

# Charities SORP Committee Minutes

Date	07 March 2019	
Venue	CIPFA Offices, 160 Dundee Street, Edinburgh	
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 Caron Bradshaw Richard Bray Michael Brougham Tom Connaughton Mark Hill Noel Hyndman Simon Ling Sheila Nordon Jenny Simpson Mark Spofforth	<i>Deloitte LLP Charity Finance Group Cancer Research UK ACIE The Rehab Group Regeneris Limited Queen's University Belfast National Association of Almshouses Charities Institute Ireland Wylie + Bissett LLP Kreston Reeves LLP</i>
In attendance	Easton Bilsborough Don Peebles Jenny Carter Jelena Griscenko Claire Morrison Max Rutherford	<i>CIPFA, Secretariat to the SORP Committee CIPFA, Secretariat to the SORP Committee FRC Charities Regulator OSCR Association of Charitable Foundations</i>
Apologies	Carol Rudge Darren Spivey Kenneth McDowell	<i>Grant Thornton Royal National Lifeboat Institution Saffery Champness</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 Committee welcomed Jelena Griscenko. The Chair explained that Jelena was joining the meeting as an observer from the Charities Regulator, replacing Tom Malone who had moved on from the Charities Regulator earlier in the year.
- 1.4 The Committee also welcomed Claire Morrison who joined the meeting as an observer from OSCR, and Don Peebles who joined the meeting as an observer from CIPFA.

### **2 Approval of the minutes of the meeting of 25 October 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.

### *SORP tender process: Confirmation of Secretariat*

- 2.2 The Chair explained that CIPFA had been re-appointed as secretariat to the SORP Committee. They noted that CIPFA would also continue to provide the printing, publication and distribution service for the SORP. On behalf of the joint SORP-making body, the Chair expressed their enthusiasm at continuing to work with CIPFA on the development of the next version and next edition of the SORP.

### *Charities SORP Annual Review 2018*

- 2.3 The Chair noted that the Annual Review 2018 of the SORP had been shared with the FRC at the end of last year. The FRC representative informed the Committee that the review had been subsequently taken to the FRC's UK GAAP Technical Advisory Group (TAG) and Corporate Reporting Council, with no issues noted.

### *Information Sheet 2: publication*

- 2.4 The Chair noted that 'Information Sheet 2' had been issued by the joint SORP-making body in early January 2019. The Information Sheet covered the recent clarification to the accounting treatment for payments by subsidiaries to their charitable parents that qualify for gift aid.

## **3 Update from the FRC**

- 3.1 The FRC representative provided an update on the development of UK accounting standards.
- 3.2 She explained that the annual review of FRS 101 *Reduced Disclosure Framework* had been completed and the FRC was currently consulting on proposed amendments to the standard. However, this was noted as being out with the scope of the Charities SORP.
- 3.3 In relation to FRS 102, she noted that the FRC were currently consulting on new requirements for presenting the impact of transition from defined contribution accounting to defined benefit accounting in FRED 71, included later on the meeting's agenda.
- 3.4 She informed the Committee that the next milestone in the development of FRS 102 would be the assessment of those updates required as a result of changes in IFRS Standards. It was explained that the FRC were waiting for more IFRS implementation experience before making a decision on the most appropriate timetable and approach for reflecting the principles of the expected loss model of IFRS 9, IFRS 15 and IFRS 16 in FRS 102, if at all. She noted that there were currently no definite dates in respect of this work and any proposals would be consulted on.
- 3.5 A member enquired whether the FRC had given any initial thoughts about how the principles of IFRS 16 would be incorporated into FRS 102 and the likelihood of this resulting in a fundamental change to lease accounting. The FRC representative explained that they had not, however, future work would involve considering how to strike the right balance between maintaining an IFRS –based framework with reporting requirements which are proportionate and practical to apply.

