

Charities SORP Committee Minutes

Date	25 October 2018	
Venue	CIPFA Offices, 77 Mansell Street, London	
Joint Chair	Laura Anderson Fiona Muldoon	<i>OSCR 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 Carol Rudge Jenny Simpson Darren Spivey	<i>Deloitte LLP Charity Finance Group Cancer Research UK ACIE The Rehab Group Regeneris Limited Queen's University Belfast National Association of Almshouses Grant Thornton Wylie + Bissett LLP Royal National Lifeboat Institution</i>
In attendance	Easton Bilsborough Jenny Carter Pesh Framjee Gareth Morgan Max Rutherford	<i>CIPFA, Secretariat to the SORP Committee FRC Crowe Clark Whitehill, Technical Advisor to CIPFA Secretariat Independent Chair, Governance review of the SORP process Association of Charitable Foundations</i>
Apologies	Nigel Davies Sheila Nordon Tom Malone Kenneth McDowell Mark Spofforth	<i>Charity Commission for England and Wales Charities Institute Ireland Charities Regulator Saffery Champness 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 Dr Gareth Morgan, who joined the meeting as an observer and as the Independent Chair of the governance review of the SORP process.
- 2 Approval of the minutes of the meeting of 19 July 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.

Update Bulletin 2: publication

- 2.2 The Chair informed the Committee that the second SORP Update Bulletin had been [published](#) earlier in the month, following approval by the FRC Board. The Chair noted that regulation in Scotland would be updated to make reference to the Update Bulletin before 1 January 2019.

Helpsheet 4: publication

- 2.3 The Chair explained that a [helpsheet](#) had been issued by the joint SORP-making body in August 2018. The helpsheet advises how the SORP has been updated for each iteration of FRS 102 since 2015.

Update to the FRC's Policy on Developing SORPs

- 2.4 The Chair noted that the FRC had updated their policy on developing SORPs earlier in the month. The FRC representative explained the revised policy was similar in principle to the previous version and now made reference to the SORP-making bodies' retention of consultation responses in line with General Data Protection Regulation.

Annual SORP-making bodies meeting 2018

- 2.5 The Chair explained that representatives from all four charity regulators had attended a meeting with the FRC in September, together with representatives from the other six SORP-making bodies. The meeting was a new initiative which gave an opportunity for the SORP-making bodies to share their knowledge and the FRC to provide an update on its work.
- 2.6 The Chair noted that many of the challenges shared by the Charities SORP-making body had been common to those shared by other bodies. They explained that those representing the Charities SORP had taken the opportunity to highlight the growing complexity of financial reporting standards as a key challenge in developing the Charities SORP. They went on to note that the FRC had indicated their commitment to have further discussions on this challenge, including the use of Section 1A of FRS 102 as a potential solution.
- 2.7 An observer enquired whether the meeting had identified the need for consistency where SORPs are addressing similar matters, albeit for different industries or sectors. They observed that different approaches for the recognition of grant income currently exist between the Charities SORP and the other SORPs. The FRC representative explained that consistency between SORPs is considered as part of the FRC's review of each SORP. She observed that the FRC's policy on developing SORPs allows different approaches between SORPs where justified. She explained that in the absence of further work on the recognition and accounting of grant income being undertaken internationally, there was no view to look at this particular area again.

Charities SORP Annual Review 2018

- 2.8 The Chair informed the Committee that the annual review of the SORP would be undertaken in the coming months and shared with the FRC by the end of the year.

Governance Review of the SORP process

- 2.9 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 would be seeking stakeholder's views on the process for developing the SORP through public consultation. The consultation was expected to launch next month, with details available on a dedicated [section](#) of the SORP microsite. The Chair noted that the next meeting of the Panel would take place in Dublin at the end of this month.

SORP tender process

- 2.10 The Chair noted that the tendering process for the contract to provide secretariat support to the SORP Committee and the related contract for the printing, publication and distribution of the SORP was not yet concluded.

