

Minutes

Board Charities SORP Committee

Date Tuesday 16th February 2021

Time 14:00 – 16:00

Venue Microsoft Teams

Joint Chair	Laura Anderson Damian Sands	<i>Office of the Scottish Charity Regulator (OSCR) Charity Commission for Northern Ireland (CCNI)</i>
Members present	Caron Bradshaw Michael Brougham Tony Clarke Diarmaid Ó Corrbuí Noel Hyndman Gareth Hughes Joanna Pittman Carol Rudge Jenny Simpson Neal Trup	<i>Charity Finance Group Independent Examiner Clarke & Co Accountants Carmichael Centre for Voluntary Groups Queen's University Belfast Diocese of Down and Connor Sayer Vincent Grant Thornton Wylie and Bisset LLP Neal Howard Limited</i>
In attendance	Gillian McKay Milan Palmer Sarah Sheen Amie Woods	<i>CIPFA, Secretariat to the SORP Committee CIPFA, Secretariat to the SORP Committee CIPFA, Secretariat to the SORP Committee Charity Commission for England and Wales (CCEW)</i>

Observers	Jane O’Doherty Jelena Griscenko	<i>Financial Reporting Council</i> <i>The Charities Regulator in Ireland</i>
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Apologies	Daniel Chan Tom Connaughton Nigel Davies Tim Hencher	<i>PwC</i> <i>The Rehab Group</i> <i>Charity Commission for England and Wales</i> <i>Scottish Council for Voluntary Organisations</i>
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1. Welcome, apologies for absences and declarations of interest Action

1.1 The Chair welcomed SORP Committee Members to the meeting.
The Chair introduced Jane O’Doherty the new representative from the FRC (from January 2021) to the SORP Committee. The Chair welcomed Jane to the meeting.
There were no declarations of interest.
The Chair also took the opportunity to congratulate Caron Bradshaw on her award received in the Queen’s New Year’s Honours list. Committee members added their warm congratulations.

2. Minutes of the meeting of 18 December 2021

2.1 The committee agreed on the minutes of the meeting. However, it did request some reordering of the last paragraph at 4.1.

3 Paper 2, Setting the scene for the February meetings

3.1 The Chair noted that the February meetings are designed to discuss and agree on the issues to be taken forward from the exploration stage to the reflection stage, looking at the issues from the two user perspectives. This meeting was to focus on the users of the accounts. She noted that the meeting on 23 February 2021 would focus on the users of the SORP which would include accounts preparers, auditors, and other stakeholders.
The engagement strands have been working since appointed to explore the issues they come across frequently. The engagement strands have covered a lot of issues and there is quite a lot of commonality amongst the themes. The decisions the committee had to make at the meeting was to decide which would be taken forward into the reflection stage.

Paper three presents the totality of the feedback to date from the engagement strands. Some have had further meetings since the interim feedback was presented to the committee in mid-November, but this is their full work in the exploration stage so far. When the Chairs met with the convenors, they asked what their priorities are, and these are set out within paper three.

The Chair also highlighted that there were three recent committee meetings focusing on research which took place in October and November. Two presentations stood out in the terms of the user of accounts (rather than the preparers' groups which would be considered the following week):

- 9 November 2021 PwC Building Public Trust Awards. This paper identified five key reporting themes with a focus on public sentiment as highlighted in the paper.
- 13 November 2021 presentations from the regulators (CCEW and OSCR) which identified key issues about public trust and the value the public place in seeing the work that is done by charities and how much was spent.

The Chair noted that the 14 December 2020 meeting sought the views from the committee on what their 'top three' priorities were which led to the long list in the minutes. There were five key themes summarised by the bullets in the paper. The Chair noted that this was not an exhaustive list but were some of the common themes.

It was noted that the topics generated by the engagement strands from a 'user of the accounts' perspective were not mutually exclusive from an accounts preparers' perspective though they sometimes looked at different aspects of the same topics.

The Chair commented that this meeting aimed to look at all the engagement feedback received from the engagement strands summarised in paper 3 and for the committee to reflect on this and the topics identified at the December meeting. From this, the SORP Committee would need to decide what they thought the key development issues to take forward were.

The joint chairs provided the engagement strand convenors with the opportunity to consider paper 3 and to add any other caveats or comments that should be communicated to the committee. The Chair would provide the feedback received when the committee considered paper 3 at agenda item 4.

