

Minutes

Board Charities SORP Committee

Date 22 October 2021

Time 13:30 – 15:15

Venue Microsoft Teams

Joint Chair	Laura Anderson Nigel Davies Rossa Keown	<i>Office of the Scottish Charity Regulator (OSCR)</i> <i>Charity Commission for England and Wales (CCEW)</i> <i>Charity Commission for Northern Ireland (CCNI)</i>
Members present	Caron Bradshaw Michael Brougham Daniel Chan* Tom Connaughton Noel Hyndman Joanna Pittman Carol Rudge Max Rutherford Jenny Simpson Neal Trup	<i>Charity Finance Group</i> <i>Independent Examiner</i> <i>PwC</i> <i>The Rehab Group</i> <i>Queen's University Belfast</i> <i>Sayer Vincent</i> <i>HW Fisher</i> <i>Association of Charitable Foundations</i> <i>Wylie and Bisset LLP</i> <i>Neal Howard Limited</i>
In attendance	Alison Bonathan Gillian McKay Sarah Sheen	<i>CIPFA, Secretariat to the SORP Committee</i> <i>CIPFA, Secretariat to the SORP Committee</i> <i>CIPFA, Secretariat to the SORP Committee</i>

Observers	Stephen Maloney	<i>Financial Reporting Council (FRC)</i>
	Amie Woods	<i>Charity Commission for England and Wales (CCEW)</i>
Apologies	Tony Clarke	<i>Clarke & Co Accountants</i>
	Diarmaid Ó Corrbuí	<i>Carmichael Centre for Voluntary Groups</i>
	Jane O'Doherty	<i>Financial Reporting Council (FRC)</i>
	Jelena Griscenko	<i>The Charities Regulator in Ireland</i>
	Tim Hencher	<i>Scottish Council for Voluntary Organisations</i>
	Gareth Hughes	<i>Diocese of Down and Connor</i>

*Daniel Chan joined the meeting at 13:50.

- | | | Action |
|------------|--|---------------|
| 1. | Welcome, apologies for absences and declarations of interest | |
| 1.1 | The Chair welcomed SORP Committee Members to the meeting. | |
| 1.2 | Declarations of interest | |
| 1.3 | The Chair noted two standing declarations of interest:
Daniel Chan sits on the CIPFA Charities and Public Benefit Entities Board.
Sarah Sheen has worked substantially for CIPFA on the IFR4NPO project and is secretariat to the CIPFA Charities and Public Benefit Entities Faculty Board.
No other declarations of interest were made. | |
| 2. | Minutes of the Meeting of 28 September 2021 | |
| 2.1 | Minor amendments were noted.
Otherwise, the minutes of the meeting were accepted as an accurate record. | |
| 2.2 | Matters arising | |
| 2.3 | The Chair noted the SORP Committee's thanks to the FRC for allowing an extension to the deadline for a second submission. This will allow the SORP Committee to reflect on the content of the second submission during this meeting's discussions. | |
| 3. | Paper 2: Summary report on Impact Reporting | |
| 3.1 | Paper 2 was introduced by the Secretariat.
The various viewpoints reached by the Engagement Strands included the following: <ul style="list-style-type: none"> No change is needed to the SORP. | |

- More emphasis on impact reporting is needed, either in the SORP itself or via additional guidance outside the SORP.
- The requirements for impact reporting should extend to all charities.

It was noted that there was no appetite for changing the overall approach to impact reporting. Rather, feedback from Engagement Strands focussed on enhanced guidance and clarity of language in expressing the requirements. In terms of the wording of the SORP, feedback suggested the need for “must” rather than “should” in the second sentence of paragraph 1.20 which would require all charities to explain the difference their charity has made. Further detailed drafting suggestions were received and have been included as a table to Paper 2. The Secretariat noted that it would be useful to revisit this table during the drafting stage.

Thanks were noted to the Engagement Strands, all of whom submitted a response on the topic of Impact Reporting.