3 Update from the FRC

- 3.1 The FRC representative provided an update on the development of UK accounting standards.
- 3.2 She gave an overview of the FRC's current plans for updating FRS 102. She informed the Committee that there were no imminent planned changes to FRS 102, with the next milestone being the updates required as a result of changes in IFRS. 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. These proposals would be consulted on.
- 3.3 She explained that the FRC would be publishing a suite of factsheets next month which would act as an update their existing [Staff Education Notes](#). The factsheets would illustrate certain requirements of FRS 102, and reflect the triennial review amendments issued in December 2017.
- 3.4 A member enquired whether the requirement for charities to provide comparative information for all disclosures required by the SORP would be revisited by the FRC. The FRC representative explained that the requirement had been discussed as part of the recent Triennial Review and the approval of the second SORP Update Bulletin; therefore it would not be revisited. However, she noted that it could be raised as part of a future update to FRS 102.

4 Presentation and discussion of working group findings: Governance disclosures (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 proposed amendments to the governance disclosures found in modules 1 and 9 of the current SORP.
- 4.2 Through discussion, the Committee raised a range of queries linked to the specific recommendations of the group. These were primarily focused on the revisions made to Module 1 of the SORP.
- 4.3 The Committee discussed the group's overall approach to revising Module 1, which introduced new disclosure requirements to take account of developments in governance and other sector issues since the current SORP was issued. Members expressed views on the current approach of identifying specific areas of importance in the SORP in order to act as a steering mechanism for charities' reporting. One member observed that including a greater number of areas may create a need for supplementary guidance in order to help charities identify those areas which should be prioritised in the context of their own reporting. They also believed there was a risk that by adding more requirements charities may stop looking at areas which are not referenced in the SORP, therefore limiting the

scope of their reporting.

- 4.4 A number of members observed that by adding more reporting requirements and identifying specific topics where disclosures were required, both the SORP and charities annual reports would be longer. This was considered to be contrary in the context of the aims of the new version of the SORP. A member felt the SORP should encourage charities to signpost other documents in their Trustees' Annual Report in order to avoid dual disclosure and reduce the length of the document.
- 4.5 An observer noted that work was currently being undertaken as part of a DfID-funded project on governance and reporting in connection with safeguarding. They explained that the project will result in sector guidance on reporting in this area being issued. They felt that rather than requiring charities to include detailed information on safeguarding in the Trustees' Annual Reports, charities should instead reference where this information can be accessed (e.g. the charity's website). A member observed that the draft 'Charity Digital Code of Practice' includes recommendations on how charities should share their impact and demonstrate their openness and accountability through digital channels. They suggested consideration should be given to how the requirements of the Trustees' Annual Report link to how charities are now using digital channels to report on their performance.
- 4.6 These comments led onto a discussion about the inclusion of a requirement for charities to explain how they safeguard their beneficiaries, volunteers and employees. Members discussed the consequences of the SORP responding to topics that are currently under the media spotlight. One member felt that by doing so the SORP-making body may be perceived as identifying those topics which are the most important for all organisations in the charity sector. However, this was considered to be unlikely given the diversity of the sector. They also observed that simply reporting on these topics is not an end in itself.
- 4.7 Members commented on the focus on risk within the revised module. A number of members felt there should be greater emphasis on risk in order to encourage charities to focus their reporting on those areas which are of greatest risk to their organisation. Encouraging charities to adopt this approach would remove the need for the SORP to specify topics it judges to be the most important to the sector.
- 4.8 The Committee discussed the group's recommendation to remove the split in Module 1 between the disclosures required by large and small charities. The recommendation was based on the view that good governance applies to all charities, given that it is of fundamental importance in any organisation. A member questioned whether it was practical to assume Module 1 would be readable and understandable by all those charged with writing a charity's Trustees' Annual Report. The member was sceptical, given the variety of experience of those preparing these reports. They believed it was right to aspire that all charities adopt the proposed requirements, however the requirements may need to be expressed in simpler language in order to ensure the module is accessible to all applying it. The Chair observed that the accessibility of the SORP was raised in the recommendations of other working groups.
- 4.9 Through discussion, a range of comments and suggestions were raised in relation to specific changes proposed to Module 1, including:
- The general reference to stakeholders should be wider as depending on the charity's operating model it may extend beyond beneficiaries and funders. Similarly, the reference to the charity's interaction with beneficiaries should be sufficiently wide to acknowledge that some charities' interaction with beneficiaries is limited.
 - The requirement to explain how the trustees evaluated their own

effectiveness is useful. However, it could be expanded to require information on the findings of the trustees' evaluation and subsequent actions taken.

