

Charities SORP Committee Minutes

Date	19 July 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 Caron Bradshaw Richard Bray Michael Brougham Pat Dennigan Mark Hill Noel Hyndman Sheila Nordon Darren Spivey	<i>Deloitte LLP Charity Finance Group Cancer Research UK ACIE Focus Ireland Regeneris Limited Queen's University Belfast Charities Institute Ireland Royal National Lifeboat Institution</i>
In attendance	Mei Ashelford Easton Bilsborough Pesh Framjee	<i>FRC CIPFA, Secretariat to the SORP Committee Crowe Clark Whitehill, Technical Advisor to CIPFA Secretariat</i>
	<i>For item 2:</i> Daniel Chan Jill Halford	<i>PwC PwC</i>
Apologies	Tom Connaughton Simon Ling Tom Malone Kenneth McDowell Carol Rudge Max Rutherford Jenny Simpson Mark Spofforth	<i>The Rehab Group National Association of Almshouses Charities Regulator Saffery Champness Grant Thornton Association of Charitable Foundations Wylie + Bissett LLP Kreston Reeves LLP</i>

Action

- 1 Welcome, apologies for absences and declarations of interest**
 - 1.1 The Chair welcomed members, observers and guests to the meeting.
 - 1.2 Those apologies for absence received were noted.
 - 1.3 The Committee welcomed Jill Halford and Daniel Chan from PwC, who joined the meeting for agenda item 2.
 - 1.4 The Chair asked if there were any declarations of interest to be made. No declarations of interest were noted.
 - 1.5 The Chair informed the group of Pat Dennigan's decision to stand down as member of the Committee following his recent promotion. The Committee noted their thanks for his contribution over the past three years.

2 Presentation: PwC Building Public Trust Awards: Excellence in Reporting in Charities

- 2.1 Jill Halford and Daniel Chan gave a presentation to the Committee on PwC's 'Building Public Trust Awards' for 'Excellence in Reporting in Charities'. They gave a background to the 2017 awards and described the assessment process and criteria used. They then described the key lessons which could be learnt from those charities recognised by the awards. They finally outlined the considerations they believed charities should be addressing in their financial reporting in order to underpin public trust and confidence.
- 2.2 The Chairs thanked Jill and Daniel for their presentation before the Committee then reflected on the key points it should draw from it.
- 2.3 The Committee discussed the emphasis placed on charities being able to demonstrate the impact they are having in a meaningful and comparable way. Members observed that measuring impact is often fraught with difficulties. This was considered as contributing towards the poor standard of reporting in this area. It was noted that the impact of a charity's work can be long-term and dependent on a range of different factors which makes this exercise challenging. A number of members considered that in the absence of complex and costly impact measurement models being implemented, charities can realistically only paint a picture of their impact through case studies.
- 2.4 These observations developed into a wider discussion around what can be done by the SORP-making body to encourage charities to report on their impact and improve the quality of their impact reporting more generally. These questions were considered by PwC based on their experiences and findings during the 2017 awards. They believed that there was scope for the current SORP to be clearer on what it expects charities to report on. However, they cautioned against guidance being overly prescriptive and mandating specific disclosures, given the difficulties of defining measures which suit the sector as a whole. It was also recommended that the SORP should focus on championing impact reporting. Charities should be encouraged to explain the context of their work in order for the public to understand the societal need that the charity is aiming to address, what their purpose is and how its activities support this.
- 2.5 A member raised a question about the relevance of the awards for small and medium sized charities, given that it focuses on reporting by charities in the Charity Finance 'Charity 100 Index'. PwC observed that the reporting practices of the largest charities are often replicated by smaller charities. They explained that examples of innovative and impactful reporting are now being seen by smaller charities that are often able to change their reporting practices more easily compared to large organisations.
- 2.6 This led onto a discussion about what can be done by the SORP-making body to encourage smaller charities to report on their societal contribution and impact. Members suggested that this could be achieved by providing preparers with a clear framework which provides questions to prompt discussion among trustees and examples of disclosures concerning this type of reporting. It was acknowledged that this approach may result in boilerplate disclosures. Other members raised the cultural change required in any organisation in order for them to develop a reporting system that captures information on their outcomes and impact.
- 2.7 A member raised the linkage between a charity's strategy and the risks which will prevent it from being achieved and the resources required to achieve it. It was observed that this 'link' was clear in reports of those charities recognised in the 2017 awards. They questioned whether the requirements and structure of the current SORP goes far enough in encouraging charities to identify and report on

this link. Members felt the SORP could do more to encourage charities to link these elements in their reporting. However, it was also acknowledged that this integration is often absent as a result of multiple authors and as a consequence of the report not being considered by the organisation as a whole.