3.2 **SORP Committee discussion of Paper 2**

3.3 The Chair invited comments on Paper 2 and the topic of impact reporting.

One Committee Member commented that impact reporting is one of the most important parts of charitable reporting. Impact reporting therefore needs to be more accessible and better tied to the financial information in the accounts. The Committee Member supported stripping impact reporting back to basics rather than making impact reporting more mechanical. This was echoed by another Committee Member, who commented that there may be some confusion around terminology and the meaning of impact reporting. The Committee Member supported simplifying guidance on impact reporting and re-focussing it as explaining the difference the charity is making.

Further support for simplification was shown, with one Committee Member supporting the idea of reduced prescription around how the charity reports the difference made. However, the Committee Member commented that there should be an increased requirement to undertake some form of impact reporting. The Committee Member noted that some of the existing SORP requirements are a “may” rather than a “should”.

The Chair noted that regulator research reported to the Committee at its November 2020 meeting supports comments about changes to terminology and the importance of reporting on the difference made by a charity.

Some cautionary views were expressed. The Secretariat noted a concern expressed by one Engagement Strand that if terminology changes in the SORP, charities might think they are expected to do something entirely different in narrative reporting.

A Committee Member noted that charities will need additional guidance to better understand what is meant by terms such as “tell the story”. Further, the Committee Member commented that the guidance will need to take account of the different range of charities, and that any guidance will need to encourage charities to discuss the changes that resulted from their activities rather than just detailing the activities themselves. Due to the diversity of the sector, there may be need for a large volume of guidance, including illustrations etc. Thought should therefore be given to what

goes in the SORP and what is available as guidance outside of the SORP. However, another Committee Member cautioned that there is a need for care when issuing additional guidance as organisations may consider that there is an obligation to follow the guidance if it is the SORP-making body issuing it.

One Committee Member commented that Companies Act 2006 requirements can discourage a 'bespoke' approach to reporting and can lead to a more boilerplate approach. Thought should therefore be given to how guidance for charities on "telling their story" can be aligned to Companies Act requirements.

Several Committee Members offered suggestions for ways in which charities could be encouraged to better report the outcomes of their activities and the difference made. Individual committee members noted the following:

- A charity membership body has a list of questions to prompt charities to discuss the "so what" of their activities. This may be a useful reference point at drafting stage.
- Trustees could be encouraged to think about the design of a story when writing, including a beginning, middle and end, to help ensure the results of activities are reported.
- The [CIC 34 Report Template](#) includes a question that is helpful in its simplicity. Charities are asked to include a description of how the organisation's activities benefit the community.
- Guidance on the Trustee's Annual Report should stress that it is a vital part of reporting rather than a compliance issue or administrative matter.

The Chair thanked the Committee Members for these suggestions, noting that potential solutions such as these will be helpful at drafting stage.

The Chair asked the Secretariat for any other comments raised by the Engagement Strands. The Secretariat noted that, while making reference to IFR4NPO and IFRS Practice Statement 1: Management Commentary, an Engagement Strand suggested that in the longer term, a separate standard could be created for impact reporting. Engagement Strand feedback echoed comments from Committee Members with respect to avoiding a boilerplate/tick-box approach and the need to comply with Companies Act 2006 requirements. Engagement Strands also noted that Companies House does not yet accept infographics when filing.

3.4 The Chair invited comments on whether the approach to impact reporting should be differentiated by size of charity. Individual committee members noted the following:

- There is a need for more accessible language for the specifications of the SORP which were aimed at smaller charities. Potentially more technical language can be adopted in guidance and requirements for larger charities.
- Reporting requirements should be proportionate.
- A principles-based approach should be adopted to tiered reporting.

3.5 **Chair's summary of discussions of Paper 2**

3.6 The Chair noted that Committee members:

- were supportive of a change in language to emphasise what the charity has done and the difference it has made, as this will mean more to Trustees
- were keen to keep language simple and to express the requirements in a way that discourages 'boilerplate reporting'
- the tentative view that reporting on the difference made be asked of all charities
- suggested that the reporting requirements needed to structure the charity's 'story' with:
 - a beginning, including how the charity planned its activities,
 - a middle, including a description of the activities that took place, and
 - an end, including the results of the activities.

