

Charities SORP Committee Minutes

Date	21 June 2018	
Venue	CIPFA Offices, 77 Mansell Street, London	
Joint Chair	Laura Anderson Nigel Davies Fiona Muldoon	<i>OSCR Charity Commission for England and Wales The Charity Commission for Northern Ireland</i>
Members present	Sarah Anderson Richard Bray Michael Brougham Pat Dennigan Mark Hill Noel Hyndman Simon Ling Sheila Nordon Kenneth McDowell Carol Rudge Jenny Simpson Darren Spivey Mark Spofforth	<i>Deloitte LLP Cancer Research UK ACIE Focus Ireland Regeneris Limited Queen's University Belfast National Association of Almshouses Charities Institute Ireland Saffery Champness Grant Thornton Wylie + Bissett LLP Royal National Lifeboat Institution Kreston Reeves LLP</i>
In attendance	Mei Ashelford Easton Bilsborough Max Rutherford	<i>FRC CIPFA, Secretariat to the SORP Committee Association of Charitable Foundations</i>
Apologies	Caron Bradshaw Tom Connaughton Pesh Framjee Tom Malone	<i>CFG The Rehab Group Crowe Clark Whitehill, Technical Advisor to CIPFA Secretariat Charities Regulator</i>

Action

- 1 Welcome, apologies for absences, confirmation of participants 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 Committee welcomed Max Rutherford, Head of Policy at the Association of Charitable Foundations (ACF), who joined the meeting as an observer to the Committee.
 - 1.4 The Chair asked if there were any declarations of interest to be made. No declarations of interest were noted.
- 2 Approval of the minutes of the meeting of 8 May 2018 (Paper 1) and matters arising**
 - 2.1 The draft minutes of the previous Committee meeting were approved subject to a number of minor amendments.

Papers for FRC's UK GAAP Technical Advisory Group (TAG) Meeting

- 2.2 The Chair informed the Committee that the revised version of the Update Bulletin 2 and accompanying papers had been circulated to the members of TAG in advance of their meeting next week. Subject to the advice of this group and the view of the FRC, the Update Bulletin may require to be changed in advance of it being taken to the FRC's Accounting Council. The Chair explained that the Committee would be kept fully informed of any changes. It was anticipated that a final version of Update Bulletin 2 would be issued in October 2018 following approval by the FRC Board.
- 2.3 A member questioned the level of expertise and appreciation of charities reporting within the current FRC Board. The representative from the FRC confirmed that the Board is advised by TAG which includes a broad spread of sector specialist knowledge and experience, including an observer from the representatives from the Charities SORP-making body.

New SORP-making body arrangements

- 2.4 The Chair explained that the FRC had approved the request to reconstitute the Charities SORP-making body to include the Charity Commission for Northern Ireland (CCNI) with immediate effect. They noted that the CCNI representative would now be a joint-chair of the Charities SORP Committee.
- 2.5 They went on to explain that the FRC had also approved the option for the Charities Regulator (in the Republic of Ireland) to be included as part of the Charities SORP-making body in the future. This option is considered appropriate for the Charities Regulator subject to when the SORP is adopted for charities in Irish legislation.
- 2.6 The Chair set out the practical impact of these changes for the Committee. They observed that representatives from each regulator would now have an input in the meeting agendas and papers, as well as chairing. It was also planned for the Committee to meet in Dublin in 2019, in addition to Edinburgh and thereafter it would be the intention for one meeting to be held in Scotland and one in Northern Ireland or the Republic of Ireland each year.

Working parties for the Information Sheet

- 2.7 The Chair noted that a working group made up of members and observers of the Committee had been formed. The group would develop an information sheet to offer advice on the accounting treatment for payments by subsidiaries to their charitable parents that qualify for gift aid.
- 2.8 The Chair thanked both the convenor and members of the working group for volunteering to take this issue forward.
- 2.9 The Chair acknowledged that other topics where greater guidance was needed had been identified by respondents to the consultation on Update Bulletin 2. They explained that these topics would be carried forward and considered as part of the next full update to the SORP, given the committee's current interest in these issues.

Impact of GDPR on Committee arrangements

- 2.10 The Chair reported that the joint SORP-making body would be issuing a data privacy statement and document retention policy in order to comply with the General Data Protection Regulation (GDPR). They explained that both documents

were necessary given the joint SORP-making body's role in collecting and holding personal information which is in the public domain. This includes the personal information of Committee members and observers, as well as consultation respondents.