3 Approval of the minutes of the meeting of 21 June 2018 (Paper 1) and matters arising

- 3.1 The draft minutes of the previous Committee meeting were approved subject to a number of minor amendments.
- 3.2 The Chair noted that the proposed discussion noted in paragraph 2.12 of Paper 1 regarding the article co-authored by the Committee Chairs had been deferred to the October Committee meeting. They explained that it was considered necessary in order to allow the Committee adequate time for a full discussion and debate about the issues raised in the article.
- 3.3 The Chair noted that the SORP-making body was considering a change to its initial practice and intended to jointly-publish the minutes from the June, July and October 2018 Committee meetings together with the papers which present the working groups' findings on the SORP microsite. After discussion it was agreed that it was better to present all the papers as a set as many of the conclusions are linked and so publication would be expected to take place following the approval of the October Committee minutes in 2019. They explained that this was felt necessary in order for the Committee's deliberations to be presented together with the working group's findings. When all the working groups have reported this would allow interested parties to read both documents together and consider the Committee's deliberations in the context of the working groups' findings.

Update Bulletin 2: FRC approval

- 3.4 The Chair informed the Committee that the revised version of Update Bulletin 2 and accompanying papers had been discussed by the FRC's UK GAAP Technical Advisory Group (TAG) at their June meeting. The discussions covered whether charities engaging in social investment meet the definition of a financial institution, the need for charities to provide comparatives and the proposed effective date of the gift aid payment amendment. The FRC will take the TAG's views on these topics on advisement. The draft Update Bulletin will progress to the next stage of the FRC approval process in September.

Impact of GDPR on Committee arrangements

- 3.5 The Chair explained that the joint SORP-making body's data privacy statement and document retention policy would be shared with the Committee in due course. They noted that both documents await formal review by the FRC to ensure consistency with their policy on developing SORPs, which is currently in the process of being updated to cover General Data Protection Regulations related issues.

Independent Review of the Financial Reporting Council: Call for evidence

- 3.6 The Chair explained that a [call for evidence](#) had been launched as part of the Government's Independent Review of the FRC. The FRC representative explained the context and timing of the review, which was expected to be completed by the end of 2018.
- 3.7 The Chair explained that there was no prerequisite for the SORP-making body to make a submission to the call for evidence. However, the SORP-making body was

interested in the views of the Committee in order to establish if they should respond. The Chair then went through the consultation document, noting those questions relevant to the scope of the Charities SORP and the Charities SORP-making body's interactions with the FRC.

- 3.8 The Committee recommended that a submission should be made by the joint SORP-making body.
- 3.9 It was agreed to circulate the questions outlined by the Chair together with the tentative view of the joint SORP-making body. Feedback would then be sought from the Committee via email. The Committee's feedback would then be incorporated into SORP-making body's submission to the call for evidence, which closes on 6 August 2018.

4 Update from the FRC

- 4.1 The FRC representative provided an update on the development of UK accounting standards.
- 4.2 She explained that the revised UK Corporate Governance Code had been [released](#) earlier in the month. She noted that whilst the Code sets standards of governance for companies, it could be relevant when considering changes to this area of reporting as part of the development of the new version of the SORP.
- 4.3 An observer noted that they had written an [article](#) about lessons which charities could learn from the revised UK Corporate Governance Code. It was agreed that the article would be shared with Committee following the meeting.