The Chair reflected on the appetite for increased guidance, while acknowledging the need for caution when issuing guidance to avoid charities viewing guidance as being authoritative.

On the proposals for tiered reporting, the Chair noted the need for any approach to be proportionate if it applies to all charities (all tiers).

The Chair commented that the SORP could be viewed as a building block but could not prescribe for all eventualities. The SORP could, for example, serve as a starting point for other organisations from which they build on their reporting and as a starting point to engage trustees with impact reporting.

The Chair thanked Committee Members for their contributions to the discussion.

4. Paper 3: Summary report on Income Recognition

4.1 The Chair invited the Secretariat to introduce Paper 3.

The Secretariat noted that there is overlap between the topic of income recognition and other topics, in particular grant income. The various viewpoints reached by the Engagement Strands included the following:

- No change to the SORP is required.
- A tiered reporting approach could be taken, with differing requirements being based on the size of the charity.
- Augmentation of SORP requirements is required on multi-year funding.

Engagement Strand feedback was also received on grant criteria. Specifically, one Engagement Strand expressed a preference for the use of the matching concept when accounting for grants. The Secretariat noted concern with this suggestion as the matching principle is not a concept recognised in FRS 102 and is generally not a concept recognised in financial reporting. Further, a return to the use of the 'virtually certain' rather than 'probable' was referred to by several Engagement Strands. The

Secretariat noted that this would require a second submission to the FRC to amend this income recognition criterion.

However, overall Engagement Strand feedback did not indicate a strong need for change. Rather, some requirements could be clarified. Feedback from smaller charities cautioned that income recognition for smaller charities was an area where the SORP needs to be very clear.

The Chair invited comments from Committee Members.

4.2 **SORP Committee discussion of Paper 3**

4.3 There was consensus that the principles in the SORP are already sound and there is no need for major changes to the SORP.

Committee Members identified the need for additional guidance, commenting as follows:

- It was indicated that additional guidance on grant funding would be useful.
- Better guidance would be useful for charities in Ireland, where there are issues with funders as a result of language used in grants.
- Guidance would be helpful for transactions where there is payment by results. For example, a charity that supports people into employment may receive additional funding if people are still employed after an agreed time has passed. Guidance would help to clarify how income from payment by results schemes should be recognised.
- Examples would support charities when recognising pledges and claims for gift aid. The SORP could indicate when entitlement criteria would be met and include examples to illustrate this. There was support for the possibility of additional guidance for pledges. The Secretariat noted that one Engagement Strand had provided an example of pledges; see Paper 3.

With respect to the inclusion of examples in the SORP, the Secretariat cautioned that examples can inadvertently create a rules-based framework within a principles-based SORP. (Examples are currently published as advisory items on a dedicated part of the SORP website.)

The issue of problems caused by notification of funding close to a charity's year end was discussed. Where it is not possible for a charity to spend the funding in the year of receipt, two Committee Members commented that deferring recognition might be worth consideration. It was noted that this issue can cause distortions in the accounts of smaller charities. The Chair expressed sympathy where late notification arises such that the funds cannot be realistically spent and so consideration could be given to looking again at the approach to budget years set out in the SORP (paragraph 5.22).

Referring to paragraph 3.2 of Paper 3 ("It would be useful if paragraph 5.48 (membership subscriptions) of the SORP could contain a treatment to ensure a consistent treatment across charities"), a Committee Member questioned whether treatment should be consistent between charities or within a charity. The Committee Member expressed a preference for the latter to avoid a boilerplate approach.

The Chair invited the Secretariat to identify any other matters raised by Engagement Strands. The Secretariat noted that feedback on tightening language had been received, for example with reference to paragraph 5.22 (time related conditions) of the SORP. Additionally, discounting and materiality had been discussed. The Secretariat noted a number of examples of particulars had been provided, for example on membership income and theatre tax relief.

The Chair asked if Committee Members had further comments on these, or any other, aspects of Paper 3.

