Minutes

Board	Charities SORP Committee
Date	4 August 2021
Time	09:30 – 11:00
Venue	Microsoft Teams

Joint Chair	Laura Anderson	*Office of the Scottish Charity Regulator (OSCR)*
	Nigel Davies	*Charity Commission for England and Wales (CCEW)*
	Damian Sands	*Charity Commission for Northern Ireland (CCNI)*
Members present	Michael Brougham	*Independent Examiner*
	Tony Clarke	*Clarke & Co Accountants*
	Diarmaid Ó Corrbuí	*Carmichael Centre for Voluntary Groups*
	Gareth Hughes	*Diocese of Down and Connor*
	Noel Hyndman	*Queen's University Belfast*
	Joanna Pittman	*Sayer Vincent*
	Carol Rudge	*Grant Thornton*
	Max Rutherford	*Association of Charitable Foundations*
	Neal Trup	*Neal Howard Limited*
In attendance	Alison Bonathan	*CIPFA, Secretariat to the SORP Committee*
	Gillian McKay	*CIPFA, Secretariat to the SORP Committee*
	Mark Mclean	*CIPFA, Secretariat to the SORP Committee*
	Sarah Sheen	*CIPFA, Secretariat to the SORP Committee*

Observers	Jane O'Doherty	*Financial Reporting Council*
Apologies	Caron Bradshaw	*Charity Finance Group*
	Daniel Chan	*PwC*
	Tom Connaughton	*The Rehab Group*
	Tim Hencher	*Scottish Council for Voluntary Organisations*
	Jenny Simpson	*Wylie and Bisset LLP*

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

1.1   The Chair welcomed SORP Committee Members to the meeting.

The Chair and the Committee extended best wishes to Tom Connaughton who was unable to join today's meeting.

1.2   Declarations of interest

1.3   Sarah Sheen noted that she has worked substantially for CIPFA on the IFR4NPO project and that she is secretariat to the CIPFA Charities and Public Benefit Entities Faculty Board.

The Chair advised that Sarah's declaration of interests could be maintained as a standing declaration of interests for future meetings.

2.   Minutes of the Meeting of 8 July 2021

2.1   Minor amendments were noted.

Otherwise, the minutes of the meeting were accepted.

2.2   Matters arising

2.3   Referring to Minute 3.3-3.4, the Chair thanked Committee members who had provided comments on a rewording of Aim 1 of the Aims of the SORP drafting process. The Chair reminded Committee members that the Aims are important as they set the context for SORP drafting and that Committee members are still able to provide feedback on Aim 1 by email.

2.4   Referring to Minute 3.5-3.6, the Chair advised Committee members that the Joint Chair's response to the IFR4NPO initiative consultation on General NPO financial reporting issues had been submitted. The response is available on the Charities SORP website (here and here).

2.5   Referring to Minute 4.4, a Committee member noted that when discussing reserves policy, there is an additional facet to consider. Specifically, the Committee member noted that the SORP does not address whether having a reserves policy is mandatory and suggested that this should be clarified in the next SORP. The current SORP requires a charity to explain its reserves policy if it has decided not to hold reserves but offers no guidance to charities that do not have a reserves policy.

The Chair noted that requirements for a reserves policy depend on the charity's jurisdiction, and that, because the SORP contains accounting and reporting requirements rather than requirements as to governance arrangements in charities, the SORP cannot make it mandatory for a charity to have a reserves policy.

A Committee member noted that, for charities in England and Wales, CC19 Charity reserves: building resilience states that charities should have a reserves policy (noting that this is not a legal requirement).

The Chair concluded this discussion by stating that at the drafting stage, consideration can be given to the SORP's requirements in this respect, but that the SORP cannot mandate trustees having a reserves policy.

2.6 Referring to Minute 6.0-6.1, the Chair thanked Committee members who had volunteered to chair the SORP Working Groups.

3 Paper 2, Possible approaches to changes in the Presentation of the Statement of Financial Activities (SoFA) Presentation

3.1 Before introducing Paper 2, the Chair noted that feedback on both the SoFA and the notes to the accounts (Paper 3) had been received from the Small Charities and Independent Examiners Engagement Strand, but due to an oversight by the Chair had not been included in either Paper 2 or Paper 3. The Chair apologised to the Committee for this oversight and advised that feedback from the Small Charities and Independent Examiners Engagement Strand would be raised verbally during discussions. (The Committee had received feedback from the Small Charities and Independent Examiners Engagement Strand by email before the meeting.)

