph 2.8)

	<ul style="list-style-type: none">• consider whether the groupings of topics are appropriate or suggest alternatives – it is recommended there be no more than 5.
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