

Minutes

Board Charities SORP Committee

Date 26 July 2022

Time 10:00 – 13:00

Venue Microsoft Teams

Joint Chair	Laura Anderson Rossa Keown Will Lifford	<i>Office of the Scottish Charity Regulator (OSCR)</i> <i>Charity Commission for Northern Ireland (CCNI)</i> <i>Charity Commission for England and Wales (CCEW)</i>
Members present	Michael Brougham Daniel Chan Tony Clarke Diarmaid Ó Corrbuí Richard Hebditch Noel Hyndman Joanna Pittman Carol Rudge Neal Trup	<i>Independent Examiner</i> <i>PwC</i> <i>Clarke & Co Accountants</i> <i>Carmichael Centre for Voluntary Groups</i> <i>Association of Charitable Foundations</i> <i>Queen's University Belfast</i> <i>Sayer Vincent</i> <i>HW Fisher</i> <i>Neal Howard Limited</i>
In attendance	Alison Bonathan Gillian McKay Sarah Sheen	<i>CIPFA, Secretariat to the SORP Committee</i> <i>CIPFA, Secretariat to the SORP Committee</i> <i>CIPFA, Secretariat to the SORP Committee</i>
Observers	Deirdre O'Dwyer	<i>Charity Commission for England and Wales (CCEW)</i>

Jelena Griscenko	<i>The Charities Regulator in Ireland</i>
Paul Latham	<i>Charity Commission for England and Wales (CCEW)</i>
Claire Morrison	<i>Office of the Scottish Charity Regulator (OSCR)</i>
Adrian Wallis	<i>Financial Reporting Council (FRC)</i>
Amie Woods	<i>Charity Commission for England and Wales (CCEW)</i>

Apologies	Caron Bradshaw	<i>Charity Finance Group</i>
	Tom Connaughton	<i>The Rehab Group</i>
	Tim Hencher	<i>Scottish Council for Voluntary Organisations</i>
	Gareth Hughes	<i>Diocese of Down and Connor</i>
	Jenny Simpson	<i>Wylie and Bisset LLP</i>

1. Welcome, apologies for absences and declarations of interest Action

- 1.1 The Chair welcomed SORP Committee Members to the meeting.
- The Chair welcomed Richard Hebditch to the Committee. Richard has taken over from Max Rutherford as the Association of Charitable Foundations representative on the Committee. The Chair noted thanks from the SORP-making body to Max for his work on the Committee.
- The Chair welcomed Paul Latham from CCEW as an observer.

1.2 Declarations of interest

- 1.3 The Chair noted three standing declarations of interest:
- Daniel Chan sits on the CIPFA Charities and Public Benefit Entities Board.
- Sarah Sheen has worked substantially for CIPFA on the IFR4NPO project and is secretariat to the CIPFA Charities and Public Benefit Entities Faculty Board.
- Caron Bradshaw is a Country Champion for the IFR4NPO project.
- Additionally, the Secretariat noted that CIPFA works with Humentum on the IFR4NPO project.
- The Secretariat requested this additional declaration of interest to be added to the standing declarations. The Chair agreed to this request.

2. Paper 1 – Minutes of the Meeting of 4 May 2022

- 2.1 The minutes were accepted as an accurate record of the meeting held on 4 May 2022.
- The Secretariat noted that a disclaimer had been added to the minutes as agreed in the meeting.

3. Paper 2 – SORP Drafting – Expenses in the Charities SORP (Modules 4, 7 and 8)

3.1 The Chair introduced Paper 2.

The Chair requested that Committee Members send matters of detailed drafting (and not of principle) to the Secretariat by email by 5 August rather than raising them in the meeting.

All
Committee
Members

The Chair reminded Committee Members of the need to ‘think small’ during discussions of the draft modules.

3.2 **Paper 2 Section 2 – Tiered Reporting Working Assumptions**

The Chair noted that the SORP-making Body has made working assumptions for the number of tiers and the thresholds based on previous discussions of the SORP Committee. The Chair advised the SORP Committee that feedback on the thresholds for the tiers had been received from the FRC in advance of the meeting. Comments from the FRC suggest the need for the structure of the tiers in the SORP to ensure that any charity not meeting the definition of “small” per the Companies Act 2006 must be in Tier 3 for the purposes of the Charities SORP. The Chair advised that the SORP-making Body would reflect on the FRC’s feedback ahead of the October meeting of the Charities SORP Committee.

The Chair invited comments on Section 2 of Paper 2. A summary of the detailed comments made by Committee Members is included in Annex 1 below.

The Chair and Secretariat both noted that the number of tiers and the respective thresholds can be tested and amended as appropriate during drafting. The Chair noted that as a regulator, there would be concern about raising thresholds such that regulators receive less information than at present.