- The requirement to report on the frequency of trustee meetings could be expanded to encourage the disclosure of information on trustee attendance. This could act as a prompt for positive behaviour.
- Requiring reporting on how a charity adopts and embeds its values may prove challenging for many organisations. Measuring and assessing how successfully the organisation's values and culture have been adopted is difficult to do in practice.

4.10 Finally, members of the working group explained the approach taken to reviewing the existing governance disclosures included within Module 9 of the SORP. They explained that the group identified a number of areas where greater clarity is needed in relation to the terminology used. It was recommended that the SORP should clarify what should be included in the average headcount disclosure (paragraph 9.29) and expand the guidance on what 'received' means in the context of employee benefits (paragraphs 9.30 and 9.32).

4.11 The Committee expressed views in relation to the average headcount disclosure. The discussion included the following observations and suggestions:

- Achieving consistency amongst charities in respect of what is included in this disclosure would be difficult to achieve without issuing very detailed and prescriptive guidance.
- The method for calculating the average number of employees is set out in UK Company Law. The SORP could simply signpost relevant legislation.
- As more organisations introduce agile working practices and change their workforce model, the number of staff being employed by a charity may become less relevant. The individuals captured in this disclosure needs to reflect this change. Consideration should be given to the disclosure of temporary staff, contractors/agency staff, and other off payroll workers.
- Rather than attempting to take a 'rules-based' approach to the disclosure, the Committee should reflect on what information is trying to be communicated. It may be that users are not interested in the figure itself, but instead the charity's workforce model and potential reliance on subcontractors. Therefore charities could be required to disclose the number of staff, but also explain how they arrived at this figure.

4.12 A number of Committee members agreed with the group's recommendation to review the requirement for charities to disclose the number of employees who receive employee benefits of more than £60,000 in bands of £10,000 (paragraph 9.30). However, it was felt consideration should be given to whether £60,000 remains the correct starting point for this disclosure.

4.13 The Chair drew the discussion to a close and thanked the working group for their presentation and work undertaken.

5 Next steps

5.1 The Chair gave an overview of the process that would be undertaken now the findings from all four working groups had been presented and discussed by Committee.

5.2 The Chair explained that the four charity regulators would meet to consider the working groups' findings and views of the Committee. These would inform the joint SORP-making body's views on the proposed changes for the new version of the SORP. These proposals would then be shared at the next Committee meeting in March 2019, where the views of the Committee would be gathered.

- 5.3 The Chair finally thanked all four working groups for their input over the last 12 months. They felt the formation of the groups had been a positive experience and had allowed thinking on the development of the next SORP to progress outwith the typical cycle of Committee meetings.

