

Charities SORP Committee Minutes

Date	9 November 2020	
Venue	Microsoft Teams meeting	
Joint Chair	Laura Anderson	<i>Office of the Scottish Charity Regulator (OSCR)</i>
	Nigel Davies	<i>Charity Commission for England and Wales (CCEW)</i>
	Damien Sands	<i>Charity Commission for Northern Ireland (CCNI)</i>
Members present	Caron Bradshaw	<i>Charity Finance Group</i>
	Michael Brougham	<i>Independent Examiner</i>
	Daniel Chan	<i>PwC</i>
	Tony Clarke	<i>Clarke & Co Accountants</i>
	Tom Connaughton	<i>The Rehab Group</i>
	Diarmaid Ó Corrbuí	<i>Carmichael Centre for Voluntary Groups</i>
	Tim Hencher	<i>Scottish Council for Voluntary Organisations</i>
	Noel Hyndman	<i>Queen's University Belfast</i>
	Joanna Pittman	<i>Sayer Vincent</i>
	Carol Rudge	<i>Grant Thornton</i>
	Max Rutherford	<i>Association of Charitable Foundations</i>
	Jenny Simpson	<i>Wylie and Bisset LLP</i>
	Neal Trup	<i>Neal Howard Limited</i>
In attendance	Gillian McKay	<i>CIPFA, Secretariat to the SORP Committee</i>
	Milan Palmer	<i>CIPFA, Secretariat to the SORP Committee</i>
	Sarah Sheen	<i>CIPFA, Secretariat to the SORP Committee</i>
Observers	Jenny Carter	<i>Financial Reporting Council</i>
	Jelena Griscenko	<i>The Charities Regulator in Ireland</i>
	Claire Morrison	<i>OSCR</i>
Guests	Alan Rawling	<i>CCEW</i>
	Deirdre O'Dwyer	<i>CCEW</i>
	Clare Thomas	<i>CCEW</i>
	Freya Johnson	<i>PwC</i>
	Harry Hayes	<i>PwC</i>
Apologies	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 and guests to the meeting. During the meeting the Chair also welcomed Damien Sands from the Charity Commission for Northern Ireland to the committee as the new joint Chair.

There were no declarations of interest.

2. Minutes of the meeting of 22 October 2020 and matters arising

2.1 The draft minutes of the previous committee meeting were agreed as being an accurate record of the meeting with one minor amendment. The Chair invited any members with any typographical amendments to email CIPFA directly.

2.2 Chair's reflections

2.3 The Chair noted that the reflections from the conversation in committee – points noted by the Chair had been sent out with the papers. Page 1 is a note of the meeting (the text in black font). The text in blue font (page 2) presents the reflections from the Chair as a prompt for further discussion with the Committee. The Chair requested that members particularly feedback on this area. The Chair acknowledged that a member had already fed back thoughts from the first meeting. Page 3 are the points raised by the presenters at the first research meeting. Any comments to be sent to CIPFA.

3. Research presentations from CCEW - Findings from reviews of charity accounts- Alan Rawling, Deirdre O'Dwyer and Jeff Prescott

3.1 The research focused on CCEW reviews of public reporting which led to thematic research papers.

The CCEW findings have been based on charities in England and Wales but have been considered for their wider relevance.

The findings are based on research that has taken place over a number of years. They focus on the Trustees' Annual Report and Accounts and have considered charities over the filing threshold (in excess of £25k).

For all groups overall there appears to be a clear understanding of the need to explain what the charitable purposes of a charity are. Studies have shown that the public are interested in more than the accounts. They want to understand what the impact of the monies raised has been. Impact reporting has been encouraged in the new SORP.

When looking into the detail the results are less favourable. Fewer than one in ten charities went beyond compliance and reporting effectively on impact.

It was considered that there was a high-level awareness of reserves and risk reporting but when analysed in more detail four out of five charities did not report the correct reserves figure while half the charities did not provide the risk disclosure required by the new SORP. The charities in question didn't explain what the main risks are, and the actions taken to mitigate against these risks might be instead they provided generic statements.

When the CCEW considered the impact of the pensions deficit only two out of five charities did this correctly.

In accordance with the recommendations of the SORP Governance Review the research also looked at smaller charities – between £25k and £250k – non-company charities that were eligible to present their accounts on a receipts and payments basis (though these charities could elect to follow

the SORP). Half of those considered provided accruals accounts and one in four met basic SORP compliance using the CCEW's benchmark.

