

Charities SORP Committee Minutes

Date	12 September 2019	
Venue	CIPFA Offices, 77 Mansell Street, London	
Joint Chair	Laura Anderson Nigel Davies Fiona Muldoon	<i>Office of the Scottish Charity Regulator Charity Commission for England and Wales The Charity Commission for Northern Ireland</i>
Members present	Sarah Anderson Caron Bradshaw Richard Bray Tom Connaughton Mark Hill Noel Hyndman Kenneth McDowell Sheila Nordon Jenny Simpson Mark Spofforth Darren Spivey	<i>Deloitte LLP Charity Finance Group Cancer Research UK The Rehab Group Regeneris Limited Queen's University Belfast Saffery Champness Charities Institute Ireland (by phone) Wylie + Bissett LLP (by phone) Kreston Reeves LLP Royal National Lifeboat Institution</i>
In attendance	Steven Cain Sarah Sheen	<i>CIPFA, Secretariat to the SORP Committee CIPFA, Secretariat to the SORP Committee (by phone)</i>
Observer members:	Jenny Carter Jelena Grisckenko Max Rutherford	<i>Financial Reporting Council Charities Regulatory Authority Association of Charitable Foundations</i>
Apologies	Michael Brougham Simon Ling Carol Rudge	<i>Association of Charity Independent Examiners National Association of Almshouses Grant Thornton</i>

Action

1 Welcome, apologies for absences and declarations of interest

- 1.1 The Chair welcomed members and observers to the meeting.
- 1.2 Those apologies for absence received were noted.
- 1.3 There were no declarations of interest.

2 Approval of the minutes of the meeting of 17 July March 2019 (Paper 1)

- 2.1 The draft minutes of the previous committee meeting were approved subject to a number of amendments to ensure that they reflected the discussion concerning the SORP Governance Review. A number of the committee members reiterated their deeply felt reservations in relation to aspects of the review.

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Matters arising – Update on the Information Sheets

2.2 Information Sheet 3 – The Companies (Miscellaneous Reporting) Regulations 2018 and UK Company Charities

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The committee noted that:

- a small number of drafting changes have been made, which relate to the use of the word 'should' when referring to reporting requirements for charitable companies under the Companies Act 2006 and relevant regulations.
- Information Sheet 3 is ready for publication.

2.3 Possible information sheet 5 relating to Streamlined Energy and Carbon Reporting Regulations.

The committee noted that:

- the reporting requirements apply to quoted companies, LLPs and large unquoted companies.
- they therefore apply to charitable companies that qualify as large companies under the Companies Act 2006
- it may be useful to these companies if an information sheet were produced to provide guidance on energy and carbon reporting.

Committee members welcomed the information sheet and in general terms thought that there would be an interest from funders for the inclusion of this information in trustees' annual reports. A committee member volunteered to seek views from large charities as to whether such an information sheet would be useful. It was agreed that four weeks should be sufficient for this consultation exercise.

A committee member referred to the links to integrated reporting <IR>. The committee considered that energy use reporting was important for all charities but that this issue should be considered amongst broader developments on sustainability reporting. The committee noted that the status of information sheets was such that they were advisory publications and did not have the status of the SORP or a SORP Update Bulletin.

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2.4 Draft Information Sheet 4 - Amendments to FRS 102 The Financial Reporting Standard applicable in the UK and the Republic of Ireland – Multi-employer defined benefit plans

The committee noted that:

- The FRC published amendments to FRS 102 in relation to multi-employer defined benefit plans in May 2019.
- The requirements apply when sufficient information becomes available so that a participating entity can identify their share of the assets and liabilities in a plan. Entities then need to move from defined contribution accounting to defined benefit accounting.

- The draft information sheet shows how the requirements should be applied, demonstrating the impact on the statement of financial activities and the balance sheet using an illustrative example. It also includes a table establishing the other reporting requirements of the Charities SORP (FRS 102) and FRS 102 that need to be considered.
- The accounting change occurs at the relevant date, which is the later of the first day for which the information becomes available and the first day of the current reporting period.
- The paper sought SORP committee members' views on paragraph 1.7 in relation to the potential frequency of these events/circumstances.

SORP committee members welcomed the information sheet. Committee members commented that at the moment it appeared that the occurrence of such events/circumstances was not frequent but that if they did occur the impact would be significant.

A member enquired whether there should be an example accounting policy to illustrate what should be included when such events/circumstances occurred. The CIPFA Secretariat explained that these amendments would apply to very individual circumstances and that the information sheet was drafted to avoid setting out templates for such accounting policies. The Chair commented that this was consistent with the principles based approach that the SORP followed.