6 Draft wording of Information Sheet 2 (Paper 3)

- 6.1 CIPFA Secretariat talked the Committee through the draft wording for Information Sheet 2 (Paper 3). He noted that the Information Sheet had originated from the SORP-making body's consultation on Update Bulletin 2. Respondents to the consultation had called for greater guidance on the accounting treatment for payments by subsidiaries to their charitable parents that qualify for gift aid following the clarification and corresponding changes to FRS 102 and the Charities SORP. An Information Sheet which offered advice on this area had been proposed in order to meet this need.
- 6.2 CIPFA Secretariat explained that the draft Information Sheet had been developed by a working group made up of members and observers of the Committee and in a relatively short timeframe. He observed that as many preparers will be implementing the clarification and corresponding changes for the first time in their current reporting periods, it was hoped the Information Sheet would be issued by the end of the year.
- 6.3 The Chair thanked the working group members for their input and hard work in developing this resource. They informed the Committee that the draft Information Sheet would be circulated to the members of the FRC's UK GAAP Technical Advisory Group (TAG) in advance of their meeting next week. The FRC representative explained that the views of TAG were being sought given the group's previous input into the FRC's discussions on this issue. She noted that Information Sheets were typically not shared with TAG, given they do not form part of the SORP and are advisory in nature.
- 6.4 The Committee then considered those issues identified by the members of the working group as set out in the paper. It was agreed that an example of the change needed where there is a legal obligation in place, but the transaction was not previously treated as an equity transaction, should be included in the Information Sheet in order to complete the scenarios provided.
- 6.5 The Committee observed that it remained unclear whether a Member's Resolution by the subsidiary company's member creates a legal obligation in this situation. It was agreed that the Working Group would consider whether it would be appropriate to include this example within the Information Sheet following the discussion at TAG. A member observed that the example potentially allows subsidiary entities to accrue a gift aid payment at the reporting date without having to pay for legal advice. Therefore it may represent a viable low-cost option for charitable groups, given the alternative is to enter into a deed of covenant.
- 6.6 The Chair explained that the Committee would be kept fully informed of any changes following the draft Information Sheet being taken to TAG.

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7 Discussion: Should public benefit be the focus of charity accounts? (Paper 4 & Paper 5)

- 7.1 The Chair introduced papers 5 and 6, which had been shared with the Committee as a prompt for discussion. Paper 5 was an article co-authored by the Committee Chairs about the differences between for-profit and not-for-profit accounting. The Chair explained that the ideas presented in the article were those of the chairs as individuals, and did not necessarily represent the view of the joint SORP-making body. Paper 6 was an article written by a Committee member exploring the role accounting and reporting plays in maintaining the general public's expectation of

charities.

- 7.2 The Committee had a thorough discussion on the ideas and themes raised in both articles.
- 7.3 Members expressed views on the role of the SORP in developing reporting requirements on topics deemed to be of public interest. This was considered in relation to the concept of public benefit. Comments included:
- The terms public interest and public benefit are often used interchangeably, but mean different things.
 - There is a need for charities to consider issues which are of public interest in their reporting. However, the role of the SORP in directing charities to do so is questionable, given the risk of developing a reporting framework that is driven by what is perceived as a being in the public interest.
 - Commonly media interest in the sector concerns the practices of the very largest charities. Therefore, by reacting to these headlines, the SORP risks being unduly influenced by issues which impact on a small number of charities. Greater difference can be achieved by focusing on the statutory reporting framework which exists for smaller charities.
- 7.4 The Committee then considered the role of the SORP in building trust and legitimacy in charities. Through discussion, Committee members and observers expressed views on this role. Observations included:
- Having a framework that requires charities to report on their effectiveness and efficiencies reinforces the public's trust in the sector.
 - It is accepted that most donors do not give to charities based on their statutory financial information. However, amongst larger funders this information is often used to provide a 'sense-check' as part of the award process. Therefore, whilst good accounting and reporting is important, it is only part the process by which charities build trust.
 - Amongst funders, charities' report and accounts provide an effective means to check where the charity is within their mission. The content also provides an indication of what the charity considers to be important.
- 7.5 A member raised the interests of donors and funders in relation to the focus of financial information. They felt that despite the development of accounting practices and financial statements specific to the sector through the SORP, progress remains to be made. The member gave examples of elements of charity accounts which they believed remain rooted in commercial accounting and do not reflect the unique nature of charity reporting. They suggested the current statement of cash flows could be reframed to distinguish between restricted and unrestricted funds. Similarly, the statement could more clearly distinguish between cash flows associated with charitable spending, versus those related to the income raised.
- 7.6 This led onto a discussion about the requirement for charities to prepare a statement of cash flow which distinguishes between cash flows relating to restricted and unrestricted funds. It was noted that the current SORP includes a passing reference to this option in paragraph 14.7. A number of members observed that it was not common for charities prepare a statement on this basis. Despite this, it was felt that requiring charities to do so could potentially heighten the issue of going concern amongst charities, given the statement would provide information on the organisation's levels of 'unrestricted' cash. A member believed this information was of public interest, given that it would help inform users understanding of the charity's financial health and viability. An observer noted that any statement prepared on this basis could be potentially unwieldy, given the requirement for comparative information to be provided for all amounts presented in the accounts.

