

Minutes

Board Charities SORP Committee

Date 27 May 2021

Time 10:00 – 12:00

Venue Microsoft Teams

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	Daniel Chan Tony Clark Tom Connaughton Diarmaid Ó Corrbuí Tim Hencher Noel Hyndman Joanna Pittman Carol Rudge Max Rutherford Jenny Simpson Neal Trup	<i>PwC</i> <i>Clark & Co Accountants</i> <i>The Rehab Group</i> <i>Carmichael Centre for Voluntary Groups</i> <i>Scottish Council for Voluntary Organisations</i> <i>Queen's University Belfast</i> <i>Sayer Vincent</i> <i>HW Fisher</i> <i>Association of Charitable Foundations</i> <i>Wylie and Bisset LLP</i> <i>Neal Howard Limited</i>
In attendance	Alison Bonathan Gillian McKay Sarah Sheen	<i>CIPFA, Secretariat to the SORP Committee</i> <i>CIPFA, Secretariat to the SORP Committee</i> <i>CIPFA, Secretariat to the SORP Committee</i>

Observers	Jane O’Doherty	<i>Financial Reporting Council</i>
	Jelena Grisckenko	<i>The Charities Regulator in Ireland</i>
	Stephen Maloney	<i>Financial Reporting Council</i>
	Claire Morrison	<i>Office of the Scottish Charity Regulator (OSCR)</i>
	Amie Woods	<i>Charity Commission for England and Wales (CCEW)</i>

Apologies	Caron Bradshaw	<i>Charity Finance Group</i>
	Michael Brougham	<i>Independent Examiner</i>
	Gareth Hughes	<i>Diocese of Down and Connor</i>

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

- 1.1 The Chair welcomed SORP Committee Members to the meeting.
- The Chair welcomed two observers, Amie Woods (CCEW) and Stephen Maloney (FRC) to the meeting. Stephen is working on the periodic review of FRS 102 *The Financial Reporting Standard Applicable in the UK and Republic of Ireland*. It was noted that Amie was providing the Secretariat for the Large Charities engagement strand.
- The Chair reminded Committee members that there is still a vacancy to chair working group A and invited Committee members to volunteer for this role.

1.2 Declarations of interest

- 1.3 Daniel Chan requested that the minutes record that he sits on the CIPFA Charities and Public Benefit Entities Board
- Later in the meeting, Sarah Sheen noted that she has worked substantially for CIPFA on the IFR4NPO project.

2. Minutes of the Meeting of 13 April 2021

- 2.1 A small number of minor amendments were noted.
- A Committee member noted that the minutes of the meeting held on 13th April 2021 contained a disproportionate number of references to IFR4NPO, giving the impression that IFR4NPO had been discussed at greater length in the meeting than it had been. The Secretariat clarified that the references to IFR4NPO were intended as explanatory. The Chair agreed the Joint Chairs would review the minutes with a view to condensing the references to IFR4NPO but without changing their meaning.

Joint Chairs

2.2 **Matters arising**

2.3 A Committee member enquired why the IFR4NPO paper was not provided with the papers (as referred to in minute 7.3 of the April minutes). The Chair confirmed that this paper has been deferred for future consideration.

2.4 In response to an email received from a Committee member, the Chair sought to clarify the decision-making process and the relationship between the engagement strands and the SORP Committee. The Chair set out that he envisaged the engagement strands would act in a manner akin to focus groups.

The engagement strands would provide an opportunity for debate and additional information, establish whether there is a consensus view to amplify the information already available and present their conclusions to the SORP Committee. However, the engagement strands do not decide on any changes; rather they are a source of advice to the SORP Committee and the SORP-making body. It is the SORP Committee that considers the issues and advises the SORP-making body as to what changes may be needed to the SORP.

The Chair then sought comments from other members of the Committee. There was some agreement that there could be uncertainty and the email in question had struck a chord with some other Committee members, although Committee members did comment that a new approach was being tried therefore a level of uncertainty could be expected.