One Committee Member raised the issue of profits from trading subsidiaries. The Committee Member agreed that this is likely an issue of greater relevance to the subsidiary than to the charity but suggested that it would be useful to include guidance in the SORP to ensure the guidance is all in one place. Another Committee Member suggested issuing guidance on trading subsidiaries and gift aid as a separate sheet rather than in the SORP. The Chair noted that the SORP can cover the charities and charity groups, but that requirements for the trading subsidiary would be covered by UK GAAP, which is outside the remit of the SORP. One Committee member suggested guidance on the trading subsidiary should be included in the SORP insofar as the charity would recognise the income from a trading subsidiary. The Chair noted that it is not easy to define what a legal obligation looks like in a distribution. It may be possible to identify emerging practice, ensuring that this cannot be construed as legal advice. This could be a helpful way to provide guidance on distributions. The suggestion was supported by the Committee.

One Committee Member noted that discounting contract income where the impact is material would be in line with other parts of the SORP; this should be brought into line with the rest of the SORP. *[Secretariat note: feedback from Engagement Strands was that paragraph 5.47 of the SORP could helpfully reinforce that contract income should only be discounted if material. Extract from para 5.47: “. If extended credit terms are offered on exchange transactions (contract income), the amount receivable should be discounted by the time value of money at a rate of interest that reflects the financing transaction involved.”]*

One Committee Member commented that a critical area is whether a charity can defer income. In practice, this is an adjustment that the Committee Member regularly observed. The SORP could usefully provide more guidance to cover income recognition and when it is appropriate for income recognition to be deferred (SORP paragraphs 5.23 to 5.25).

4.4 **Chair’s summary of discussions of Paper 3**

4.5 The Chair noted the SORP Committee’s broad agreement that additional guidance would be helpful with respect to aspects of income recognition, including guidance on accounting for payment by results and on pledges. The Chair commented that the SORP-making body is constrained as to the amount of guidance and examples that can be included in the SORP to avoid undue length and complexity. The Chair noted the need to consider bringing discounting of contract income more explicitly in line with the rest of the SORP.

5. Paper 4: Summary report on approaches to reporting the Funds Note

5.1 The Chair invited the Secretariat to introduce Paper 4.

The Secretariat noted that Engagement Strand feedback centred on whether the funds note has a suitable degree of prominence and whether appropriate guidance is available. The options considered by Engagement Strands were:

- making no changes to the SORP
- increasing the prominence of the funds note or including the information in a primary financial statements, and
- increasing the amount of guidance available.

The broad consensus from Engagement Strands was that the funds note is one of the most important pieces of information, therefore it should be more prominent. However, there was no support for the funds note becoming a primary statement.

Engagement Strands suggested removing prior year information, which was seen to be increasing the size and complexity of the note. The benefit of including prior year information was questioned when the information is readily available in the prior year financial statements.

On the question of tiered reporting, feedback from Engagement Strands was that it would be inappropriate given the importance of the information and so all charities should include it. Further, smaller charities can have complex arrangements.

The Chair invited comments from Committee Members.

5.2 SORP Committee discussion of Paper 4

5.3 The following comments were received from individual committee members:

- it is not problematic to include the funds note at the end of the notes because users of the accounts generally knew how to access the note.
- there was agreement from a funder's point of view; it was noted that funders are trained to read the accounts in a non-linear way when assessing applications.
- advising an index or a contents page for the notes would help improve navigation.
- the references on the primary financial statements to the notes can support navigation, but it would be helpful to include an extended contents page in the accounts. It was noted that digitisation will help here, as users will be able to click through to the notes from the references on the primary financial statements.
- there was some support for increasing the prominence of the funds note including suggestions on references and a contents page could be part of the solution.

The Chair acknowledged that funders may already be able to find the required information but commented that funders are informed users of the accounts. Thought

therefore needs to be given to supporting users who are not as experienced as funders.

A Committee Member commented that there is potentially a need for an education piece to highlight the importance of the funds note. There was some agreement with this, with a second Committee Member noting that users of the accounts do not always have the level of understanding of the accounts that is assumed by financial reporting. In this case, steps such as including a contents page to the notes will not necessarily help.