- 7.7 The Committee then considered role which statutory financial reporting plays in charities. A member observed that in larger charities there is likely to be a separation between the financial information used to manage and plan, and the financial information used for statutory purposes. However, they believed that in a smaller organisation this separation will not be so distinct. The member felt that by encouraging better financial reporting amongst small charities, the SORP could promote more effective management of these organisation's resources.
- 7.8 These observations developed into a discussion about current perceptions of statutory reporting amongst smaller charities. Members commented that in many smaller charities the annual report and accounts are commonly considered as being written 'by someone else, for someone else' and prepared to satisfy the needs of the charity regulators. A member noted that the level of cash and restricted/unrestricted funds is typically used by trustees and staff in smaller charities. They explained that as this information is included within statutory accounts prepared on a cash basis; these documents can be used as an effective management tool. They observed that accounts prepared under the SORP contain a host of additional requirements and do not allow trustees understand the exact resources at their disposal; therefore they are generally not used as part of management process.
- 7.9 The Chair thanked the group for their comments.

8 Update: The 2018 Companies (Miscellaneous Reporting) Regulations (Paper 6)

- 8.1 The CIPFA Secretariat provided the Committee with an overview of developments since their July meeting, where the impact of the regulation was discussed. Following the Committee's recommendation that guidance on the regulations should be provided by the joint SORP-making body, a draft Information Sheet was presented for discussion. He observed that the resource aimed to provide charities with an overview of the three new reporting requirements introduced by the regulations, and signposts further guidance as necessary.
- 8.2 The CIPFA Secretariat explained that it was hoped for the Information Sheet to be issued by the end of the year. He noted that as the new requirements apply to financial years starting on or after 1 January 2019, charitable companies would start reporting under the new regulations in 2020.
- 8.3 The Committee then considered the draft page by page, and made a number of comments and suggestions including:

Qualifying conditions for large companies

- 8.4 The Information Sheet should acknowledge that the thresholds in the Companies Act 2006 refer to annual turnover, which the SORP-making body have interpreted as gross income for those charities applying the Charities SORP. Similarly, the reference to 'balance sheet total' should be explained as being interpreted as the charity's gross assets.

Statement summarising how directors have engaged with employees and taken account of their interests

- 8.5 The Information Sheet should advise charities that they may wish to refer to volunteers in the context of their reporting on this statement. However, the wording should avoid implying the regulations require them to do so.

Statement summarising how directors have engaged with suppliers, customers and others in a business relationship with the company

- 8.6 The suggested guidance advising charities that they may wish to expand the statement to cover their relationships with service users, beneficiaries, funders and the wider community was welcomed by the Committee. However, the guidance should reference the reporting expected of larger charities under paragraph 1.45 of the SORP. This paragraph required information on the charity's relationship with these stakeholders in relation to the achievement of their objectives.
- 8.7 The CIPFA Secretariat then gave an overview of the appendix to Paper 6, which summarised those 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. The Committee considered the appropriateness of each requirement. It was agreed that these should be simply signposted within the Information Sheet.
- 8.8 The Chair thanked the Committee for their comments. These would be incorporated into the final Information Sheet, which would be shared with them prior to issue.

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9 Any other business and dates for next meetings

- 9.1 An observer noted that following the publication of Update Bulletin 2, charities have to refer to an increasing number of publications when preparing their accounts and reports. The Chair explained that a second edition of the SORP which will consolidate both Update Bulletins 1 and 2 would be published in 2019.
- 9.2 The Chair confirmed that the date of the next Committee meeting would take place in March 2019 in Edinburgh. They explained that the date would be confirmed by email later in the year.
- 9.3 There was no other business and the meeting was closed.