A Committee member suggested the Chair spend five minutes or so setting out a “route map” at the beginning of each meeting to bring everyone up to speed on current developments and outline future decisions. The Committee member added that this would be particularly useful for members who have missed a meeting.

A further suggestion was that a ‘tracker’ could be kept on Committee progress, what decisions have been made and a summary of different views on the different topics.

The Chair brought the discussion to a close by stating that the Joint Chairs would consider the issues raised and report back to the Committee.

2.5 The Chair noted with thanks Chris Bolt’s contribution as Convenor of the Smaller Charities and Independent Examiners engagement strand, from which Chris is stepping down.

2.6 A link to the SORP-making body’s initial submission to the FRC Periodic Review will be sent to Committee members after the meeting. (Link here: <https://www.charitySORP.org/about-the-sorp/sorp-committee/>) Joint Chairs

2.7 A second example of illustrative disclosures relating to the COVID-19 pandemic is currently being formatted for publication. It is expected this will be available in mid-June. The Chair offered his thanks to colleagues who had contributed to this work.

2.8 The Chair updated the Committee that the Committee’s focus on the IFR4NPO project would be reduced to allow the Committee to focus on the development of the SORP. The Chair anticipates that future contributions to IFR4NPO would be primarily considered offline and be by correspondence. The Chair thanked CIPFA for CIPFA’s work on this project.

3 Paper 2, Updating the SORP-making body's statement of drafting aims and principles

3.1 Drafting Aims

The Chair opened the discussion of the SORP-making body's drafting aims and principles by setting out that changes will not be made unless there is a case for change. Previous SORP consultations had noted a desire for stability wherever possible and the goal is to avoid unnecessary change.

The Secretariat introduced the feedback received from engagement strands on the drafting aims as set out in Paper 2. The Secretariat noted that the need for clarity on who were the users of a charity's annual report and accounts was a key theme in feedback.

The Chair invited comments from the Committee. Following a comment that the difference between the drafting aims and drafting principles was unclear, the Chair clarified that the aims were more overarching and framed the drafting principles and the principles were more granular. The principles set out how the aims can be achieved.

Much of the discussion in the meeting was on Aim 1 ("Drafting Aim 1 – *address the needs of the main users of a charity's annual report and accounts who do not have the power to require specific information of a charity*"), specifically discussing who the main users of a charity's annual report and accounts would be. The following views were provided by Committee members:

- The beneficiaries are the service users in many charities. It is recognised that the focus of charities should always be the service users.
- While beneficiaries are the main users of the *charity*, the main users of the annual report and accounts were perceived to be *funders*. It was noted that research shows beneficiaries largely do not engage with the annual report and accounts. Further, it was noted that funders donate to charity due to altruistic concern, so are focused on the beneficiaries. It is therefore in the interest of the beneficiaries that donors understand the annual report and accounts.
- The narrative commentary in the annual report could be a bridge between the above two positions, by using the narrative to meet the needs of the beneficiaries and the charity's social mission.
- The main user group of a charity's annual report and accounts will depend on the charity. For example, in the experience of the Committee member concerned, regulators were the main users.

The following comments were provided on the wording of the aims:

- The aims should be read as a whole, and in context, to avoid overly reacting to what a single aim does not say.
- The aim is to meet the needs of those "*who do not have the power to require specific information of a charity*". It was noted that large donors do have power to ask for specific information.

The Secretariat highlighted a similar problem in local authorities in that service users do not use the financial statements. A Committee member drew the discussion to a close by highlighting that the public may not have an interest, but it is in the public interest that information is disclosed.

The Chair asked the Committee's view on the Joint Chairs taking this forward and reconsider Aim 1. They confirmed they will review the wording of Aim 1, to bring a clearer focus on charity beneficiaries without changing its underlying meaning and this will be dealt with by correspondence. Otherwise, the Chair noted that the other amendments proposed by the engagement strands were agreed.