- 2.11 The Chair explained that both documents would be subject to formal review by the FRC before being made available on the [SORP Micro-site](#) and shared with the Committee.
- 2.12 A member raised the recent article co-authored by the Committee Chairs about the differences between for-profit and not-for-profit accounting which had been shared amongst the Committee. They noted that the article had been written to create an atmosphere of debate and suggested that the points raised within it should be discussed by the Committee. It was agreed that time would be given to discuss the article at the Committee Meeting in July.

CIPFA

3 Update from the FRC

- 3.1 The FRC representative provided an update on the development of UK accounting standards.
- 3.2 She noted that representatives from all seven SORP-making bodies had been invited to attend, what will become an annual meeting with the FRC, in September. This was a new initiative to give SORP-making bodies the opportunity to share knowledge, as well as for the FRC to update the bodies on its work.
- 3.3 A member suggested that the perceived drift in the original purpose of SORPs should be explored at this meeting. They felt the guidance provided by SORPs had developed from supplementing and interpreting accounting standards for a specific industry or sector, to now specifying the standard of reporting which is required. They questioned whether SORPs should have the status of standards, rather than 'recommended' practice, given they are now enshrined within legislation. This led onto a discussion about whether the term 'Statements of Recommended Practice' remains appropriate.

4 Presentation and discussion of working group findings: Smaller Charities (Paper 2)

- 4.1 The convenor of the working group gave a presentation which outlined the group's work and their main findings and recommendations. The presentation summarised the ways the group felt the reporting burden on smaller charities could be reduced and how the help available to preparers of small charity accounts could be increased.
- 4.2 Through discussion, the Committee raised a range of queries linked to the specific findings of the group.
- 4.3 Members expressed views on the recommendation that the very smallest company charities with incoming resources of less than £250,000 should be permitted to prepare accounts on the receipts and payments ('R&P') basis and the changes necessary in order for R&P accounts to be deemed to show a true and fair view if the charity is also a company. The discussion included the following observations and suggestions:
 - A number of members indicated their support for the change, but felt the current R&P accounts would require additional disclosures in order to be deemed to show a true and fair view. They also raised the potential for R&P accounts to present a misleading picture of longer-term financial sustainability.
 - The minimal disclosures required by micro-entities currently applying FRS 105, compared to the level of information given in charity R&P accounts was observed. It was noted that accounts prepared under FRS 105 are

considered by law to give a true and fair view as a result of the UK implementation of the EU Accounting Directive.

- It was noted that the form and content of R&P accounts differ as a result of the legislative requirements of each jurisdiction. Therefore a SORP for charities in the UK and Ireland preparing R&P accounts would have to accommodate this.
- The number of charities which would be impacted by this change was considered. It was estimated that around two thirds of those charities which are companies would meet the current threshold to prepare R&P accounts in England & Wales and are unable to do so as a result of being constituted as charitable companies. It was expected that this proportion was similar in Scotland and may be higher in Northern Ireland, where there is currently no option for a charity to form as a charitable incorporated organisation.

- 4.4 Members discussed the group's recommended changes to the format of the SORP, which included the suggestion of a greater use of technology. This suggestion was considered to have the potential to make the SORP easier to navigate and comprehensively tailored. A member of the working group explained that the proposed 'build your own SORP' tool would give preparers a clearer picture of what information was required in a set of accounts specific to their charity. They believed the tool would also benefit the joint SORP-making body by providing data about the transactions and balances charities typically have. This information could then be used to inform the future development of the SORP.
- 4.5 Members supported the group's suggestion that charity regulators should allocate greater resources to reviewing the quality of charity accounts filed with them. A number of members raised the need for action to be taken by the regulators in order to provide an incentive for charities to prepare reports and accounts which are compliant with the SORP.
- 4.6 An observer raised a possible unintended consequence of reducing the reporting burden by simplifying the accounts prepared by small charities. They warned that funders using accounts may request additional information from small charities if less information is being reported by them in their statutory accounts. Members of the working group felt this situation currently exists, despite smaller charities preparing accounts under full FRS 102. They explained that they were sceptical of statutory accounts being able to satisfy the information needs of individual funders.
- 4.7 The Committee acknowledged that the group's work did not extend to the trustees' annual report, and their recommendations were primarily focused on financial reporting in the charity's annual accounts. A number of members observed that a different rationale may be appropriate for narrative reporting, where the reporting will depend on the distinct circumstances of the charity and not only its size.
- 4.8 The Committee finally considered the how the group's recommendations should be framed within the current landscape of charity reporting and standard setting. Comments included:
- The changes could contribute towards closing the current 'credibility gap' which exists between what the SORP requires charities to report and what is being reported in practice.
 - As the current situation is complex, it requires the SORP-making body to go 'back to basics' and consider what charity accounts should look like if