## **4 Governance Review of the SORP process**

- 4.1 The Chair updated the Committee on the Governance Review of the SORP process currently being undertaken by an Oversight Panel. They explained that the Panel had met that week to discuss the feedback received from the public consultation undertaken earlier in the year. They noted that the discussion had

been informed by an analysis of the responses prepared by the two of the Chairs of the Committee, who are assisting the work of the Panel in a Secretariat role. The analysis of the responses prepared for the Panel would be made available on the SORP microsite in due course.

- 4.2 The Chair noted that the consultation feedback and views from other interested stakeholders, including those gathered from the members of the current Committee, had raised a number of initial recommendations. They explained that some of those recommendations which were in the gift of the joint SORP-making body were currently being taken forward.
- 4.3 The Chair then explained that the Panel's recommendations would be finalised at their next meeting in Belfast at the end of next month. These would then be considered by the regulators and formally reported at a meeting of the FRC's UK GAAP TAG. The accepted recommendation would then be put into effect by the joint SORP-making body in 2019, in time for the development of the next full SORP.
- 4.4 A member enquired about the FRC's involvement in the Panel and review process. The Chair explained that the FRC were observer members of the Oversight Panel. The FRC representative noted that the FRC's policy on the development of the SORPs must be met by all SORP-making bodies as a minimum. They explained that beyond acting in accordance with the policy, each SORP-making body is free to set their own governance arrangements.

## **5 Response to the SORP working groups' findings (Paper 2)**

- 5.1 The Chair introduced Paper 2, which set out the SORP-making body's response to the findings and recommendations of the four working groups. They explained that the response and proposed next steps were tentative as the SORP-making body awaits the outcome of the ongoing governance review of the SORP process. In light of this, some of the working group's recommendations would have to be revisited once the recommendations of the governance review have been reported and put into effect. The Chair also noted that the current 'statement of drafting aims' would be revisited at a later stage in light of the recent expansion of the SORP-making body.
- 5.2 The Chair reflected on the wider context for developing the next SORP, drawing on the purpose of financial reporting as specified by the FRC. They considered how this purpose should be interpreted for charity accounting and reporting. It was observed that the current Charities SORP replicates the disclosures required for for-profit accounts and adds extra reporting which is specific to the charity sector. The Chair noted that whilst FRS 102 does include PBE specific requirements, the concept of 'true and fair' is framed around for-profit accounting. Considering the purpose of financial reporting, they felt that the development of the new SORP would be guided by the need to provide useful information for users.
- 5.3 The Chair then considered each of the working group's recommendations and how these were proposed to inform the development of the next SORP. They explained that the SORP-making body believed that there was merit in considering a three-tier approach and this would be actively revisited. Alongside this, those SORP-specific requirements would be revisited with the aim of reducing the burden of accounts preparation for smaller charities. The Chair noted that this would require exploring how 'true and fair' is configured in the context of charity accounts and reflected in legislation. This will involve exploring whether to seek a change to the legal definition of what constitutes true and fair accounts in each charity law jurisdictions. A similar exercise would also be explored to determine if a standardised approach for cash accounts across all four

jurisdictions would enhance the information provided by these financial statements.