SORP committee members noted that Information Sheet 2 does include examples of accounting policies. It was agreed that if examples of relevant accounting policies could be provided, the CIPFA Secretariat would assess whether they could be included in the information sheet.

A committee member noted that she would send a small number of minor comments directly to the CIPFA Secretariat.

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- 2.5 The committee noted that the current position on the publication of the Charities SORP FRS 102 2nd edition is presented at agenda item 4.

3. Verbal Update from the FRC

- 3.1 The committee noted recent and future developments in UK accounting standards, as follows:
- FRC has issued [FRED 72 Draft amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland – Interest rate and benchmark reform](#). This proposes amendments to specific hedge accounting requirements to provide relief that will avoid unnecessary discontinuation of hedge accounting during the period of uncertainty as interest rate benchmarks (such as LIBOR) are being reformed.
 - The most recent periodic review of FRS 102 was in 2017. FRC expect the next review to be after a period of four to five years. A similar feedback process is planned, and FRC anticipate that they will seek feedback in 2021 to allow time to implement any changes.
- 3.2 A committee member enquired whether the hedging referred to in FRED 72 included foreign exchange hedging. The FRC representative explained that this would only happen if a designated hedge was linked to LIBOR (or similar benchmark rate).

4 Publication of the Charities SORP (FRS 102) 2nd edition

4.1 The committee noted that:

- the Charities SORP (FRS 102) second edition has been sent to the FRC;
- it is understood that it was being considered by UK GAAP TAG;
- it was previously hoped that the SORP would be published in September but publication is now likely by the end of October;
- publication was delayed due to a query in relation to Irish company law. Once agreed by the FRC's Technical Advisory Group it will be considered by the Corporate Reporting Council, and the FRC Board for approval;
- the SORP-making body considered that issues in relation to Irish law and merger accounting could best be addressed by means of an information sheet.

5 Update on the Engagement Strategy (paper 3)

- 5.1 The Chair noted that the commentary received at the July meeting whilst it had not been easy to hear had been helpful in further developing the engagement strategy in paper 3. The Chair noted that the committee and the SORP-making body were working in partnership on this issue and this was demonstrated in the updated diagram in the paper. The diagram in the paper illustrated that it was a two way relationship with the SORP committee at the heart of SORP development alongside the SORP-making body. The paper explains how the engagement process will work, how it is designed to better understand user needs and how the engagement activity will inform the way forward and the next steps. As was discussed at the last meeting resources available would also be key. This may vary across the different jurisdictions which might mean that the format of the engagement process may differ between jurisdictions.
- 5.2 Some members commented that they liked the revised approach and considered that the approach was now more joined up. It was recognised that for the engagement process the starting point for discussions would be users' needs and not the existing requirements of FRS 102.
- 5.3 Other members were concerned that the diagram and the process did not sufficiently emphasise typical public benefit financial reporting issues that need to be considered such as recognition and measurement.
- 5.4 The Chair commented that it was important to understand what users want. Users being those who make use of a charity's annual report and accounts and users of the SORP seeking to prepare 'true and fair' accounts. It might be difficult to deliver within the confines of accounting standards but the SORP-making body is committed to try and achieve the overall aim of improving the usefulness of charity annual reports and accounts. A number of members of the SORP Committee highlighted that sometimes what is expressed as users' needs in terms of information is not necessarily fully thought through, and the role of the SORP Committee in testing the practicalities and usefulness of certain disclosures is essential.
- 5.5 A member commented that 'it feels like more of the same' and referred to the International Not-for-Profit reporting requirements and the project between CIPFA and Humentum. He noted the benefits of reporting on an International Public Sector Accounting Standards basis which specifically cater for public sector accounting and the accounting concepts/issues that arise are likely to have similar application in the public benefit entity sector.

- 5.6 Another member noted that he considered there was a missing box from the graphic ie a box for large charities. Concerns were also raised that the current proposed process may not encourage debate as the engagement appeared to be one way. The Chair acknowledged that large charities would be added into the graphic and had been omitted in error in preparing the graphic.
- 5.7 The issue of the current working groups was also raised. These groups had been working with stakeholders over the last 18 months. There was a suggestion that the engagement could feed through these groups and there were benefits that included cross-membership with the SORP committee. The diagram was seen as an improvement but concerns were raised that the previous work could be built upon rather than having to establish a completely new processes.
- 5.8 A number of members expressed views that the engagement process and groups should be clear about what it is trying to achieve including:
- what is the vision for the engagement process (for example, a member commented it appeared to be neither radical nor maintaining the status quo)
 - the need to be clear about scope and the terms of reference for the groups
 - the need to manage expectations (for example, charities accounts need to present a 'true and fair' view and may not be able to reflect all users' needs and, the need to prepare the SORP in accordance with the FRC Policy Statement on SORPs)
 - the need to ensure that thematic areas are covered rather than 'prosaic' accounting issues
 - ensuring that the legitimacy of stakeholder groups is considered effectively.