3.3 **Paper 2 Section 2 – tentative conclusions**

Tentative conclusions reached by the SORP Committee on Section 2 of Paper 2 were as follows:

- Agreed that the Secretariat would investigate reframing the Tier 1 threshold as “up to and including £500k gross income” rather than “below £500k gross income” as specified in paragraph 2.3 of Paper 2.

CIPFA

3.4 **Paper 2 Section 3 – ‘This SORP Requires’**

The Chair noted comments received from the FRC by email in advance of the meeting. The FRC has advised that it would expect to be able to distinguish between elements of the SORP that are interpreting FRS 102 requirements and elements that are additional requirements specified by the joint SORP-making Body.

The Chair invited comments on Section 3 of Paper 2. A summary of comments made by Committee Members and, where indicated, the Secretariat is included in Annex 1 below.

3.5 **Paper 2 Section 3 – Expenses Tentative Conclusions**

No tentative conclusions were reached in the meeting following the suggestions in the paper. The Chair noted the range of practical suggestions to simplify the SORP that had been made and commented that these would be considered in drafting.

3.6 ***Paper 2 Section 7 – Drafting Suggestions relating to the Structure or format of the SORP***

The Chair noted that detailed questions relevant to Sections 4 – 6 of Paper 2 would be addressed in discussions of Paper 2, Annex 1.

The Chair invited comments on Section 7 of Paper 2. A summary of comments made by Committee Members is included in Annex 1 below.

3.7 ***Paper 2 Section 7 – Tentative conclusions on the structure of the SORP***

The Committee discussed the relative merits of creating separate sections within the SORP for

- provisions;
- employee benefits; and
- grant-making

to which other SORP modules would cross-refer, rather than duplicating content across the SORP.

Discussions focussed on 'carving out' content on provisions and contingencies. Advantages and disadvantages were discussed (see Annex 1). The Chair confirmed with the Committee that there were no strong views against the proposal in Paper 2 regarding 'carving out' content on provisions and contingencies from module 7 of the SORP and creating a new module for provision and contingencies.

3.8 ***Paper 2 Annex 1 – detailed drafting amendments***

The Chair invited comments on the questions in Annex 1. A summary of comments made by Committee Members and, where indicated, the Chair and Secretariat is included in Annex 1 below.

Tentative conclusions were reached by the Charities SORP Committee as follows:

- ***Question 2:*** The suggestion to include content in the SORP on the benefits of accruals accounts will not be taken forward. The Chair commented it would be more appropriate to support charities' decision-making in this respect using educational material outside the SORP.
- ***Question 5:*** The Committee noted its agreement with the proposal to redraft the SORP so that the only two approaches to preparation referred to are the activity basis and natural classification.
- ***Question 11:*** agreement that paragraph 7.8 (relating to the timing of recognition of expenses) should be revisited as work is completed on modules related to income, to ensure consistency of principles between the timing of expense recognition and income recognition.

- **Questions 12 – 14:** Cross-referencing should be used within the SORP, rather than the duplication of content across the SORP.

In addition, two Joint Chairs supported retaining wording to encourage charities to adopt the activity basis (as referred to in Question 7 of Paper 2).

- 3.9 Following detailed discussion of Paper 2, the Chair asked Committee Members for any further thoughts or reactions. In particular, the Chair asked if the SORP Committee was content it was addressing the need to ‘think small first’.

A Joint Chair noted the need to link financial reporting principles to the requirements for the Trustees’ Annual Report, which will be discussed in the next meeting.

The Chair commented that there may be more flexibility to differentiate requirements between tiers for narrative reporting requirements.

4. FRC update – progress on periodic review and timing of new FRS102

- 4.1 The representative from the FRC advised the Committee that the FRC still plans to issue the Financial Reporting Exposure Draft (FRED) by the end of 2022.

The FRC has held three roundtable discussions, one each on Revenue, Leases and the Expected Credit Loss model in IFRS 9. The representative from the FRC noted that IFRS 15 *Revenue from Contracts with Customers* applies to contracts rather than non-exchange transactions, and that the expected credit loss model in IFRS 9 is less likely to be relevant in the charitable sector.

The IASB is still expected to publish the IFRS for SMEs exposure draft (ED) in September. The publication of the FRED is dependent on the publication of the IFRS for SMEs ED. The FRC might not reflect all changes made in the IFRS for SMEs ED in the FRED, or it might make changes to the FRED that are not in the IFRS for SMEs ED. However, the FRC will need to see the IFRS for SMEs ED before publishing the FRED.