3.2 The Secretariat introduced feedback on the SoFA from the Engagement Strands as reported on in Paper 2. In summary, the Engagement Strands had suggested that requirements for the SoFA should change as little as possible. However, there were caveats to this and nuances were noted in the feedback:

- There was no support for an upside-down SoFA beginning with expenditure followed by sources of income.

- Professional and Technical Engagement Strand (B) had suggested research should be conducted on how the SoFA could be refocussed.

- Some Engagement Strands noted that there has not yet been a response to the SORP Committee's letter to the FRC on proposed amendments to Financial Reporting Standard FRS 102 and the future of charity reporting and accounting. Some engagement strands had also noted the letter to the FRC with regard to comparative information.

- Feedback was received on reducing the amount of comparative information shown on the face of the SoFA. Most responses were in support of a reduction. However, the Major Funders Engagement Strand were not in favour of reducing comparatives, noting that they found the comparatives very useful and had become accustomed to the information being readily available to funders and donors on the face of the SoFA.

- Natural classification can be used for small charities.

3.3   **Upside-Down SoFA**

3.4   The proposals for an upside-down SoFA were debated by the Committee.

Two Committee members noted disappointment that Engagement Strands did not want an upside-down SoFA commenting that:

- An upside-down SoFA is an interesting idea in the context of charities' role in spending money for charitable purposes and then explaining how it was financed.

- An upside-down SoFA would allow for a focus on brought-forward reserves. This could avoid a perception that reserves are "banked" rather than used in the future for charitable purposes.

To ensure engagement strand feedback represented a common view, Committee members sought clarity on the extent of engagement strand feedback against the idea of an upside-down SoFA. The Secretariat confirmed that none of the engagement strands had offered support for an upside-down SoFA. The Chair confirmed that feedback from the Small Charities and Independent Examiners Engagement Strand was not supportive of an upside-down SoFA.

Committee members commented on matters around consistency of presentation as follows:

- In their discussions, funders had focussed on consistency and the importance of being able to compare one year to the next. The merits of changing the order of presentation of the SoFA had not been the focus of discussions.

- Feedback from engagement strands indicated that their members were comfortable with the current, familiar presentation and were concerned that any new presentation would potentially increase complexity. The potential benefits of an upside-down SoFA in terms of improving financial governance had perhaps been overtaken by concern about the impact of making a change.

- For charities that are also companies, there are further potential complexities due to the need to adhere to company law as well as the SORP.

However, one Committee member questioned whether an upside-down SoFA would make a difference to financial governance. Rather, the Committee member believed clarity and use of natural classification would be more important.

The Chair drew the discussion to a close with a tentative conclusion that an upside-down SoFA would not be introduced, noting a minority view that flexibility could be helpful to some. An option to allow flexibility could be considered at drafting stage, however, it was noted that options can increase complexity and therefore may not be the preferred route.

One of the joint chairs sought the views of Committee members on whether the briefing paper for this discussion might have been more useful if it had, for example, included illustrations of the proposed options, noting that illustrations may have helped alleviate fear over the potential complexity of proposals. While there was some

agreement that illustrations may have been helpful, it was noted that the proposed options in the briefing papers did come from previous scoping work that had involved the engagement strands.

3.5   **Use of Comparative Information and the SoFA**

3.6   Feedback from the engagement strands had shown a consensus view that inclusion of a comparative for every balance on the SoFA made it cluttered. However, feedback from the Major Funders Engagement Strand indicated the comparatives are useful to accounts preparers. The Chair invited comments from the Committee, noting that any decisions on comparatives would be tentative and subject to the response from the FRC to the letter from the SORP-making body.

Feedback and comments from Committee members included a comment that funders appreciate the comparatives being on the face of the SoFA. One Committee member commented that it is important that information is readily available to the users of the accounts. Funders are used to seeing the comparatives on the face of the SoFA. Removing them, or moving them to a note, may increase work for grant applicants if funders ask for additional information due to loss of visibility of comparatives.

However, most comments sought alternative presentation of comparatives with a view to reducing clutter on the face of the SoFA. Comments included the following:

- Several comments related to clutter created by comparatives on the face of the SoFA, including the potentially detrimental effect this may have on the users of the accounts.

- Rather than showing all comparatives on the face of the SoFA, consideration could be given to including comparatives in a note. Preparers could include a sentence under the SoFA directing users to the notes containing comparatives.