A member commented that depending on the timing of changes to legislation the proposals could work well for Irish charities.

- 5.9 The Chair commented that following their one to one discussions with members there was an extent to which it was recognised that segmented engagement could only present segmented views and that it would also be necessary to mix groups to get different ideas.
- 5.10 Committee members noted that the debate would need to recognise the pace of development in communications, for example, in the private sector the accounts will be increasingly seen as an assurance document as messages about performance have already been communicated to users by means of the more responsive avenues available in various forms of social media.
- 5.11 The Chair noted that in section 3 she was mindful of the committee's concerns in relation to its technical focus and reassured committee members that the technical accounting changes required would still be properly identified. However, the SORP committee would also need to address the needs of users of charity annual reports and accounts.

6 Future form and role of the SORP Committee and Implementing the Governance Review

- 6.1 The Chair noted that the SORP-making body had taken on board the SORP committee's comments in the engagement paper considered at agenda item 5.
- 6.2 The Chair commented that the major decisions on the engagement process had been made and that the SORP-making body would [launch the new process](#) on

- the Charities SORP website the following day. However, the detailed recruitment packs had been held back so that committee views could be reflected in them. He advised the committee that careful consideration had been given by the SORP-making body to the feedback from the July SORP committee meeting and a number of decisions had been reached which the SORP-making body wanted to explain to the committee.
- 6.3 The Chair thanked SORP committee members for their support and commitment and noted that its term had extended from three in the original offer letter to members to more than four years. He apologised for the required notice of extension not having been given and thanked the committee for its goodwill. He also noted that the new process for developing the SORP was not the one in place when members agreed to join the committee. Therefore, with the publication of the second edition and the launch of the new process the SORP-making body has decided that the SORP committee would be stood down. Recruitment would take place this year to a new committee as part of the reforms to prepare for the development of the next SORP.
- 6.4 The Chair noted that the SORP-making body chose to initiate a SORP Governance Review and that it had committed to implementing the findings of the review. So the decisions remaining relating to the review are 'how' rather than 'whether' the recommendations are implemented. The recommendations are at a high level and necessitated consideration of practical issues. Detailed implementation will follow due process.
- 6.5 Although the committee broadly welcomed the idea of deeper stakeholder engagement, the conclusions with respect to the committee itself, and the action taken by the SORP-making body in response to them, drew significant criticism. A number of members raised serious concerns and disquiet querying how a commitment by the SORP-making body to implement the recommendations could take place before the review had been completed and its findings known. The Chairs noted that the consultation process followed for the governance review was consistent with previous SORP consultations and considered that it would be a breach of faith to disregard particular findings of the Panel and responded by reemphasising the implementation process discussed earlier. The recommendations allowed a degree of pragmatic flexibility as to how they are implemented but the intention was to implement all of them over time.
- 6.6 Other members sought clarification about the governance arrangements for the implementation of the SORP Governance Review in particular one member sought confirmation of the approval of the Charity Commission for England and Wales' (CCEW) board. The Chairs explained the decision making processes for each of the regulators differed and assured the committee that the Chairs had authority to proceed.
- 6.7 The Chair explained that recruitment has been at the discretion of the SORP-making body. In the past the SORP-making body had tried to achieve jurisdictional representation and noted that the proposed number of 12 SORP committee members was similar to that of the original number for the previous committee with 14 members, although the current committee is 17 (and noted that for the 2005 SORP committee membership was only 10). The Chair hoped that some of the existing committee members would be willing to reapply and continue with the journey and added that the SORP-making body anticipated that the new SORP committee would include from about a third to a half of the current membership. This would ensure continuity and suitably experienced membership. The Chair said that 12 was a target but recruitment will be based on skills and insights needed and the final number would be assessed against the needs to have a rounded committee.