Joint Chairs

3.2 **Drafting Principles**

The Chair invited the Secretariat to introduce the feedback received from engagement strands on the drafting principles as set out in Paper 2. In doing so, the Secretariat noted that a lot of feedback from the engagement strands was about aiming language and terminology at the lay user. The Secretariat highlighted the practical difficulties around this, agreeing that drafting needs to be clear, but noting that it cannot avoid all accounting specific terms.

The Secretariat highlighted a second key theme from the feedback was the goal of putting the needs of smaller charities first.

Finally, the Secretariat noted feedback on re-ordering the drafting principles.

The Chair summarised the key points, noting the feedback on prioritising the needs of small charities and the order of the drafting principles as substantive points that would be revisited, and invited comments from the Committee.

The following comments were made:

- there was agreement with the two issues highlighted by the Chair
- narrative reporting around, for example. sustainability issues, carbon emissions, gender pay gap etc. might be mandated in the future.
- with regard to drafting principle 2: - *when making changes to the reporting and accounting requirements to have regard to the potential impact of those changes on the public's continuing support for the legitimate charitable endeavour*, the challenge around the public perception of charities' practices, including investment practices was noted.

The Chair commented that sustainability reporting was a topic covered by the process and the Department of Business, Energy and Industrial Strategy (BEIS) had been invited to address the SORP Committee at a future meeting to outline the UK position on corporate reporting for climate change.

No further comments were made on the drafting principles. The Chair concluded the discussion by stating that the drafting principles as set out in Paper 2 would be taken as a starting point and would be reviewed in light of feedback on prioritising the needs of small charities and reordering the drafting principles.

3.3 **Objectives**

The Chair invited the Secretariat to introduce the rest of Paper 2, which contains feedback on objectives of the SORP set out in the introduction to the SORP and a number of other points raised by the engagement strands.

The Secretariat noted that there was some confusion as to what engagement strands had commented on. Engagement strands had variously commented on the old objectives of the SORP, the proposed objectives for the SORP and the objectives of the financial statements. The Secretariat drew out key themes, which were introduced.

On proposed objective c) (to promote understandability and enhance the comparability of the information presented in charity accounts) the Secretariat noted, in response to comments from some engagement strands, that comparability is important even in cases where charities have different operating models than each other, and that consistency is part of comparability.

On proposed objective e): to assist those who are responsible for the preparation of the trustees' annual report to tell the story of the charity in accordance with objectives a) to c), the Secretariat noted support for the commentary on promoting charities' ability to "tell its story".

One Committee member queried why "relevance" has been removed. It was clarified that "relevance" has been moved to draft objective (b).

The Chair confirmed that the Committee would return to consideration of the objectives at the drafting stage.

4. Paper 3, Settling a future approach to tiered reporting

4.1 The Chair introduced this topic by explaining that tiered reporting is key when framing the new SORP and its reporting requirements. There is still some uncertainty on what the FRC will allow in terms of flexibility in applying Section 1A of FRS102 and this would affect how far the SORP will be able to go in establishing tiers. However, tiered reporting is fundamental in allowing charities to tell their story appropriately. The Chair explained that, although no undertaking to grant such flexibility has been given by the FRC, for the purpose of this discussion, flexibility would be assumed. The Chair then invited the Secretariat to introduce the paper.

The Secretariat drew the Committee's attention to the wide range of views expressed by the different engagement streams on both the number of tiers and the thresholds for the tiers, noting that there was not a clear consensus. Further, the Secretariat noted the ongoing BEIS consultation on "[Restoring trust in audit and corporate governance](#)" as relevant, as one of the proposals relates to the size at which a charity may be classed as a Public Interest Entity (PIE).

The Chair verbally updated the Committee with feedback from the Academics and Regulators and Proxies for Public Interest engagement strand. This engagement strand did not have a strong view on the number of tiers but saw simplifications for smaller charities as positive.

The Chair opened the discussion on this paper by noting that the consensus seemed to be around two or three tiers, and that the current SORP has two tiers. One Committee member asked if the Committee would be making the decision on the

number of tiers at this meeting, because the preferred number of tiers will be affected by other aspects of the process. The Chair responded that the decision would ideally be made now. The number of tiers needed to be known sooner rather than later because this information will be essential to inform the drafting stage.