- 5.4 Through discussion, Committee members then shared their views on the next steps proposed by the SORP-making body.
- 5.5 The current context in which charity reporting is developed was considered by the Committee. Some members expressed concern about the current 'for-profit' focus in UK accounting standards, which was seen as being at odds with the purpose of charity reporting. They felt that the focus presented a barrier that was constraining the changes needed to allow charities reporting in a way that is relevant for and understandable to users. One member advocated a different starting point and looking to develop a reporting model that was specific to the not-for-profit sector. Others observed the merit of an accounting framework that used measurement and recognition bases that are consistent across sectors. They noted the potential for an entirely different model to result in a reporting regime which is less understandable to those outside the charity sector. Members cited the work of the Accounting Standards Board (as the predecessor to the FRC) in developing a statement of principles for financial reporting for Public Benefit Entities which used the principles for for-profit entities as a starting point.
- 5.6 Members discussed current efforts being undertaken to develop international guidance on financial reporting by not-for-profit entities, and CIPFA's involvement in this initiative. CIPFA Secretariat explained the long-term nature of this work, and the potential delay to the development of UK charity reporting if the SORP-making body was to await for international progress in order to inform the next SORP. The Committee noted the timescales involved, but felt there were limitations to how well an iteration of the current approach of using accounting standards developed for for-profit entities would continue to serve the charity sector going forward.
- 5.7 The Committee acknowledged that the interpretation of true and fair would drive the development of reporting in the short-term, especially in connection to the development of a framework for smaller charities. Members welcomed the proposal to review the current interpretation of true and fair in the context of charity reporting. The FRC representative noted that the FRC would be happy to play a part in this review as appropriate.
- 5.8 The Committee also reflected on the purpose of financial reporting as specified by the FRC. The position of funders was discussed in relation to this purpose. Members gave differing views on whether funders should be considered to be in a position to demand reports tailored to meet their particular information needs. Comments included:
- Funders can generally demand the information they want from charities, which gives them an empowered position compared to other users.
  - Achieving consistency about the financial and performance information that funders would like charities to report is unlikely to be achieved. Therefore the ability for annual reporting to fulfil the information needs of funders is limited.
  - Often grant making organisations are small. This means they are not in a position nor have the capacity to demand additional financial information from potential grantees.
- 5.9 The Committee raised a range of queries linked to the specific proposal to considering a three-tier approach. A member felt that size was not the best way to differentiate the charity sector, and that there was greater commonality between similar types of charities. They saw merit in taking steps to create a reporting framework based on different categories based on their operating

model. Another member observed that tiers had the potential to increase the number of options for those preparing charity accounts. They noted that greater choice can create additional complication, with charities often paying for professional expertise to navigate this perceived complexity.

- 5.10 The Committee questioned the steps and changes necessary for Section 1A to be applied by charities. The Chair discussed the previous work undertaken by the joint SORP-making body following the withdrawal of the FRSSE. This found the requirement for a true and fair view, when taken with the need to provide additional disclosures and sufficient information to assist smaller charities meant that those charities able to apply Section 1A would have to add the disclosure requirements of the current SORP in full (in order to show a true and fair view). Although Section 1A starts from the premise of a few specific disclosures, it draws the preparer's attention to the full standard to consider what additional disclosures are necessary to give a true and fair view. In this respect the considerations of the applicability of a disclosure and the materiality of an item apply equally to all preparers. Even though eligible charities using Section 1A might be able to avoid excessive disclosure requirements by considering their applicability and materiality, this would be demanding on smaller charities because it would require a full knowledge of the standard and a significant number of judgments to be made. This approach was compared with the current approach for entities applying Section 1A that are not within the scope of the Charities SORP. These entities apply Section 1A, and are then required to include any additional disclosures deemed necessary in order for their financial statements to give a true and fair view. It was observed that these entities are starting from a fundamentally different starting point compared to those applying the Charities SORP in terms of the accountancy skills and expertise to which they have access.
- 5.11 The Chair outlined that any changes in this area would require clarity around the concept of true and fair in the context of charity reporting. Time would then have to be spent looking at what a different disclosure framework would look like, which would have to be consulted on. Changes would also be required to the legal definition of what constitutes 'true and fair' in each jurisdiction to allow those disclosures specified in Section 1A, together with those disclosures specified by the SORP, to show a true and fair view. The Chair explained that such changes would require Government support.
- 5.12 A Committee member raised the need to address the current imbalance between the information reported by small entities in the corporate sector versus those in the charity sector. This led onto a discussion about the current option which exists for small companies to file 'abridged' statutory financial statements. It was observed that these financial statements are still required to give a true and fair view. Members acknowledged the limited practical advantages offered by 'abridged' statements, given that only the number of pages that a company files are reduced. Members observed that in Ireland, where the option to file abridged accounts currently exists for charitable companies, this is generally perceived as being not in line with the principle of transparency.
- 5.13 Members finally considered the role and purpose of statutory reporting. The Committee discussed the impact of conflicting demands on the annual report, and its current scope in light of changes in how information is now being consumed by users. The discussion included the following observations and suggestions:
- The desire for annual reporting to enable a charity to be transparent about its activities, whilst assisting in the financial management of charities, means that the type and nature of information reported will differ. It is unrealistic for one document to achieve both of these aims.

