

Charities SORP Committee Minutes

Date	17 July 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	Richard Bray Michael Brougham Tom Connaughton Mark Hill Noel Hyndman Simon Ling Kenneth McDowell Sheila Nordon Carol Rudge Jenny Simpson Darren Spivey	<i>Cancer Research UK Association of Charity Independent Examiners The Rehab Group Regeneris Limited Queen's University Belfast (by phone) National Association of Almshouses Saffery Champness Charities Institute Ireland Grant Thornton Wylie + Bissett LLP Royal National Lifeboat Institution</i>
In attendance	Steven Cain Joanna Szust Sarah Sheen	<i>CIPFA, Secretariat to the SORP Committee CIPFA, Secretariat to the SORP Committee CIPFA, Secretariat to the SORP Committee (by phone)</i>
Observer member:	Max Rutherford	<i>Association of Charitable Foundations</i>
Apologies	Caron Bradshaw Jenny Carter Jelena Griszenko	<i>Charity Finance Group Financial Reporting Council Charities Regulatory Authority</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 The Chair welcomed Steven Cain and Sarah Sheen to the meeting. The CIPFA Secretariat advised the changes in CIPFA personnel comprising the Secretariat and outlined their work experience to the Committee.

2 Approval of the minutes of the meeting of 7 March 2019 (Paper 1)

- 2.1 The draft minutes of the previous Committee meeting were approved subject to a number of minor amendments.

**Chairs
and
CIPFA**

3 Matters arising

3.1 *Response to FRED 71: Draft Amendments to FRS 102, Response to EFRAG's Discussion Paper: Non Exchange Transfers and Response to the Consultation on the Review of the FRC*

The Chair noted that the matters arising ie the SORP-making body's responses to abovementioned consultations had been agreed, circulated to the committee and were also published on the SORP microsite.

3.2 *Working Groups: Overview of the Conclusions and the Response of the SORP-making body (Paper 2)*

The Chair explained that paper 2 is a summary of the work of the individual working groups, and if members were comfortable it would be published on the microsite as a summary of the position to date.

Some concerns were expressed over the timing of publication, which might be seen as pre-empting or possibly a defensive response to the findings of the SORP Governance Review. The Chair noted that the work was part of the long standing work of the Committee, but acknowledged that care needs to be taken to avoid giving the wrong impression.

A number of members noted their concern that part three may not fully capture the debate, for example, where there were references to 'public interest' should this instead refer to the 'public benefit'? It was felt that the actions identified by the SORP-making body were not sufficiently detailed in the future plans for this work.

Some members did not feel able to agree the content of Paper 2 without further consideration because a long time had passed since the working groups conducted their discussions. The Chair observed that Paper 2 reflected the lines set out in minuted discussions, but acknowledged that it would be possible for some nuances to be missed.

It was agreed that the paper would be reviewed, mainly through consultation with the convenors of the working groups, and that this would be completed by mid-August with a revised document to be published.

3.3 *SORP Governance Review*

A number (but not all) of the members of the committee had significant reservations about the review. Particularly raising issues relating to:

- the quality of the research
- the volume of recommendations, and
- what the approach to implementing the recommendations might be.

Some members indicated that these required more debate than the time available at the meeting.

Concerns were also raised:

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- about whether the review properly reflected upon the role of the SORP Committee in supporting the SORP-making body with the interpretation of FRS 102, as part of a process determined by FRC;
- that the report may suggest that the SORP-making body should challenge the provisions of FRS 102 in a way which is not feasible;
- that the report may fail to recognise the degree of challenge under current arrangements, on the application of FRS 102 to charities;
- about whether the review Panel's composition was well placed to develop balanced recommendations.

In discussion, some members of the committee also questioned:

- The radical nature and appropriateness of some of the recommendations. A number of members felt that the findings were based on a relatively small evidence base, and they took this to indicate the possibility that there are a large proportion of stakeholders who are content with current arrangements and had been less inclined to respond to the consultation.
- The proportionality of the recommendations for representation of the regulatory jurisdictions given the fact that significantly more charities are based in England and Wales than in the other jurisdictions.
- The practicality of the arrangements given the need to operate within FRC frameworks and FRS 102.
- The realism of the ideal that everyone should be able to understand 'simple' annual reports and accounts produced by charities, while at the same time requiring consistent and high quality financial reporting.

The committee also queried whether the SORP-making body intended that the SORP could decouple from FRS 102. The Chair commented that this was not the case and the SORP is guidance on applying UK-Irish Generally Accepted Accounting Practice. Changes to GAAP could not be ruled out in the long term, but that this would need to be discussed with the FRC.

The Committee noted that there were some positive recommendations that all were likely to support. These included recommendations about improved engagement with stakeholders, the publication of role descriptions for the Chair and Committee members, and the content of consultation documents.

The Chair confirmed that the Panel was made up of representatives of the regulators (that were not members of the SORP-making body) and included an Observer Member, Jenny Carter, from the FRC. The Chair emphasised that the report was a collegiate report and the consultation process followed was exactly the same as had been used for all consultations on the SORP. The responses included a number of sector bodies and had been of high quality but the number was below that received for a consultation on an Exposure Draft for a new SORP.

The Chair acknowledged the concerns of members and noted that the SORP Governance Review was intended as an opportunity to take stock and to allow difficult questions to be asked. The Chair commented that:

- the intention is to use the new SORP engagement and development process to ensure that charities' Trustees' Annual Reports and accounts are addressing user information needs;
- the SORP-making body was persuaded that there is a need for the SORP-making body to do things differently; and
- implementing the recommendations of the SORP Governance Review Panel will require changes to be made.