Despite this apparently good progress one in five of the charities examined did not produce a SOFA and half of the accounting policies did not refer to the new SORP with some charities referring to the 2005 SORP (and even on occasion earlier editions). Two-thirds of charities did not complete the related parties note and did not acknowledge the new requirement in the SORP to present a nil disclosure.

The research also covered charity accounts over £250k. The standard of reporting was higher in this group, but there were still some concerns relating to the reported information. Some charities were still failing to disclose related parties, with others not providing an income and expenditure statement per the Companies Acts requirements and others did not produce a SOFA.

The research included some reflections for SORP developments – the good news is that there is a picture of SORP awareness, but it is not clear that there is full engagement with the SORP.

There is a compliance culture with the Trustees Annual Report and Accounts being produced as an obligation rather than seeing it as an opportunity to engage with charities stakeholders on what it is they do.

Those charities using the new SORP must convey its requirements and should establish best practice, but it is not clear that trustees are engaged with this.

There appears to be an incomplete understanding of the process and how the concepts are explained in the new SORP. Awareness of the changes appears to be taking some time.

Accounts size does correlate with standards of compliance though it should be noted that there are some good sets of accounts produced by smaller charities and less good sets of accounts produced by larger charities.

The next steps appear to require producing a SORP that is more easily understood particularly by charities that qualify for the receipts and payments reporting requirements.

Lack of knowledge by this group is apparent. Some may not be aware that there is a new SORP or understand its objectives.

3.2 Sustainability reporting (with a focus on environmental reporting), Clare Thomas, CCEW

- 3.3 There is a growing body of UK and EU legislation and regulation regarding sustainability and environmental reporting, which continues to develop. It was theorised that as such it may be appropriate for the SORP Committee to consider whether the SORP should address these reporting requirements. This would focus on the disclosure by a charity of its sustainability and environmental performance in a similar vein to that of its financial performance.

There is no worldwide agreed definition of sustainability although three elements of sustainability, defined at the World Economic Summit in 2005, are commonly accepted, these are:

- the environmental element
- the economic element, and
- the social element.

The CCEW is currently undertaking research into responsible investment. Public responses are sought regarding the following questions:

- What are your experiences and current considerations concerning responsible investments?
- What barriers are there to more widespread responsible investments?
- What more could be done to support trustees to invest in a way that reflects the charity's purpose and values?

The SORP-making body has also released Information Sheet 5 (originally issued 11 June 2020) which addresses The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018, as applied to Charitable Companies.

To ensure additional reporting is adopted by charities there needs to be a reason to make this attractive.

The advantages of increased sustainability and environmental reporting are:

- Increasing transparency
- Comparability
- Encouraging focus on sustainability
- Good governance
- Potential cost reduction
- Enhancing decision making.

The disadvantages are:

- Increased reporting burden
- Disproportionate reporting requirements (it is unlikely that one size fits all)
- Lack of consensus on what is being reported

There are many legal and other reporting requirements already in place for larger companies which could be adapted for charity reporting. These are:

- Streamlined energy and carbon reporting regulations
- International Integrated Reporting Framework
- Standards by International Organisation for Standardization
- Sustainability Reporting Standards
- Organisation for Economic Co-operation and Development (OECD)
- Guidelines for Multinational Enterprises
- Sustainability Accounting Standards Board Standards
- Task Force on Climate-related Financial Disclosures (TCFD) recommendations on financial disclosure
- Environmental Key Performance Indicators
- Climate Change Reporting Framework

Going forward the following questions or options arise:

- Should charities produce reports on sustainability (other than those already required to)?
- Does the public expect it?
- Should the SORP include provisions to support this?

The Committee could consider whether there could be a no obligation approach or signposting of sustainability reporting requirements for charities of a certain size and whether advice and guidance or further information sheets should be produced to support this.

3.4 *Feedback and Comments*

Regarding paper 1 a member enquired about the benchmarks used. It was noted that the Commission's external scrutiny benchmark based on legal requirements was used. Queries were raised on whether this was a high enough standard to encourage improvements in reporting.

A committee member commented that the impact on small charities should be considered. In small charities, it is not the trustees who prepare the accounts this is left to the independent examiners or accountants.

Sustainability and carbon reporting – exempt charities are already experienced in this. Could this be extended?