- There is currently undue focus on the financial information that is reported by charities. This tells users about one element of the charity's performance, but not the full picture. When considering how charities should report on their performance, this should be viewed as part of a very broad picture.
- The growing number of reporting requirements being placed on charities in legislation and regulation mean annual reports read as a repository of different information. Greater thought should be given to how information on other aspects of a charity's performance can be displayed and made available more effectively elsewhere.
- Donors are now moving from being in a position of civil gratitude to civil scrutiny. This trend will raise the profile of the annual report as a single credible source of information for donors to scrutinise and raise questions.

5.14 The Chair drew the discussion to a close and thanked the Committee for their comments.

5.15 The Chair then raised the publication of the Working Group findings. The Committee discussed the decision to limit the publication of the group's findings to a summary, as taken at the previous Committee meeting. It was agreed to proceed on this basis, with a summary of the group's findings included in the Chairs' paper (Paper 2). This approach was deemed as appropriate given the aim of the exercise, which was to encourage blue sky thinking. Members felt that by putting the group's recommendations in the public domain, they risked being misinterpreted. It was felt being too specific about their current thinking may be unhelpful at this early stage in the development of the next version of the SORP.

5.16 It agreed that the Chair would circulate a redraft of Paper 2 for Committee views prior to publication on the SORP microsite.

**Chairs**

## **6 Outline work programme for the future development of the SORP**

6.1 The Chair observed that the joint SORP-making body had committed to the publication of a second edition of SORP (FRS 102). They explained that the second edition would incorporate Update Bulletins 1 and 2 and other changes to the legal and regulatory framework since the publication of the first edition in 2014.

6.2 CIPFA Secretariat noted that work was currently progressing on this edition, which would be published by CIPFA following their reappointment as official publisher of the SORP. It was noted that the timing of the publication would be dependent on the outcome of the decision to update the SORP for the proposed amendments in FRED 71.

## **7 SORP-making body response to FRED 71 (Paper 3)**

7.1 CIPFA Secretariat introduced the paper, which provided a background to the proposed amendments to FRS 102 in respect of multi-employer defined benefit plans. The paper outlined the potential impact of the amendments for the charity sector and how they may be reflected in the SORP (FRS 102).

### *Potential impact on the charity sector*

7.2 A Committee member noted that the potential scope of the issue for charities was currently unknown. It was acknowledged that the status of those multi-employer schemes where sufficient information is not available for members to identify their share of the plan's assets and liabilities varies. However, it was felt that current developments in the social housing sector could be interpreted as being indicative of future developments in other large multi-employer schemes where

members are presently unable to account for their associated pension obligations as a defined benefit pension. The Committee concluded that the issue could therefore be of relevance to the charity sector in the future.

#### *Assessment of the proposed amendments in FRED 71*

- 7.3 CIPFA Secretariat noted that each of the three accounting treatments proposed in exposure draft had technical merit. They explained that each resulted in the impact of the transition from defined contribution accounting to defined benefit accounting being presented in different sections of the Statement of financial activities (SoFA).
- 7.4 The Committee discussed each treatment. A number of members questioned the rationale of not treating the transition as a change in accounting policy, and therefore applying the change retrospectively as an adjusting entry in opening reserves.
- 7.5 CIPFA Secretariat noted the view presented in the Basis of Conclusions which accompanied the exposure draft. They explained that the transition to define benefit accounting could be seen as a change to an improved measurement basis of the same underlying pension obligation. This reasoning results in the adjustment being treated as a change in accounting estimate and therefore applied prospectively. It was also observed that sufficient information could take place at any time, and therefore the treatment needs to address the possibility that the change in accounting may take place part way through a reporting period.
- 7.6 Through discussion, the Committee concluded that recognising the change as an adjusting entry in opening reserves represented the most technically sound option, and also the most appropriate in terms of limiting the impact of the transition on a charity's current year's performance. It was agreed to incorporate this view into a draft response, which would then be circulated for comment in advance of being submitted to the FRC by 31 March 2019.