4 Reshaping the SORP Committee (Paper 3) - discussion of recommendations and next steps

- 4.1 The Chair indicated that paper 3 ultimately reflects the SORP-making body's intention to improve charities' Trustees' Annual Reports and accounts.
- 4.2 The Chair thanked the committee members for all their diligence and support over the last four years. The Chair explained that the SORP-making body had committed to implementing the proposals emanating from the SORP Governance Review. However, there will be some flexibility as to how the recommendations might be met. The Chair recognised that the SORP-making body would need to also consider the concerns raised by committee members.
- 4.3 The Chair noted that the issue of engagement was summarised in Figure 1 in paper 3, and there would be ongoing engagement with these groups. There may be gaps in the stakeholders and it would be useful to have feedback on that issue.
- 4.4 Committee members were supportive of the intention of the recommendations to improve engagement. However, they expressed some concerns over the practicality of achieving engagement, particularly with groups like trustees. The resource requirements for facilitating engagement might also be considerable; the effectiveness of change would depend upon the resources which could be committed by the SORP-making body. Members also suggested that care needed to be taken in setting out the framework for engagement with stakeholders, so that weight was accorded to stakeholder input having regard to their relevance and importance. The perspective of beneficiaries should also be considered. Some members were of the view that the engagement process needed to be clearly articulated and might also benefit from the involvement of experts on stakeholder engagement.
- 4.5 Some members reiterated the concerns expressed in item 3.3, and suggested that development should be pursued after further discussion of the recommendations of the SORP Governance Review. They also raised concerns that there should be appropriate accounting expertise on the Committee to ensure that the SORP continues to align with FRS 102.
- 4.6 Members suggested it would be useful to have a meeting with the SORP Governance Review Panel to request the Panel explain and justify the recommendations arising from the review.
- 4.7 The Chair responded that this was still a work in progress which will be developed iteratively. Furthermore, the engagement outlined in Figure 1 might be facilitated by means of panels or virtual networks or groups, and this could be tailored to address issues around stakeholder relevance and importance.
- 4.8 The Chair explained that the FRC did not specify the review process for SORP development. However, the Chair suggested that any new process would need to be dynamic, and it would also need to be well thought through. This would continue to involve the SORP Committee, which would be an expert group which

would include accountants. The SORP would continue to implement standards with charities' accounts presenting a 'true and fair' view.

- 4.10 The Chair noted that it was helpful to hear the concerns of the SORP Committee but explained that the report was to the SORP-making body and not the Committee. It is the SORP-making body that is accountable to the FRC. The SORP-making body therefore had to take its own decisions on how to proceed with the recommendations of that review.
- 4.11 The Chair noted the request to meet with the SORP Governance Review Panel to discuss the recommendations, and agreed to consider this.

Chairs

5 Conclusions Chairs

- 5.1 The Chairs noted that they had listened to the very valuable input of the Committee. They would consider the points raised in detail over the next two to three weeks.
- 5.2 The Chairs commented that they had started the transparency and engagement process by including the actions of the SORP-making body on the 'about us' pages of the SORP microsite.
- 5.3 The Chairs explained that as regulators they would each have a discussion about the resourcing of the recommendations. The Charities Regulator would also be involved in those discussions.
- 5.4 The Chairs were asked what the timescale might be for the production of the next SORP. They explained that the FRC was allowing space for further evidence gathering on developments in IFRSs ie the expected loss model for impairment, on leases and income recognition and they were currently anticipating issue of a new FRS 102 in 2022/23. The SORP development process was likely to align with this time-line. The Chairs reiterated that they would ensure the technical adequacy of the development of the next SORP.

Chairs

Chairs

6 Charities SORP Second Edition and Information Sheet 4 - Pensions Accounting

- 6.1 CIPFA Secretariat outlined that as agreed at the last meeting an Information Sheet would be produced.
- 6.2 FRED 71 had now been adopted as an amendment to FRS 102 and would be applicable from 1 January 2020. The Secretariat anticipated that the Information Sheet would set out the conditions for when the changes to FRS 102 would be relevant to charities (ie when the information was such that they could identify the assets and liabilities in a defined benefit scheme (that was currently accounted for as a defined contribution scheme)). Defined benefit accounting will then need to be applied. On transition this would require the recognition of difference between the liability recognised under defined contribution accounting and accounting for the net defined benefit liability.
- 6.3 This difference is recognised as a separate line item in the Statement of Financial Activities in the section of the SoFA that is analogous to other comprehensive income statement of for-profit companies. Comparative information is not restated.
- 6.4 The Information Sheet would be considered by the Committee at its September meeting. Committee members were requested to provide any commentaries they might have on the approach outlined to the CIPFA Secretariat by mid-August.
- 6.5 A member enquired whether the CIPFA Secretariat was still seeking views on the Basis of Conclusions. The Secretariat responded that she had had responses from some Committee Members although she acknowledged that those responses had not included any comments requiring amendment to the draft Basis of

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Conclusions. The Secretariat commented that she understood that the SORP-making body wished to send the SORP to the FRC by the end of July. The Committee agreed that any further comments should be sent to the Secretariat by the end of the following week ie 26 July 2019.

C'tee

7 Any Other Business

7.1 The next meeting of the Committee is on **12 September 2019**