5. Paper 3 – Matters considered by the SME Implementation Group (SMEIG) for implementation and adaptation of the IFRS for SMEs

- 5.1 The Chair invited the Secretariat to introduce Paper 3.

The Secretariat noted that Paper 3 should be read in conjunction with a consideration of the comments made by the FRC at agenda item 4.

The Secretariat drew the Committee’s attention to Table 1 of Paper 3, which contains a high level summary of the tentative decisions made by the IASB in relation to the IFRS for SMEs ED.

The Secretariat recommended that the Charities SORP Committee should reflect on the implications that IFRS 15 may have for the SORP as a priority.

A Committee Member asked if the SORP-making Body has received a response from the FRC to its written submissions on FRS 102. The Chair confirmed that the SORP-making Body is not expecting a formal response from the FRC. Rather, it will be clear from the FRED how the FRC responds to the SORP-making Body’s written submissions.

A Committee Member asked if there is an update on the draft information sheet on charitable societies. A Joint Chair confirmed that this action is with the SORP-making Body.

6. Any other business including future Committee meetings

6.1 Future meetings

- 5th October 2022 (10am – 1pm)
- 14th December 2022 (1:30pm – 4:30pm)
- 22nd February 2023 (10am – 1pm)
- 3rd May 2023 (10am – 1pm)
- 12th July 2023 (10am – 1pm)
- 20th September 2023 (10am – 1pm)

6.2 AOB

The Chair noted that the minutes from the meetings held on 16 February and 2 March have been agreed between meetings by correspondence.

The Chair thanked Committee Members for making time for this rearranged meeting.

Noting that this was the first meeting at which the SORP Committee had considered detailed drafts, the Chair asked for feedback on the meeting.

- A Committee Member noted that it will become easier to navigate as the Committee becomes more familiar with the format of drafting meetings. The Committee Member suggested that meeting papers signpost the key points for discussion in the meeting.
- A Committee Member noted the need to ensure that any points deferred for discussion at a future meeting are returned to as planned.
- The Secretariat reminded Committee Members that there will be more papers at future meetings as the Committee will both discuss papers for a new topic and review amendments made to draft modules originally presented at the previous meeting.
- A Committee Member supported the inclusion of discussion questions in the papers.
- A Committee Member suggested that, in the absence of a specific question about an amendment, the Chair may wish to consider assuming the Committee is content with the proposed amendments unless a Committee Member raises an exception.

The Chair thanked colleagues for their work and closed the meeting.

Disclaimer

These Charities SORP Committee minutes and the Annex have been developed during the drafting stage of the Charities SORP. They set out areas of agreement or otherwise and present the Charities SORP Committee advice to the joint SORP-making body. Charities should not treat this advice as being definitive for the production of the Charities SORP FRS 102 (Third Edition) which will be subject to due process including a detailed consultation.

**Summary of discussions on Paper 2 SORP Drafting – Expenses in the Charities SORP
(Modules 4, 7 and 8)**

Discussion Point	Comments made
<p>Paper 2, Section 2 (Tiered Reporting)</p>	<ul style="list-style-type: none"> • Noted that it may be beneficial to investigate reframing the Tier 1 threshold as “up to and including £500k gross income” rather than “below £500k gross income” as specified in paragraph 2.3 of Paper 2. • A committee member expressed concern that the proposed threshold for Tier 3 (i.e. £10.2m) is too low. • It was noted that currently there might not be much distinction between tiers 2 and 3. • Concern expressed that charities with income below £1m are unlikely to have an in-house finance function, therefore the thresholds for tiers may not be proportionate. • There was some support for the proposed thresholds and number of tiers noted. • Thought needs to be given to how technology can be used to allow users of the SORP to tailor the SORP to their needs.
<p>Paper 2 Section 3 (‘this SORP requires’)</p>	<ul style="list-style-type: none"> • Agreement that clarity is needed over which SORP requirements are mandatory and which requirements are good practice, but are not mandated. • In addition to the comments made by the FRC recorded at minute 3.4 above about the need for it to be clear what the source is for requirements in the SORP, the Committee showed some support for retaining ‘this SORP requires’ to provide clarity. • Suggestion that requirements could be shown in bold type. • Suggestion that “mandatory” could be used to help clarify requirements. • Some agreement that use of both “this SORP requires” and “must” in a sentence increases clutter in the Charities SORP. Suggestion that an asterisk could be used, as in FRS 102, to highlight SORP requirements that come from FRS 102. • Noted by the Secretariat that the Trustees’ Engagement Strand has commented on the readability of the SORP. There may therefore be benefit in re-considering how “must” is introduced in paragraph 33 of the SORP.