- It is currently permissible for some comparatives to be included in the notes rather than on the face of the SoFA. [*The Secretariat notes paragraph 4.2 of the SORP which states that "comparative information provided for the total funds of a charity must be presented on the face of the SoFA. Comparative information provided for the separate classes of funds, if any, held by a charity may be presented either on the face of the SoFA or prominently in the notes to the accounts."*]

- Grant applicants could include prior year financial statements in their grant applications to ensure appropriate information is readily available for funders without including clutter on the face of the SoFA.

- There does not need to be a one-size-fits-all approach. Tiering could allow smaller charities to reduce the amount of information provided, or to present information differently.

- The requirement to present comparatives for every value can have unintended consequences that ultimately reduce the usefulness of information. For example, preparers may decide against presenting a helpful breakdown of a balance to avoid presenting the comparative figures.

One Committee member expressed a preference for the 2005 SORP presentation of a SoFA, i.e. comparatives shown in a single total column on the face of the SoFA with detail in the notes.

In addition to comments from Funders, one Committee member did speak in favour of comparatives on the face of the SoFA, noting that they had changed their view on this. The Committee member found comparatives on the face of the SoFA to be useful, commenting that it would be disadvantageous for users to have to look too hard for comparatives. It was noted that while it may be possible to reduce clutter by reducing the amount of comparatives on the face of the SoFA, the information should be provided in the notes to the accounts to avoid the loss of useful information. The Committee member's preference was for comparative information to appear on the face of the SoFA.

The Chair closed the discussion with the tentative conclusion that it would be preferable for charities to be able to show comparative information either in the notes to the accounts or on the face of the SoFA. There is a need to think of the users of the accounts, including consideration of where the comparative information should be located to be of most use to the users of the accounts.

3.7 **Descriptions**

3.8 There was broad consensus that there was no need to change descriptions. A sense check of the descriptions of income and (especially) expenditure may be useful. However, there was general agreement that, for reasons of consistency over time, the SORP should retain the current approach. There is not sufficient evidence that a new approach is needed.

The Chair confirmed that there is a description of each line item in Module 4 of the SORP.

One of the joint chairs reminded the Committee that expenditure classification will be the subject of a separate briefing paper and consultation exercise, therefore the issue of expenditure classification will be revisited.

3.9 **Natural Classification**

3.10 The Chair opened this discussion by highlighting the importance of clarity. The Chair invited comments on the merits of offering smaller charities options.

One Committee member commented that natural classification for income and expenditure would simplify reporting and make the accounts easier to understand, noting that further detail could be presented in the notes if necessary. It was noted that some of the existing classifications are not readily understandable by the users of the accounts, or by some of the volunteers who are responsible for preparing charity accounts without having a financial background. Given that the majority of charities are small charities, it is important that users and preparers of small charity accounts can understand classifications within the accounts.

One Committee member supported the use of natural classifications, noting that a lot can be done without too many changes to the SORP. Natural classification is already permitted; amendments to the presentation of the SORP may allow greater visibility and understanding of natural classification. If the SORP was drafted to put 'small first',

for example by including more illustrations, or re-ordering paragraphs to prioritise natural classification, smaller charities may be more likely to adopt natural classification. Two Committee members expressed agreement with this. The Chair therefore expressed a tentative view that the SORP Committee would support steps to ensure natural classification is more obvious within the SORP and easier for charities to choose. Consideration as to setting out the natural classification format would be given but it was not considered necessary to mandate the use of natural classification at the present time.

4. Paper 3, Settling a future approach to the Notes to the Accounts

4.1   Paper 3 was introduced by the Secretariat.

The Chair noted four points that were considered key for the discussion of notes to the accounts:

- comparatives – engagement strands had provided feedback on the use of comparative information; therefore, the issue of comparatives would be revisited in this discussion. It was noted that this discussion and any conclusions would be subject to the view taken by the FRC of the joint SORP-making body's letter on proposed amendments to FRS 102 and the future of charity reporting and accounting, therefore the issue of comparatives may require further consideration once the outcome of the periodic review by the FRC is known

- accounting policies

- simplification and tiering

- transparency- including the relationship between upholding transparency and reducing clutter by removing notes that are not material to the charity or reducing the content of notes.