The Committee wanted to identify whether any support would be needed for additional reporting requirements. This would also require the committee to lead on this and to provide reassurance to trustees that they can comment on areas beyond their charity's objectives

The Committee considered it also needs to remain mindful that there are still so many challenges that are to be faced. Recognising where the

current position and what is achievable in the next SORP revision is important. A concern regarding sustainability is that some of the documents flagged are very detailed with substantial reporting requirements. A committee member referred to these as 'Large, loose, baggy monsters'. The reporting requirements may be intriguing, but their extent is very wide-reaching. Other bodies may be better placed to lead on this.

There would be an impact of not doing this well. Substantial amounts of work would be required to get this right. There was a lot of criticism of the current SORP that it was too long. The great danger of introducing sustainability reporting is that it may take the SORP Committee 'down a rabbit hole' with reporting requirements heading into different directions. The Committee might wish to consider doing some awareness work or signposting but needs to be careful with this.

The committee would need to consider whether it was creating a to-do list or priority list of areas for SORP development. It would need to consider where would sustainability or environmental reporting fit into that list? There was a long way to go yet to get progress on this. This is not to undermine the importance of sustainability, but the committee needs to be very careful regarding what they recommend if this is a priority.

A committee member commented that small charity practitioners may be producing accruals accounts without realising that that is what they are doing and not applying the SORP (or without understanding the SORP reporting requirements).

It is often not clear to trustees what form of accounts is used because of the lack of skills and knowledge.

A further point raised was that burden of exercising choice in reporting requirements was sometimes difficult.

4.0 Committee member research review: Daniel Chan, Freya Johnson and Harry Hayes - PwC Building Public Trust Awards (PAPER 3)

4.1 The PwC Building Public Trust Awards consider good practice in financial reporting and have a specific award for annual charities reporting in the trustees' annual report and accounts. The award is looking for reporting that goes beyond basic requirements of the SORP. The award adopts assessment criteria informed by a 'Public Opinion Panel' that covers a wide range reporting themes with regard to the Trustees' Annual Report and Accounts.

The main reporting themes include:

- clarity of charitable purpose
- alignment of strategy, purpose and achievements
- demonstrating a link between vision, strategy and values

- measuring success and outputs
- valuing impact.

Charity reporting that meets these objectives demonstrates a clear and coherent story. A good example is the trustees' annual report of The Royal Society, the winner of the 2019 award.

Other key examples from charities are those which:

- show how goals relate to their mission, and
- had a clear justification of their charitable purpose in their trustees' annual report demonstrating why they exist. The reports also provide clear indicators of how they support these aims.

Overall, however, charities are still on a journey with impact assessment with few showing their impact or value of the impact.

Financial review

The key aspects of an effective financial review would be to show the links between the income and expenditure within the SORP categories and how this relates to the information provided in the trustees' annual report. This is important to the public and therefore charities should ensure the numbers are well explained within their reporting.

Good examples from charities are those which:

- provided a two-page summary which aligned with the relevant areas of the trustees' annual report and accounts
- demonstrated the link between income received by the charity to how they fund their charitable activities, and
- stated not just how much was spent or earned but also showed the outcomes of such expenditure.

Open Balanced and Authentic Reporting

An effective annual report is open, balanced and transparent. Examples of charity reporting were highlighted which:

- show the charity was upfront about the issues it encountered in 2018 and this impacted on its annual report,
- explained how the charity could improve to justify future funding.

In terms of demonstrating openness key performance indicators are a useful mechanism to demonstrate this, including explanations of where targets are not met.

People and Workforce Reporting

Some charities demonstrated greater openness on their spend on remuneration. An example of a charity was given which provided a

commentary on its responsibilities for their key management personnel as well as information on staff pay ranges across the organisation.

Digital Reporting

The presentation also showed examples of digital reporting. An example was given of a charity which had a digital dashboard on its performance. It was noted that digital reporting may require additional time commitment to keep this updated, but this was impactful as more up-to-date information was given in the same format as how their performance was presented in their trustees' annual report.

4.2 SORP and Irish Charities- Tom Connaughton and Diarmaid Ó Corrbuí

4.3 For Irish charities, the SORP is adopted voluntarily. It is understood that the Regulations required to implement charities reporting in the Republic of Ireland are imminent. So hopefully implementation of formal SORP adoption will be soon.

Nearly 100 responses were received from charities asked about SORP adoption. The legal framework for charities is still quite new in Ireland. The Charities Act was introduced in 2009 and the charity regulator was not in place until 2014. Most Irish charities are very small. 60% of them are less than £250k. Only a small number of Irish charities (683) filed SORP accounts in 2018.