- 6.8 The Chair noted that while the number of responses to the governance review consultation was relatively low at 41, this included responses from key professional and representative bodies and this coverage was in line with the consultation responses generally received when an Exposure Draft was being consulted on.
- 6.9 The Chair highlighted that the SORP-making body had considered the request of the committee to meet with the SORP Governance Review Panel. However, the Panel had not been retained to advise the committee but to make recommendations to the SORP-making body and so they considered that it was appropriate to route the feedback through the SORP-making body as the SORP-making body had commissioned the review and was responsible for the decisions and choices that emanated from it.
- 6.10 The Chair emphasised that it was also important that the SORP committee was properly inclusive and included the separate UK and Ireland administrations. He noted that the SORP-making body operates on an equivalence basis and on consensus and so the recommendation to have a minimum number of members by jurisdiction was in keeping with the values of the SORP-making body itself. The Chair took the opportunity to reassure committee members that their comments had been taken on board about needing to ensure sufficient technical accounting skills and knowledge will be reflected.
- 6.11 Some committee members reiterated concerns over the lack of committee input into the findings of the review and two members questioned the role of the regulators as the SORP-making body. One member referred to the FRC document 'Policy on Developing SORPs' requiring that 'the body in question represents the whole or a major part of the industry or sector'. In the member's opinion the regulators were not 'representatives' of the sector nor currently claimed to be. The FRC policy only requires regulators to be satisfied with the arrangements. The point was made that none of the other SORP-making bodies are the regulators of that sector.
- 6.12 A committee member requested that her fellow committee members consider the experience of the SORP committee over the last three years. She noted that at no point during the development of the second edition of the Charities SORP (FRS 102) had its views not been taken into consideration and that the discussion on the earlier paper regarding the engagement process also demonstrated that the committee's views are listened to and taken on board.
- 6.13 The Chair agreed and reiterated that the SORP-making body had listened to their comments and wherever possible reflected them but in the context of the review after discussion decisions had been made as to the next steps. He noted that while it could not be guaranteed that all current members who applied would become members of the new SORP committee, the Chair indicated that all current members would be automatically invited to become a member of an engagement strand. He reassured the committee that recruitment would be a panel decision by all four regulators.
- 6.14 The Chair commented that the proposals would include a mixture of individual and 'corporate' membership in both the SORP committee and the engagement strands. He noted that there would be separate recruitment processes. Corporate members would be nominated by the relevant body subject to the nominee being appropriately qualified. Corporate membership would allow and promote greater engagement with access to wider resources.
- 6.15 A number of members raised concerns in relation to the term 'corporate' and to aspects of corporate membership noting that there was a danger that these members would have to give the view of the organisation rather than a personal view and that these members might feel less free to give an opinion. Some

members suggested that the use of the term 'corporate' might be taken to refer to a commercial business as opposed to a representative organisation. The Chair noted that the SORP-making body would consider changing 'corporate' members to 'organisational' members, but was of the view that this new type of member afforded advantages alongside members recruited as individuals. Members noted that the advantages of personal membership was that each member would ensure that the work of the committee is not circulated more widely across an organisation. Other members commented on the impact on transparency. Some members cited problems that might occur relating to their representation of either an accounting body and/or professional accounting firms and the difficulty getting a corporate view of a matter might pose. The committee concluded that there were pros and cons to corporate membership which might be able to be addressed in the Terms of Reference for the new committee or in the person specification for the membership roles. The Chair commented that they had not envisaged individual accountancy firms providing corporate membership. The Chair also considered that potentially that there may be two different routes to engagement by organisations:

- some of the corporate members may be engagement partners, and
- others might be members of the SORP committee.

- 6.16 One of the SORP committee members sought views on whether an organisation may apply to be a part of the joint SORP-making body. The FRC representative commented that she did not think that such a situation had been envisaged, there was no precedent for this process. The SORP-making body membership had changed in recent years and there were processes to accommodate this but not for a separate organisation's request to join the SORP-making body.
- 6.17 The Chair commented that the new proposals engagements strands were specifically intended to address representation.
- 6.18 The FRC representative commented that the references to 'representation' in the FRC Policy on Developing SORPs, which the debate at the meeting had focussed on, was not necessarily intended to mean a membership or a representative body.

7 Any Other Business

- 7.1 The Chair notified committee members that the minutes of this meeting would be circulated to them as soon as possible. He would be grateful if they would provide their comments and approval of the minutes by correspondence. He anticipated that the timescale for this approval would be approximately two weeks.
- 7.2 Committee members wanted to register their thanks to the SORP-making body and other committee members for their support.
- 7.3 The Chair set out that this was the last meeting for Fiona Muldoon as one of the Joint Chairs. The Joint Chairs noted their thanks for her support to the SORP-making body and SORP committee.
- 7.4 The Joint Chairs reiterated their thanks to the committee members for their contributions and support through the development process for the second edition of the Charities SORP (FRS 102).

**Chairs/
CIPFA
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