CIPFA

5 Presentation and discussion of working group findings: Transparency (Paper 4)

- 5.1 A member of the working group gave a presentation which outlined the group's work and their main findings and conclusions. The presentation summarised how the group considered the notion of transparency in the context of the SORP. The member explained that the group examined the 'problem' which was it was attempting to solve, and their discussions led them to consider:
- What information is considered as being transparent;
 - What information is currently missing in charity reports and accounts; and
 - How users could be better directed to the information identified as 'transparent'.
- 5.2 The group observed that members had begun discussions with a wide variety of views; however through discussion a consensus was reached. It was explained that the recommendations presented in Paper 4 do not constitute personal views, but the conclusions reached by the group. The group also observed that they believe there is scope for more research around transparency and suggested it may be appropriate to commission a specific research programme on this area.
- 5.3 The working group member outlined the group's main observations which had formed the basis of their recommendations about the changes needed to create greater transparency in charity reports and accounts. This included the notion of consistency versus transparency in reporting, where the group concluded that there are instances where for something to be more understandable, comparability may be compromised. The group recommended revisiting the wording and guidance included in the SORP which covers those disclosures where flexibility is known to exist in how this information is prepared.
- 5.4 The Committee raised a range of queries linked to the specific recommendations of the group. These were primarily focused on the group's recommendations around the introduction of a Key Facts Summary (KFS) and the development of a 'roadmap' for items in the trustees' annual report.

- 5.5 Members of the working group explained that the KFS would promote information which already exists within a charity's reports and accounts. The summary would provide headlines and bulletin points to give a snapshot of the charity to enable readers to understand the distinguishing features of the organisation. It was hoped that this 'at a glance' summary would help readers form a picture of the charity which would provide a basis for their curiosity and help inform their choice of areas they would like to know more about. Through discussion, Committee members expressed strong views on this recommendation. Observations and suggestions included:
- The information included in the KFS should allow readers to get an overall feel for the organisation from the start. This will involve determining the information that the SORP-making body wishes to place 'upfront' and in the public eye. This should be led by the SORP-making body, rather than the media or charities themselves.
 - There are similarities between the KFS and the Summary Information Return (SIR) which was introduced, and subsequently withdrawn, by the Charity Commission for England and Wales. One difference between the SIR and the group's recommendation is that the KFS would be included within the Trustees Annual Report – rather than exist as a separate document.
 - The recommendation conflicts with the overall findings of the 2016 Research Exercise, where written respondents were against mandating the disclosures of key facts.
- 5.6 Members of the working group went on to describe the function of the trustees' annual report 'roadmap'. The 'roadmap' would follow on from the KFS by signposting readers to where they can find specific information contained in the trustees' annual report. It was proposed that charities would be free to determine what information they wish to 'point out'. The group explained that the 'roadmap' aimed to overcome the issue of readers not being able to locate specific information about a charity in the trustees' annual report – which was identified as a barrier to transparency. Generally the Committee saw value in this recommendation, and members commented on the benefits of helping users navigate the information presented by charities as a way to influence how it is understood.
- 5.7 A member enquired whether the group had considered which size of charities would be expected to prepare a KFS and trustees' annual report 'roadmap'. The group explained that their work had primarily focused on larger charities, but remained cognisant of those issues around transparency which are relevant for smaller charities. This led onto a discussion around the application of the group's recommendation for smaller charities. Members questioned whether it was realistic for the same approach to transparency to be applied by charities irrespective of size. A member believed there was merit in the SORP promoting the principle of charities giving an overall view of their organisation using information which is easy to understand and succinct. However, it should be acknowledged smaller charities may not see the benefits of doing so as readily as larger charities.
- 5.8 The Committee observed that the group's findings about the use of technology in both the format of the SORP and the presentation of accounts chimed with the findings of other working groups. It was noted that developments in digital technology have the potential to change charities reporting practices. Members observed that digital technology is already being embedded by charities in their reporting processes and used to enhance the disclosure of information.