There was some support for a suggestion that 'net assets over funds' could be included on the balance sheet. A Committee Member noted that the SORP already permits analysis of the balance sheet by fund type. A multi-columnar approach could be adopted on both the balance sheet and the statement of cash flows. It was noted that this approach can help trustees better understand the charity's reserves position.

However, support for this approach was not universal. A Committee Member noted that additional columns on the balance sheet and cash flow will not add information that is not already available elsewhere. Another Committee Member highlighted that a multi-columnar approach to the balance sheet and statement of cash flows would remove the need for a funds note, as well as providing additional information about the charity's cash position. A further Committee Member supported this, adding that the multi-columnar approach shows a charity's position across the board. However, the Secretariat noted that the multi-columnar approach may increase the perceived complexity of the primary financial statements and could reduce the comparability of charity financial statements to financial statements from other entities, all of which could potentially reduce users' understanding. A Committee Member noted that comparability between charities may be improved by a multi-columnar approach, as it is necessary to understand funds in order to compare charities.

A Committee Member asked if tiered reporting could be part of the solution. While a multi-columnar approach may not be suitable for all charities because of the additional work involved, there can be benefits to the approach. However, it was questioned whether a tiered approach would be serving the needs of the preparers or the users. Changes should not be made solely to help trustees to understand the accounts; they would need to be helpful to the users of the financial statements more generally to be made.

The relevance of earlier discussions of reserves and free reserves was noted.

The Chair asked the Secretariat for any further points from the Engagement Strands. The Secretariat noted that Engagement Strands had commented on endowment trusts, the link between the accounts and the Trustees' Annual Report and negative restricted reserves. Committee Members had no further comments on these aspects of Paper 4.

5.4 **Chair's summary of discussions of Paper 4**

- 5.5 The Chair noted that the question of bringing the funds note to the attention of users of the accounts does not have an easy answer due to the convention of sequencing the notes in accordance with the order of the primary financial statements and their content.

In summarising, the Chair noted that it is important when looking at drafting changes to identify the problem that the SORP Committee and the revisions to the SORP are trying to solve, as this will allow a focus on the relevant options.

The Chair commented on the SORP Committee's agreement that the information in the funds note is useful and that an education piece would be helpful. Ideas around 'net assets over funds' and the presentation of the primary financial statements could be considered further at drafting stage as it had not been possible to reach a consensus during this meeting.

6. Any other business including future Committee meetings

6.1 Future meetings

Dates for future meetings were noted per the agenda:

- Research meeting: 11 November 2021
- Committee meetings:
 - 1 December 2021
 - 12 January 2022
 - 26 January 2022
- Meeting with Engagement Strand Convenors: 16 February 2022

Since the agenda was published, an additional meeting has been scheduled for **2 March 2022** to begin drafting the next SORP. The Chair asked that this be added to the agenda as a postscript before the agenda is made available online.

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6.2 AOB

A Committee Member asked if the process of review had generated sufficient change to make a difference to the users of charity accounts. In addition, substantial amounts of the SORP Committee's discussions to date had concluded with the need to add guidance or examples. This could become problematic at drafting stage. The Chair commented this will be a topic of discussion at the joint meeting with the Engagement Strand Convenors in February and the SORP Committee meeting in March. Further, thought will be given to what additional content is included in the SORP and what will be provided outside the SORP, for example, in information sheets. The Chair noted that the SORP cannot provide exemplification for all the issues where this had been suggested.

A Committee Member observed that there may be a need for a communication piece if the engagement exercises lead to limited changes in the SORP. However, another Committee Member noted that, if the process results in limited changes being made to the SORP, then this will justify the relevant outcomes. As discussions have assessed detailed issues and the nuances of each topic, it has become clear that making improvements is not as straightforward as initially thought. The Chair added that the value of the new process is to carefully review the current SORP and whether change is needed and this has been illustrated by the quality of the discussion which so far has identified a limited number of topics for which Engagement Strands have asked for changes to be made to the SORP.

The Secretariat reminded Committee Members of the practical arrangements for the Working Groups.

As the Joint Chairs do not attend Working Groups, the Chair thanked Committee Members for their contributions to the meeting and brought the formal part of the meeting to a close.