The introduction of legislation would give people the impetus that is needed to engage with the SORP further.

The survey results show that 69% of respondents prepare SORP accounts. For large charities, 81% of respondents compiled SORP based accounts, meaning that 19% of large charities that responded do not prepare SORP based accounts. This can be compared with small charities responding to the survey where 48% indicated that they prepared SORP based accounts.

For those that have adopted the SORP early the main reason given for doing this was that it was best practice. This is set against a backdrop that SORP adoption is currently not a legal requirement. Some respondents did comment that there were regulatory reasons for SORP adoption such as grant requirements etc. Some respondents indicated that they had adopted SORP accounts in anticipation of this becoming a requirement.

When considering how the SORP meets the needs of stakeholders (beneficiaries, members, funders) 89% of respondents said the SORP meets these needs, well or reasonably well. This meant that 11% felt it didn't meet these needs indications being that their stakeholders don't look at accounts and boards and users don't understand the information based on SORP compliant accounts.

In terms of understanding information in the accounts, the areas of difficulty cited were income recognition, issues relating to resources and knowledge or uncertain application of requirements. For example, respondents felt there was a risk of different charities reporting the same income streams in different ways.

One of the most frequent issues relating to the application is the existence or otherwise of SORP specific software. Other commentary included that more worked examples on the SORP microsite might be useful.

When asked whether any changes might be required for the SORP to be adopted in Ireland 59% of respondents indicated that the SORP did not need to change. This meant that 41% of respondents suggested change focussing on:

- more options for tiers/size of charities
- reduce the requirements of fund accounting and SOFA
- income recognition– allow amortisation of multi-annual and capital funding/grants

Respondents also cited external audit fees and internal resource capacity as reasons not to adopt the SORP (both at 67%). In addition, limitations of the internal accounting system and funder requirements are reasons provided for not adopting the SORP. It was acknowledged that this may change, as large charity funders in Ireland are starting to request SORP accounts as part of the application process.

75% responded under 'Other' that charities won't engage until it becomes a legal requirement.

60% of respondents not using the SORP were of the view that SORP adoption was beneficial with only 5% being of the view that it was not beneficial.

Changes that could encourage adoption of the SORP would be to make it simpler and easier. Worked examples and training would be useful. The committee was invited to recommend any software that can meet SORP reporting.

The high response rate indicates that those that are using the SORP believe there is a benefit in doing so.

4.5 *Building Public Trust Awards*

Committee members are receiving feedback from clients that capital grants are an area the SORP may be able to provide more recommendations.

Diversity and inclusion: This will be more and more of an issue in the future. It is interesting to note how much attention is given to the remuneration reporting examples.

There were challenges to the sector of reporting remuneration in terms of what it is paid and the ratios that can be produced but care needed to be taken to add context to this information. What needs to be made clear is that all monies received go to the charitable causes.

As more charities embrace this reporting it may be good to disclose the level of risk that is managed, and that remuneration is too low to suit the charitable purposes of the charity rather than too high. This may also help

some of the comments in the press in addressing concerns about charity pay.

A member commented that achieving transparency can be the 'sunlight' that leads to effective reporting of the key messages in the sector while some forms of transparency can be the 'torch' which destroys the key messages.

There is a challenge around the use of ratios as good practice. All money goes to the cause, whether they spend it on administration or direct charitable expenditure it all "goes to the cause".

4.6 *SORP and Irish Charities*

There were not any clear examples of SORP specific software, Excel remains the go-to software which retains the feeling of the SORP being difficult to implement. It was noted that any SORP specific software in the UK would be available for Ireland.

Impact reporting delivers a feeling for what the charity is achieving. It is good to illustrate this with a proper narrative reporting that tells the story of impact. Narrative reporting is also important as a good way of illustrating work alongside the numbers as well.

Until the SORP is a mandatory reporting requirement there will be variances in reporting and uptake. It was considered that those Irish charities that have adopted the SORP may be more likely to have international connections i.e. charities linked to UK charities, so they adopt following these connections ie UK adoption. Although some of those that did adopt the SORP indicated that they had done so for 'regulatory reasons', the vast majority didn't give this as a reason for SORP adoption.

5 AoB

5.1 There were no other items of business.

5.2 The next meeting was scheduled for Friday 13 November from 10:00 to 11:00