The following contributions were made to this discussion:

- The Committee were of the view that a case for changing from two tiers had been made but as to what form the tiers should take was a debatable point.
- To note the complexities raised by tiered reporting – that is, having tiers creates a more complex framework to use
- The Smaller Charities and Independent Examiners engagement strand struggled to reach a consensus on the preferred number of tiers. One Committee member suggested three tiers: a small tier (up to £/€250k), a mid-tier (£/€250k - £/€1m) and a large tier (over £/€1m). However, the Committee member highlighted the practical difficulties around introducing a third tier. The Committee member reported that at present, only 8% of charities would sit in the mid-tier as described above. The view expressed was that two tiers therefore seemed more practical as it avoided increasing complexity for the benefit of only 8% of charities. Finally, the Committee member emphasised the need for professionals to understand how best to advise charities, as at present, one third of charities who could use receipts and payments accounts are instead using the SORP.
- There was some agreement that tiered reporting will have a positive impact for small charities.
- Too many tiers will lead to the SORP becoming complicated and difficult to read. This may not make the process easier for smaller charities.
- On the point about smaller charities using the SORP and when they could use receipts and payments accounts, one Committee member commented that this could be due to the advice charities receive from their professional advisors, rather than being a choice driven by the Trustees. There is a need to make it clear to smaller charities that there is a simpler approach.
- It had been difficult to take a clear view on threshold levels etc. There is a case to simplify the SORP for smaller charities, and there may be a case for more than two tiers (see scrutiny and audit processes and the Companies Act 2006 where more than two tiers exist).
- Using “listed” as a name for a tier may be problematic because “listed” has a particular meaning.
- The SORP Committee needs to consider the disclosures anticipated for larger charities given the public interest; large, as well as small, charities need to be considered.
- The focus should be on what good reporting looks like for charities, rather than concentrating on number of tiers.

- Consideration should be given to what the practical differences would be for charities of different sizes, and how the SORP Committee could assist charities of different sizes.
- A Committee member commented that £/€250k seemed high to still allow a charity to use receipts and payments accounts.
- It is difficult to decide on the most appropriate number of tiers, as diluting the SORP for too many organisations should be avoided.
- The SORP Committee needed to keep in mind the different jurisdictions.
- The vast majority of charities are under £/€250k, leading to a case for “thinking small first” then moving up to larger charities.
- Charities take guidance from professionals, so there is a need for professionals to understand the issues.
- There is a need to simplify reporting for small charities. One Committee member commented that £/€250k is too low to be the top end of receipts and payments and that their preference would be for all charities (including companies) under this threshold to be using receipts and payments. Thought must be given to whether charities of this size will be able to spend money on an accountant. The Committee member questioned whether there should be an interim position and commented that it seemed incongruous for charities just over £/€250k to be using the same rules as a charity the size of Oxfam. The Committee member who expressed this view was in favour of more tiers.
- Proportionality is key – assessing proportionality includes consideration of how many users of the annual report and accounts there are. There will be fewer users for smaller charities’ annual reports and accounts. This supports simplifying reporting for smaller charities. The Committee member expressing this view supported allowing receipts and payments accounts for charities under the £/€250k threshold if this better helps the charity to tell its story.
- New Zealand was highlighted as an example of a country with more tiers in its performance reporting for not-for-profit entities. Again, it was noted that the more tiers there are, the more complicated and confusing that the prospective SORP might be. Concerns were raised about moving between tiers.

The Chair reminded the Committee that the extent to which reporting differs between tiers is partly contingent on events outside its control and that the Committee will learn about any further flexibilities in due course. In summarising the discussion, the Chair commented that smaller charities would benefit from simplification of the reporting requirements of the SORP. Further, the Chair noted that large charities are best equipped to deal with complexity and any changes in the tiers.

The Chair summarised the debates of the Committee asking members to confirm or otherwise. The preference was for **three tiers** with a Larger Charities tier. This will be revisited when the SORP-making body learns what freedom it might gain following any outcomes from its letter to the FRC on the Periodic Review of FRS 102.