A committee member noted that the committee needed to consider the list with care, the paper included a substantial number of topics several of which had been considered by the previous SORP Committee. There was a risk that with the number of items presented that the committee would be repeating previous analysis and that key topics may not get appropriate priority. The committee needs to be selective and prioritise the topics to be considered.

Another committee member considered it was important that before looking at the topics in paper 3 that the committee considered what problems it was trying to resolve. Was the committee going to extend the scope of the SORP? The risk was if

this question were not answered the committee would spend time answering questions which had not been asked.

4. Engagement strand feedback - viewpoint of the reader/user of the report and accounts (Paper 3)

4.1 The Chair commented that two engagement strand convenors had provided further comments on paper 3.

- The Charity Trustee engagement strand convenor commented that they had considered the length, terminology and consistency in application of definitions within the SORP (the strand considered that plainer English could be used). The problems that accounts' preparers might encounter with the SORP impacts on the resulting information presented and how well this meets the needs of the users of the accounts.
- Smaller charities and independent examiners - a view put forward was that from a small charity's perspective is that the way the SORP requests information on the trustees' annual report and accounts (TAR) can hinder how smaller charities tell their story.

The committee sought clarification as to what the latter point meant as the committee is not clear how the SORP limits what smaller charities say. Specifically, it encourages charities to 'tell their own story'.

Committee members considered that it might be that smaller charities are very much dependent on the preparer of the accounts. The input of trustees of these charities to accounts' preparation is very minimal and this may inhibit their ability to tell the story. The committee was of the view that this might not be an issue for the SORP itself but of the need for education.

OSCR found that when trustees are informed that the TAR is the charity's trustees' opportunity to tell its own story, this is greeted with surprise which appears to confirm the view that this might be more of an educational need.

The SORP committee considered the role of independent examiners writing the trustees report leading to the trustees not being engaged in their own TAR. It was of the view that this also might be an issue for education and training.

It was noted that for very small charities, trying to engage the trustees was quite difficult. There was a perception that these stakeholders saw little value in the preparation of the TAR. Again, this might be an issue for education. A committee member commented that small charities sometimes prepare a separate report that is more useful to readers. There is also a resource issue of trustees of small charities having the expertise to know how produce its contents or write it a certain way.

It was noted also that the definition of free reserves was brought to the committee's attention from the small charities and independent examiners group.

A committee member was of the view that it would be important to consider what problems are trying to be resolved. The users of the TAR are a diverse group with different needs with users including, for example, both major funders to the general public. The committee assumed that although this is difficult to address the aim is to make charity accounts as useful to as wider a range of users as possible.

The committee also noted that some of the issues raised would not be able to be resolved by changing the SORP, but, for example, as discussed earlier by education and training.

The chair thought that the committee's feedback was useful bearing in mind the need to be focussed and selective.

The committee proceeded to review the priority topics identified by the engagement strand convenors and explained in paper 3 and consider whether they would need to be taken forward to the reflection stage of the SORP development process.

The following general comments were made:

- structure and relevance are important.
- much of what the committee is looking at such as impact reporting and compliance has been considered previously. Could the issues be considered in a different way perhaps in smaller workshops to avoid responding to the issues raised in similar ways?
- should a table be established summarising the issue and identifying which issues are definitely SORP related, what might be and what isn't? This may help the assessment and review of these issues particularly as there are several pages of feedback to consider.
- the SORP appears to have a focus on accounting principles and concepts but it's role is not just to set out the requirements for the accounts preparers to produce the annual report and accounts. Its development is important for both audiences. Users' needs must influence SORP development.
- the analysis and feedback process will help to separate those issues which are covered by the SORP and those which is not.

The chair noted these points but was of the view that the committee was in danger of drifting into the reflection and further stages of SORP development. This was the final part of the exploration development stage, the stage for identifying the key topics that need to be further examined. The reflection stage looks at these issues and considers how well the current regimes deal with those issues and support the needs of accounts users, accounts preparers and other stakeholders.

At this stage, the committee needs to consider which points which topics require further consideration to better meet the needs of the users of accounts.