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#### *Update to the SORP*

- 7.7 Members suggested that guidance on this accounting change could be provided through an Information Sheet, rather than reflecting the proposed amendments in the SORP by way of an Update Bulletin. This was considered appropriate based on the type of charities potentially impacted by the issue which was being addressed in FRED 71, and the circumstances in which any such change would occur. It was also noted that guidance on the issue would be covered within FRS 102 itself, therefore limiting the need for supplementary guidance to be provided in the SORP.
- 7.8 CIPFA Secretariat would develop this guidance following the amendments being issued by the FRC in May.

### **8 Update: Accounting for gift aid payments made by a subsidiary to its parent charity where a legal obligation exists** (Paper 4)

- 8.1 CIPFA Secretariat provided an overview of the paper which detailed those technical issues encountered by the working group whilst developing Information Sheet 2. They explained each of the issues and summarised the conclusions reached.
- 8.2 The Chair thanked the group for their work in developing the Information Sheet. They believed the resource would provide a useful guide for charities implementing the change in accounting treatment in the year of transition. It was acknowledged that whilst the guidance does not cover the accounting where

there is a legal obligation for the subsidiary entity to make a gift aid payment, it nonetheless provides a useful contribution that will assist preparers.

- 8.3 The Committee considered whether there was merit in the joint SORP-making body taking forward those remaining issues connected with this topic. Through discussion the nature and size of those charitable groups impacted by the issues was noted. Members acknowledged the difficulty of guidance being able to fully address the issues as a result of those different factors that would impact the accounting treatment. CIPFA Secretariat explained that the development of guidance would be challenging given that the accounting treatment would be dependent on a variety of facts and circumstances. The Chair also observed that the time and resources involved in reaching this stage could be significant.
- 8.4 In considering the demand for the guidance, the Chair observed that there had been limited activity to indicate a demand for any further guidance on this topic. Members noted that the sector's awareness of those issues set out in Paper 4 was limited given that the issues had only emerged during the development of the Information Sheet. As a consequence, awareness was restricted to those that had been privy to this process, i.e. members and observers of the Committee.
- 8.5 A member suggested that the sectors awareness of these issues could be raised in an article. It was agreed the article would be written by a member of the working group and shared with CIPFA Secretariat. This would ensure the article's messages were consistent with Paper 4 and the restrictions around the paper's contents.

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## **9 Information Sheet 3: The 2018 Companies (Miscellaneous Reporting) Regulations (Paper 5)**

- 9.1 CIPFA Secretariat introduced the paper which gave an update on the development of an Information Sheet covering new corporate governance reporting requirements for UK charitable companies.
- 9.2 CIPFA Secretariat explained that a number of the reporting requirements introduced by the regulation applied to companies based on their level of turnover. They informed the Committee that the draft Information Sheet had interpreted turnover as 'gross income' in the context of charity reporting. It was noted that this interpretation was consistent with previous guidance issued by the joint SORP-making body on the requirement for charitable companies to prepare a Strategic Report, as well as other thresholds associated with charity accounting and assurance requirements. They then explained an instance where 'turnover' has been interpreted differently in the context of charity reporting. They noted that this interpretation reflected the UK Companies Act 2016, which defines turnover as 'amounts derived from the provision of goods and services falling within the company's ordinary activities'. This meant turnover excluded income from donations and gifts.
- 9.3 CIPFA Secretariat explained the choice available to the joint SORP-making body in offering a different interpretation of turnover and the implications of doing so. These were discussed by the SORP Committee. Members considered the precedent which had been created by interpreting turnover as 'gross income'. This was noted as being consistent with best practice, but not reflective of a strict interpretation of the legal definition, and therefore what charities are legally required to report. There was agreement amongst the Committee that guidance should make preparers aware of the joint SORP-making body's interpretation in order to allow them to come to their own conclusion regarding the application of the reporting requirements.
- 9.4 It was agreed that CIPFA Secretariat would incorporate this change into the final Information Sheet, which would be shared with the Committee prior to issue.