A Committee member noted that movement between the tiers currently relies on income in an individual year, therefore consideration could be given to changing this,

so a charity meets the condition of the new tier after being at the relevant income level for two years. The Chair indicated that the point would be considered, as it needs detailed thought (for example, consideration of the requirements in the different jurisdictions).

The Chair will tentatively take away a decision of three tiers with the new tier being for the largest charities. This decision which will be “sense checked” at the drafting stage when the definition of each tier will need to be settled.

5. SORP timeline

- 5.1 The Chair presented the SORP development timeline for this stage in SORP development process and outlined how it was established after discussing those topics which would be considered by full Committee and those by sub-groups of the Committee. The Committee understood that there was a need to balance the number of topics selected for discussion, the desire to use break-out groups and the need to avoid discussion being curtailed.

The proposed timeline, which had previously been sent to the Committee (20 May 2021) was considered ambitious, but efforts have been made to make it realistic. Topics scheduled before October have been timed to feed into the FRC’s listening exercise intended to inform the periodic review of FRS102. Some topics have been scheduled later in the timeline to obtain the benefits of research currently being conducted by the engagement strands, the regulators and CIPFA. The Chair stated that there was a need to be mindful of the release date for the revised FRS 102 which framed the timeline as a whole.

A Committee member commented that there is a hard deadline, so there is a need to accept the timeline. The Chair agreed, noting that the timeline was being discussed to ensure this is the best way to work, and to establish if there is any need to amend the timeline, for example if anything has been omitted. The Chair noted in resigning the small charities and independent examiners strand convenor had expressed concern at the work now required. The Chair offered that the number of topics could be reduced but the Committee’s decision to cover 15 topics was being respected.

6. Proposal to extend future meetings to facilitate working group working and overview of the process

- 6.1 The expected time commitment was discussed; the Chair clarified that the timeline builds in two extra meetings and extra time in meetings to allow for breakout groups. It was roughly estimated that an extra 15-20 extra hours will be required for additional meetings, with additional time required for meeting preparation. Additional papers will include briefing papers for the SORP working groups and engagement strand feedback, although the briefing papers will be the same as those sent to the engagement stands to allow a common understanding of the topics being debated.

A number of comments indicated that there was a recognition of the extra time needed with one committee member noting that time saved in travelling to meetings would offset the additional work commitment. It was acknowledged that not everyone would be able to attend every meeting.

The Chair reminded Committee members that there is still a vacancy for a Chair of Working Group A.

- 6.2 The Secretariat outlined the expected practicalities for future meetings, noting that CIPFA would be noting only agreed conclusions and not be taking minutes in the breakout groups. Meetings are expected to last a maximum of three and a half hours, with a break included.

The Chair concluded that the Committee would tentatively proceed on the proposed basis, and that Chairs of the SORP working groups will have discretion to accept contributions by email given some Committee members will be unable to attend all meetings. The Chair stated that the joint Chairs would not attend the working groups to avoid inadvertently influencing the discussions of the working groups.

7 Any other business including future Committee meetings

7.1 Future Committee Dates

- 7.2 It was noted that there would be two meetings scheduled for January, the first would be to cover sustainability issues and the second would be to meet with the engagement strand convenors to “sense check” the final position. The meeting in February will be an early scheduling meeting to discuss the practicalities of updating the SORP.

Feedback was also requested on when a research meeting would be best scheduled. The meeting will be a stand-alone meeting but needs to be held before drafting stage.

7.3 AOB

- 7.4 A Committee member highlighted that the BEIS Consultation included a question about PIE status for some charities, and suggested that colleagues consider responding to the consultation (available here: <https://www.gov.uk/government/consultations/restoring-trust-in-audit-and-corporate-governance-proposals-on-reforms>). The Chair commented that the outcome of this might be relevant to tiered reporting.

- 7.5 It was agreed that the Secretariat will be with provided links to research surveys and will send these links to Committee members after the meeting CIPFA