In terms of the scope of the SORP, this would need to align with the FRC's Policy on Developing SORPs. This, the chair summarised, was to produce a strong accounting and financial reporting regime that meets the needs of the users of the accounts. The Policy of Developing SORPs does not give the joint SORP-making body a mandate for receipts and payments accounts for example. There has to be a clear focus on developing the SORP for charities that produce accounts on an accruals basis.

Relevance to smaller charities

The committee commented that the number of charities that must prepare accruals accounts and therefore apply the SORP is relatively low. It was considered that there were a lot of small charities across all jurisdictions and a small number of those charities which were companies had to follow the SORP.

For many charities, accounts preparation is dictated by the service they are provided by accountants or independent examiners. The choices made for annual report and accounts preparation and production are not made by trustees but are based on what decisions are made by the accountants.

Is it possible to exclude a very large number of charities from accruals accounts production in the first place? Or to develop a regime that communicates more clearly what the accounts would look like if the charity is small. The SORP committee considered the question of whether it was appropriate for small charities to prepare accrual accounts or receipts and payments basis.

The committee considered the list of priority areas on page 3 of paper 3.

1. **Summary financial information** – the committee was of the view that this topic had been the subject of debate for some time. It might therefore be appropriate to consider this for SORP development. The summary could present a 'snapshot' of the financial performance and position of the charity as it can be difficult for some users of the accounts to understand the key messages because of the volume of information provided.

Committee members agreed to pursue this topic. A committee member noted that it would require a set of rules to present summary financial information or summary financial statements. The committee member noted that a similar project took place in 2004 'The auditor reporting summary group' where a standard information return was developed by the Charity Commission for England and Wales.

The committee considered whether there would need to be a separate audit opinion on the summary. It noted that this topic was worthy of consideration, but it would be fraught with practical difficulties.

The retired committee's transparency group had also considered the use of key information which signposts what users of the accounts would be interested in.

There was a need to consider what the financial summary was intended to do. What would the objectives of such a summary be? Being prescriptive might prevent a charity from telling its story in the annual report and accounts. It would also be important to be able to provide relevant information to satisfy the objectives.

A committee member expressed the view that a summary should be brief, not mandatory, and provide a guide to the user of the highlights of the annual report and accounts.

The committee agreed to take the topic of summary financial information forward.

A committee member considered that it would be useful to have a 'jamboard' to be able to collate the ideas of committee members whilst in committee. The chair noted that this would be considered by the joint chairs for future meetings.

2. **Reserves** – paper 3 included several issues relating to this topic. The committee felt that the key issues regarding reserves were relating to financial sustainability and free reserves i.e. how long could a charity exist if its income streams were no longer available. There is a general understanding of the usefulness of free reserves but how are these reserves defined? What does the charity mean with regard to its free reserves policy?

The Charity Finance Group had issued guidance 'Beyond Reserves' which was deemed to be useful, but the committee commented that how reserves should be calculated should be clear.

The committee questioned whether there was a link between reserves and going concern reporting. Is there scope to link reserves to financial sustainability? Free reserves are how much a charity has until the money runs out and this is a 'stress' test many charities are currently having to consider.

The consensus of the committee was that this is an issue that needs to be considered further.

3. **Impact reporting** – the committee noted that two strands had identified this topic as a priority. Four stands had raised the point regarding a focus on impact reporting for all charities.

The committee was of the view that a lot of work had been undertaken on this topic for some time. It is a very difficult topic to cover, it was also considered that if the term 'impact reporting' was used there may not be much engagement. A different approach might be needed.

A committee member commented that the SORP may not need to cover this topic in substantial detail. It might be possible to use or signpost guidance outside of the SORP. Guidance may be greatly influenced by the size of the charity and the sector it operates in. Impact reporting is influenced by soft data and by many other factors outside the actions of the charity. So, impact reporting will always be nuanced. The SORP should be very clear that presenting activities and outcomes (impacts) is central to the story of the charity.

In terms of assisting trustees to present their impact reporting, it might be worthwhile referring more to what the charity has done and what difference it has

made. It might be that guidance has to be careful about the language used so that charities understand what impact reporting is trying to achieve.

There are several organisations that may be useful to signpost to from the SORP which may give different suggestions based on size.

The committee agreed to take forward the topic of impact reporting to the next stage.