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## **10 Sector press coverage: Charity cost ratios**

- 10.1 A Committee member summarised recent press coverage on cost ratios in the charity sector. They observed that the media's criticism about the percentage of charities' spending on their charitable activities could be linked to the wider transparency agenda. They then reflected on the findings of the working group that had considered the notion of transparency in the context of the SORP. They questioned whether there was a role for the SORP-making body and Committee to help raise profile of the current reporting framework, which includes requirements that are intended to provide a high level of transparency.
- 10.2 The Committee reflected on these observations. Members noted that reporting ratios have been a perennial source of media attention, with negative coverage potentially impacting on a large number of charities. Members acknowledged that the recent headlines offered an opportunity to highlight the positive role that the SORP has played in encouraging charities to report on their performance in a useful and accessible way, as well as the Committee's ongoing work on around the theme of transparency in developing the next SORP.
- 10.3 This led onto a discussion about whether the SORP-making body should respond directly to stories on this topic. The Chair observed that the Charity Regulators which act together as the joint SORP-making body respond to media enquiries on an individual basis, in line with their own organisation's policies, as well as the nature of the enquiry itself.
- 10.4 The Committee agreed that there are a range of different organisations who have a role and responsibility to respond to media coverage on this topic. However members felt that reacting to individual stories was not particularly helpful, especially when confronted with stories on specific charities' spending patterns. Instead, it was felt the SORP-making body should look to promote the role of the SORP in encouraging consistency across the sector. A Committee member recommended that whilst the SORP-making body may not formally respond to these headlines, they should not be ignored and their underlying messages should be factored into the future development of the framework.

## **11 EFRAG's Discussion Paper on Non-exchange Transfers**

- 11.1 CIPFA Secretariat provided an overview of the discussion paper and accompanying briefing. They explained the relevance of the consultation, which sets out a new approach for analysing and accounting for non-exchange transactions based on the IASB's revised *Conceptual Framework for Financial Reporting*.
- 11.2 The Chair noted the significance of the initiative for UK and Irish charities, and the potential for EFRAG's proposals to inform the future work of the IASB in developing IFRS Standards.
- 11.3 A member questioned the future status of EU-adopted IFRS in the UK in light of Brexit. The FRC representative explained that at the point of the Britain's exit, legislation will bring those International Standards which have already been endorsed for use in the EU into UK law. Following Brexit, a newly established UK IFRS Endorsement Board will be responsible for endorsing new and revised IFRS Standards.
- 11.4 It was agreed that additional time should be given to consider the issues raised in the discussion paper and their wider implication when interpreted in the context of the charity sector. It was proposed to arrange a conference call for those Committee members interested in discussing the paper in more detail. This feedback would then be incorporated into a draft submission, which would then

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be circulated for comment in advance of being submitted by the joint SORP-making body by 30 April 2019.

## **12 Any other business and date for next meeting**

- 12.1 A member raised the recent call made by a coalition of charities seeking a ruling on whether charities should align their investments with their objectives and their duty to provide public benefit. They enquired if any future developments in this area could impact on the guidance on accounting for investments currently included in the SORP.
- 12.2 The Chair observed that Module 21 of the SORP includes guidance on accounting for 'social investments'. These are defined as a separate class of investments that are undertaken for both a financial return and to, in whole or part, further the investing charity's charitable aims and objectives. They noted that Module 21 also includes guidance on ethical investment policies that explains that ethical, socially responsible or mission related investment policies do not create a separate class of investments. Therefore any developments in this area would be unlikely to conflict with the limited guidance on this topic currently included in the SORP. The Chair also noted that the Charity Commission for England and Wales is currently reviewing their guidance for charity trustees on investing charity funds (CC14).
- 12.3 It was noted that CIPFA Secretariat had canvassed the Committee for the date of its next meeting in September, which would be confirmed later that month.
- 12.4 There was no other business and the meeting was closed.

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