- 5.9 The Chair drew the discussion to a close and thanked the working group for their presentation and work undertaken.
- 5.10 The Chair observed that implementation of the groups' recommendations would depend on the appetite for change in developing the new version of SORP as well as the views of the Committee. They observed there were options to develop next SORP by either editing the existing version, or radically restyling the document. They noted that there was no preconceived view on the changes and approach which would be taken at this stage.
- 5.11 The Chair then briefly explained the process which would be undertaken by the joint SORP-making body following the next Committee meeting in October, when the findings from all four working groups will have been presented and discussed. It was planned for the joint SORP-making body to meet and determine their views on the proposed changes for the new SORP. These would then be shared with the Committee in early 2019. The views of the Committee would then be gathered and incorporated into a work plan for the new version of the SORP, in advance of the drafting for the new SORP commencing.
- 6 Changes in company reporting regulations - Corporate Governance (Paper 5)**
- 6.1 CIPFA Secretariat introduced Paper 5 which provided an overview of the impact of [The 2018 Companies \(Miscellaneous Reporting\) Regulations](#) on UK charities and the possible response by the SORP-making body to the draft legislation.
- 6.2 CIPFA Secretariat provided a background to the regulations, which had originated from the UK Government's planned reforms to the current corporate governance regime for large private companies and public listed companies. CIPFA Secretariat emphasised that the regulation only applies to UK charitable companies which meet certain specific qualifying conditions before summarising the content which qualifying UK charitable companies would have to include in their trustees' annual report.
- 6.3 CIPFA Secretariat then gave an overview of how charitable company's reporting requirements under company law are covered in the Charities SORP (FRS 102). They explained the options available to the joint SORP-making body in order to provide guidance on the new requirements. It was proposed that guidance could either be provided by way of an Information Sheet or by signposting the regulation in the future edition of the SORP.
- 6.4 The Committee observed that the regulation would impact a small number of the very largest UK charitable companies. Members commented on the focus of the regulation, which had been developed primarily for private sector for-profit entities. It was agreed that guidance on the regulation should be provided in an Information Sheet, which would offer practical guidance on how the statements required by the regulation could be made by charities in a way that is tailored to the needs of users of charity accounts.
- 6.5 A number of members sought clarification regarding the interaction between the regulation and the voluntary set of corporate governance principles for large private companies currently being consulted on by the FRC (known as a the ['Wates Corporate Governance Principles'](#)). CIPFA Secretariat explained that the development of these principles was being done to coincide with the introduction of a new requirement for all companies to disclose their corporate governance arrangement in their director's report, including whether they follow any formal corporate governance code. They noted that the requirement was introduced by *The 2018 Companies (Miscellaneous Reporting) Regulations*; however, charitable companies were exempt from the requirement under paragraph 22(c) of the regulation.

- 6.6 A member questioned how the qualifying criteria should be interpreted by UK charitable companies given that the thresholds are based on concepts particular to the corporate sector (e.g. 'turnover' and 'balance sheet total'). They observed that this may result in charities considering themselves to be outside the scope of the regulation. They recommended that clarity on this area should be provided.
- 6.7 The Committee finally considered the disclosure requirements introduced by the regulation which are not applicable to charities, either as a result of a specific exemption or as a consequence of charities' operating practice. Members observed that these requirements could be considered as good practice for the very largest charities, which are often influenced by corporate reporting practices. This led onto a discussion about whether guidance should make preparers aware of these requirements. It was agreed that the disclosures should be revisited by the Committee at a later date and considered in light of the recent discussion around transparency.

7 Any other business and dates for next meetings

- 7.1 A member suggested that the recent [Trust in Charities](#) research report published by the Charity Commission in England and Wales should be discussed at a future Committee meeting. They felt that the report's findings about the impact of reporting on where 'the money goes' (i.e. providing information on the distribution of charitable funds) has on the public's trust was relevant to the Committee's recent discussion around transparency.
- 7.2 A member observed that the current guidance for Community Interest Companies (CICs) which covers CICs' annual reporting obligations does not make any reference to the Charities SORP in outlining the accounting standards which must be applied by CICs. Whilst CICs are not required to apply the Charities SORP, depending on their structure and purpose, they may be considered as public benefit entities and be required to comply with FRS 102. The members felt the guidance could signpost the SORP as it includes guidance which is potentially relevant to CICs. CICs are not exclusively established for charitable purposes and so are not charities although they may meet the definition of a public benefit entity under FRS102. The Chair noted that the regulation of CICs in the UK is undertaken by the Office of the Regulator of Community Interest Companies (CIC Regulator). They explained that there is liaison between the CIC Regulator and the other UK charity regulators which they expected would cover the provision of any guidance.
- 7.3 The Chair provided an update on the review of the governance processes for developing the Charities SORP being undertaken by the joint SORP-making body.
- 7.4 The Chair explained that an independent chair was being appointed to conduct the review. They observed that the review aims to identify an efficient and effective process which will be used to deliver the next SORP. They hoped for the review to be concluded by the end of 2018, in time for the development of the new SORP which will begin at the start of 2019. As a result of this timetable, a direct approach had been taken to identifying potential chairs of the review.
- 7.5 The Chair explained that the review's terms of reference would be shared with the Committee once approved by the FRC and agreed with the appointed chair. Depending on the chair's availability, it was hoped that they would meet the members and observers of the Committee as part of the review process.