4. **Support costs** – two strands raised the topic of support costs. These strands commented on both the comparability and different interpretations of the estimation of these costs. The committee questioned the importance of comparability for these costs because the sector is so diverse it is likely that charity support costs would be very different on a charity-by-charity basis. The committee considered that it might be useful to remove this as a cost category in a similar way that governance costs had been removed previously. The committee considered that this might be usefully addressed in a key facts piece for the sector. The committee agreed to take forward this topic to the next stage.
5. **Presentation of the SOFA** – suggestions had been made to turn the SOFA upside down and/or linking costs to associated income. This has been considered by the retired SORP Committee. It has been a popular idea to consider as this would show the money that a charity has expended followed by the income that has been generated. There is a concern that when reading the accounts that this would not be consistent with Companies Act 2006 accounts and may be more challenging for readers that are more familiar with ‘for-profit’ accounts to understand. The committee had no objections to taking this topic forward.
6. **Technical issue a) removal of comparison information** – this has been considered by the retired SORP committee. However, given how FRS 102 is framed there is not an easy route to changing this, but there can be a further conversation regarding this issue.

A committee member considered that it would be useful to know what the probability of success in this area might be rather than spend resources on this topic to find it may not be able to be taken forward.

The FRC's ‘listening exercise’ might be an opportunity to discuss this further with the FRC. It launches in the next few months.

In the previous discussions on this topic with the FRC, it was felt there was insufficient evidence to support this departure from FRS 102. It was noted that the engagement process meant that the committee was in a different development space and that already there was evidence as a part of the engagement process. There would also be opportunities to gather further evidence as part of the debates with the engagement strands.

CIPFA noted that from a technical perspective it would be very difficult to depart from FRS 102. It may be useful to consider where comparative information might

obscure the key messages in the accounts, for example, this might be with the presentation of comparative information for the SOFA, where, if sufficient evidence were available, there may be a case for departure if this made the key messages of charity accounts harder to read.

- 7. Technical issue b) Permit charities to account for grants using the accrual model** – the retired SORP committee had considered this the correct approach to this topic. However, a committee member was concerned that for smaller charities that this may obscure the presentation of financial information in this area. The committee agreed to take this topic forward for further consideration.

Other topics

The committee was asked whether there were any other topics that it would like to be considered in the reflection stage.

A committee member asked whether the list of topics was radical enough to make a substantial change to the users of the accounts. The list of topics could be viewed as being quite limited rather than leading to substantial change. The committee member challenged whether this was the best list of topics that would transform a set of accounts for their users.

The committee considered that with a heavy emphasis on changes to narrative reporting. It could be argued that the changes would be radical.

The committee highlighted the need to consider tiered reporting. A committee member commented that change was required as some relatively small charities were reporting under the same requirements as the largest. Tiered reporting, where reporting was simplified for smaller charities, could assist them with communicating the key messages in the accounts to their users.

It was suggested that there may need to be more guidance in the SORP to assist accounts preparers in ‘telling the story’ of the trustees’ annual report and accounts to ensure that they can communicate the key messages to the users of the accounts.

The committee noted that it must be clear on what decisions needed to be taken, for example, was consideration going to be given to whether the scope of the SORP should be changed (subject to the FRC’s Policy for developing SORPs)?

It was noted that small charities in Ireland (but also in the UK) produced their accounts on a reasonable fee basis. This often meant that reporting activities were limited to this fee level.

5 Summary

- 5.1 In summary, it was considered that the committee was in broad agreement with the list of topics prioritised by the engagement convenors as the matters to be taken forward to the reflection stage. Many of these issues will be revisited at the 23 February 2021 meeting when considering the accounts preparer topic list. Both meetings will help the committee to engage with the convenors on 8 March 2021 and refine further the topics to be considered in the reflection phase.

A committee member asked whether there might be any benefit of breaking into smaller working groups to consider and debate the topics in more detail? This would enable a freer discussion for an hour or so to ensure that the committee has given enough consideration to the important issues raised. This might also ensure that the topics are covered adequately but might identify other topics not already covered by the engagement process.

6 Future Committee Meetings

- 6.1 The papers for 23 February 2021 meeting would be issued following the meeting. This allowing the normal week to consider these papers before the discussion.

The dates of subsequent meetings are:

- 23 February 2021
- 8 March 2021

The chair commented that the joint SORP-making body would consider the opportunities to facilitate the smaller groups' discussions.