Several Committee members agreed that simplification of the notes would be beneficial; decluttering would be beneficial from both a user and an accounts preparer point of view. This could be considered module-by-module at the drafting stage. Feedback from the engagement strands as presented in Paper 3 was echoed by feedback from the Small Charities and Independent Examiners Engagement Strand, which supported simplification for smaller charities, in particular with respect to financial instruments and pensions.

The unique position of funders, as both users of charity accounts and preparers of their own accounts, was considered. As users of accounts when making funding decisions, funders need information about the going concern status and governance arrangements in a charity to help inform the funders on the security of any grants. As preparers of their own charity accounts, funders understand the importance of transparency in disclosures. Such transparency allows an applicant for funding to perform due diligence on funders to ensure that funds are being sought from a source that does not run contrary to the applicant's charitable aims. Decluttering was considered to be appropriate, but it was emphasised that transparency should be retained.

One committee member highlighted the need to consider how to effect decluttering of the accounts. It was noted that large funders do not have to rely solely on the accounts for information; funders can ask for additional information if they need it. This is relevant when considering whether information needs to be included in the accounts or the notes. Further, if decisions are to be taken on retaining information in the notes for the purpose of transparency, a working definition of "transparency" would be required.

As a way to enable decluttering without the need for extensive changes to the SORP, one Committee member emphasised the importance of materiality. Notes and accounting policies only need to be included in a set of accounts where they are material. This is part of the existing SORP; it was noted that the SORP could make it clearer that disclosures may not be required for immaterial items. Three other Committee members agreed with the point about materiality. Further comments on materiality included the following:

- Consideration could be given to simplifying difficult accounting treatments for smaller charities, for whom the items are less likely to be material. For example, the requirements to discount long term debtors or capitalise leased assets are less likely to materially change the accounts of a smaller charity. Amending the accounting requirements would automatically declutter the disclosure.

- Consideration could be given to numerical materiality for related parties. Where related party transactions are material by nature, the notes to the accounts could become cluttered with small donations by trustees. This could be addressed by a numerical level of materiality for some related party transactions.

- There should be increased visibility of materiality in the provisions of the SORP.

Reference was made to the feedback from engagement strands that reliance on weblinks is problematic, particularly if the weblinks break. Examples were provided of weblinks that did not work. This was considered to be an important point that should be reflected on throughout the drafting of the new SORP when considering what information is contained in the accounts.

As a way to improve presentation, reduce clutter and avoid 'boilerplate' disclosure, one Committee member suggested that the SORP could provide a template of policies that one could expect a charity to apply. This would allow charities to report their accounting policies by exception if they use a different accounting policy to the one included in the template, or if there is a choice of accounting policy for an item in the accounts. This would allow charities to avoid including accounting policies that merely state the 'obvious' in their accounts.

The Chair offered tentative conclusions as follows:

- At drafting stage, the option to allow weblinks in place of inclusion of information in the notes to the accounts can be revisited.

- It is unlikely to be possible to direct users of the accounts to the SORP to establish common accounting policies as users are unlikely to access the

SORP itself and the SORP is designed with preparers in mind. However, the SORP-making body will consider the other solutions suggested.

- Subject to the outcome of the FRC's periodic review of FRS102, consideration can be given to removing some notes for smaller charities, although decision-useful information cannot be removed from the notes.

The Chair noted that any decisions will be subject to the flexibility the new FRS 102 standard provides. Further, the Chair agreed that the SORP-making body should bring its view of 'transparency' to the Committee early next year.

5.   Any other business including future Committee meetings

5.1   **Future meetings**

5.2   The Chair noted that representatives from the Engagement Strands who have commissioned research will be asked to speak at the planned research meeting.

The Chair advised the Committee that the research meeting will facilitate a gap analysis to be conducted with the findings shared in a meeting with representatives from Engagement Strands and the Committee planned for early in 2022.

The Secretariat noted that CIPFA are currently working to arrange dates for future meetings and will send options to the Committee and also to the Engagement Strands.

5.3   **AOB**

5.4   Following the conclusion of this meeting, Committee members would join working groups to consider Materiality and Legacies topics. The Secretariat briefed the Committee on the technicalities of this, noted that Working Groups A and C would need to elect stand-in Chairs for today only, and invited comments from Committee members if there are opportunities to improve this process ahead of future meetings. The Secretariat advised Committee members that CIPFA staff would join the working groups to note down actions, majority views and minority views, but would not be formally minuting the working group meetings.

As the Joint Chairs are not joining working groups, the Chair closed the formal part of the meeting by thanking Committee members for their contributions.