they are to enable users to understand how the charity has spent their money.

- The development of accounting standards for smaller charities requires standard setters to take a different approach. Preparers of charity accounts are typically volunteers and users of charity accounts are typically unfamiliar with accounting concepts and the different elements of a set of financial statements. This is different to corporate reporting, where preparers can be considered to 'speak the same language' as those using the accounts (i.e. institutional investors, analysts and finance providers).
- The need for resources and ability of the SORP-making body/regulators to leverage investment remains a recurring barrier for implementing the changes recommended by the working group, as well as those identified as part of prior research and stakeholder feedback.
- The recommendations should be framed as those changes necessary to improve the quality of the reporting by smaller charities, rather than reducing the burden. This signals the positive outcomes of the group's proposals.

4.9 The Chair thanked the working group for their presentation and work undertaken. They explained that they planned to reflect on the group's recommendations and the Committee's feedback in order to draw out those findings which will be included in the programme for developing the next SORP. This would be done following the Committee meeting in October, by which point all four working groups will have presented their findings.

4.10 The Chair then offered a number of observations regarding the barriers identified in the Committee's discussion and the group's report.

4.11 The Chair acknowledged that the resources of the joint SORP-making body would be a factor in the decision to take forward the working group's proposals. They noted that the current SORP is available to download free to charge. However the scope for changing this model of distribution may be explored going forward for developing the next SORP.

4.12 The Chair acknowledged that the SORP does not exist in a legal vacuum and legislative differences exist between the jurisdictions in which it applies. They explained that whilst the SORP aims to recommend a common approach, charities across the UK and Ireland are required to report differently as a result of this mix of legislation and regulation. It was noted that differences have arisen as a result of devolution, where legislation and regulation are developed in a way that is particular to one jurisdiction's consideration of what is appropriate for their country's charitable sector. It was also observed that whilst the joint SORP-making body may take a particular view in wishing to harmonise relevant regulation, a different view may be taken by individual charity regulators.

4.13 The Chair finally discussed the need to strike the right balance between the need for transparency in charity reporting and lessening the regulatory burden. It was observed that FRS 105 was introduced in order to meet similar objectives for micro-entities in the corporate sector. Therefore, it was felt time should be taken in order to explore if a similar solution could be developed for the charity sector.

5 Presentation and discussion of working group findings: Tiered Reporting (Paper 3)

5.1 The convenor of the working group presented the work undertaken by the group and their main findings and recommendations. This was done by taking the Committee through the group's report, which summarised the rationale and

perceived benefits of a four tier approach to charity reporting. Through discussion, the Committee raised a range of queries and comments linked to this specific finding, as well as others included in the group's report.

5.2 Members expressed views on the thresholds proposed by the group. The discussion included the following observations and suggestions:

- A detailed profiling exercise would have to be undertaken in setting any new thresholds. This would have to be done in order to determine the type and number of organisations meeting the thresholds based on employee numbers and balance sheet totals.
- Although the use of the Companies Act thresholds appears logical, these should be considered as a starting point given they were set for the corporate and not the charity sector.
- The application of the 'two year rule' is needed given that a charity's income can fluctuate depending on the nature of its funding base. A similarly practical approach should be applied when pro-rating thresholds.

5.3 Members then discussed whether additional complexity was being created by introducing additional tiers for charity reporting. The Committee had a thorough discussion on the matter and made a number of comments including:

- Previous initiatives that introduced different reporting thresholds and associated versions of the SORP for charities led to greater complication around requirements for charities and confusion for preparers. Therefore any development of these proposals should examine what can be learnt from prior work.
- Having a four tiered reporting regime may be necessary in order for charity accounts to be appropriate for the end users. This potentially 'complex' solution may be necessary in order to improve the current situation. Changes should be mindful of balancing the burden on preparers with the information needs of users.
- A complicated regime which is only able to be interpreted and understood by preparers risks reducing the transparency of charity reporting. A transparent system should be accessible to and accessible by those it is intended to benefit – i.e. users.
- There are different thresholds for reporting, auditing, charity registration etc. across the UK and Ireland. Complexity currently exists as a result of the inconsistency between different thresholds rather than the number of these. This could be improved by having a common set of thresholds for charities, i.e. applying the proposed four tier approach across all areas of charity administration.

5.4 Members supported the recommendation that further consultation on the introduction of additional tiers was needed. This was considered to be necessary in order to determine the implications of the changes from perspective of both users and preparers of charity accounts. Members acknowledged the inherent difficulties in engaging with the general users of charity accounts previously discussed by the Committee. A member suggested that a 'tiered' approach should be taken to consulting with each tier of charities, given the range of stakeholder groups. It was recommended that different approaches should be taken to reach different tiers depending on their profile. For example, it may be appropriate to consult with the very largest charities ('PLC Charities') directly.

5.5 The Committee discussed the application of the four tiered approach in relation to the trustees' annual report and the concept of the level of transparency 'differing' at each tier. A member of the working group explained that taking a principles-based approach to this area chimed with the work of the International Integrated

Reporting Council (IIRC). They explained that the IIRC's Integrated Reporting (<IR>) Framework has 'seven guiding principles' which are applied when preparing integrated reports. This approach would mean that the same principles would be applied across the content and quality of reporting, mitigating the need for different requirements at each tier.

- 5.6 Members noted that the <IR> Framework had been developed for application in corporate reporting. It was suggested that considering the framework's application in relation to charity reporting should be discussed at a future meeting. The Chair observed that the IIRC's capitals model was considered by the previous Committee as part of the development of the current SORP.
- 5.7 The Committee went on to discuss the impact of developments in corporate reporting on the Charities SORP. One member highlighted new corporate governance reporting requirements which had recently been introduced for UK companies. They believed the SORP-making body risked falling behind in the development of charity reporting if it was not kept informed of changes in the corporate reporting landscape.
- 5.8 The Chair thanked the working group for their presentation and work undertaken.
- 5.9 They noted that the reports of all groups would be published on the SORP Micro-site. It was explained that this would be done no later than following the Committee meeting in October, when the findings from all four working groups will have presented and discussed.

6 Verbal update on Committee matters

- 6.1 The Chair explained that the contract to provide secretariat support to the SORP Committee and the related contract for the printing, publication and distribution of the SORP was to be retendered. This was necessary given the joint SORP-making body's current contract with CIPFA would end in December 2018.
- 6.2 The Chair noted that the retendering process would be carried out by the Charity Commission for England and Wales, OSCR and CCNI as the current joint SORP-making body, with the Charities Regulator being advised of progress. The process would begin shortly, with an invitation to tender being issued and made available on the Charities SORP Micro-site. It was planned for the contract to be awarded by the Committee meeting in October 2018.
- 6.3 The Chair informed the Committee that the SORP-making body's intention to review the governance processes for developing the SORP, including membership of the Committee, was planned to take place later in the year. They explained that the governance review would be undertaken by the Charity Commission for England and Wales, OSCR and CCNI as the current joint SORP-making body. The Charities Regulator would also participate in the review as an advisor to the joint SORP-making body. It was noted that the terms of reference for the review would be approved by the FRC and shared with the Committee in due course. The Chair explained that members and observers of the Committee would be invited to participate in the review process.

7 Any other business and dates for next meetings

- 7.1 A member raised the current call for evidence issued by the Charity Tax Commission (CTC). They observed that whilst taxation does not fall within the remit of the Charities SORP-making body, charity accounts are required by HMRC and their figures are used in the calculation of tax liabilities.
- 7.2 Members observed that the CTC is an independent commission and not an initiative of HMRC itself. It was noted that the Charity Commission for England and Wales is represented on the CTC, which would allow the joint SORP-making

body to keep informed of the review and any potential impact on the Charities SORP.

- 7.3 It was noted that the joint SORP-making body would canvass the Committee for 2019 meeting dates.

Chairs