Discussion Point	Comments made
<p>Paper 2 Section 7 (Structure or format of the SORP)</p>	<ul style="list-style-type: none"> • Comment that detail on treatment of a particular transaction or event should be in one place, with appropriate cross-referencing as relevant. • Re-ordering the SORP may cause confusion as users are familiar with the existing structure of the SORP. • Comment that thought needs to be given to the flow of the SORP. If the flow is not logical, the order of the SORP could helpfully be changed. A logical flow is easier to follow. • Noted that there are advantages and disadvantages to carving sections out of module 7 as suggested in Paper 2
<p>Annex 1 Questions 1 – 3 on the proposed inclusion of a new Paragraph 10 to signpost the option to prepare receipts and payments accounts.</p>	<ul style="list-style-type: none"> • The Chair commented that there is need for an education piece to ensure that it is clear when charities can prepare receipts and payments account rather than accruals account and what the implications of the two options are. • Comment that paragraph 10 per Appendix 1 and 2 is currently too repetitive and could be simplified. • No consensus reached with respect to indicating the benefits of accruals account in the SORP, though the Chair and the Secretariat noted that it may be more appropriate to use education material outside the SORP to help charities decide between use of accruals accounting or receipts and payments (where relevant).
<p>Annex 1 Questions 4 and 5 on the inclusion of a table indicating the tiered reporting requirements in module 4, and the proposed tiered reporting requirements themselves.</p>	<ul style="list-style-type: none"> • Support indicated for the table included in paragraph 4.1 of Appendix 1 and 2. • Support was shown for the proposal in Question 5 of Annex 1, which asked members of the Charities SORP Committee whether they would support redrafting the SORP so that the only two approaches to preparation referred to are the activity basis and natural classifications.
<p>Annex 1 Question 6 on the inclusion of a definition of 'natural classification of expenses' in the SORP glossary.</p>	<ul style="list-style-type: none"> • Comments that natural classifications should be available for both income and expenditure. Noted that some charities break income down by activity; comment that it should be clear that charities preparing accounts by nature should not have to split income by activity. • The Chair noted that income is not being considered at this meeting. Thought can be given to defining natural classifications for income at a future meeting.

Discussion Point	Comments made
<p>Annex 1 Questions 7 – 9 on whether the Charities SORP should encourage use of the activity basis of reporting over the use of natural classifications for charities in tier 1.</p>	<ul style="list-style-type: none"> • A Joint Chair noted that the SORP already encourages charities to adopt the activity basis of reporting. The question is about whether this encouragement should be retained in the SORP. • No clear consensus reached on whether to amend paragraph 4.25 in Appendix 1 and 2 (4.22 in the current SORP) to remove the reference to ‘encouraging’ charities to use the activity basis. <ul style="list-style-type: none"> ○ Some support shown for neutrality in the SORP, as the situation of individual charities differs. ○ Some support shown for retaining the encouragement to adopt the activity basis, as the activity basis better indicates to the user of the charity’s accounts what the money has been spent on. ○ Two Joint Chairs agreed that the SORP should continue to encourage use of the activity basis of reporting. ○ The Secretariat suggested including wording that charities should consider local circumstances and requirements, but that activity-based reporting is encouraged. A Joint Chair agreed with this suggestion.
<p>Annex 1 Tables 3 and 4, paragraph 8.14 regarding the presentation of the analysis of expenditure on charitable activities.</p>	<ul style="list-style-type: none"> • Comments that it may be helpful to switch the columns and rows in the proposed Table 3 (Analysis of expenditure on charitable activities), for ease of reading. • The Chair requested the Secretariat to consider whether use of Table 3 should be mandated, or whether options for presentation of the information included in Table 3 could be given.
<p>Annex 1 Question 10 on the inclusion of a table indicating the tiered reporting requirements in module 7, and the proposed tiered reporting requirements themselves.</p>	<ul style="list-style-type: none"> • Comment that the disclosure requirements in paragraphs 7.44 to 7.47 could be reduced for charities in tier 1. • Noted that terms that are defined in the glossary (e.g. exchange transactions, non-exchange transactions) should be highlighted in the body of the SORP e.g. using bold text or a different colour.
<p>Annex 1 Paragraph 7.5 regarding cross-referencing to FRS 102.</p>	<ul style="list-style-type: none"> • The Chair commented that the existing cross-reference to FRS 102 is unhelpful. The Chair asked the Secretariat to consider whether this could be improved, for example by summarising the specific parts of the referenced sections that charities might refer to.

Discussion Point	Comments made
<p>Annex 1 Paragraphs 7.7 and 7.8 regarding the inclusion of definitions in the SORP.</p>	<ul style="list-style-type: none"> Thought should be given to how links should be made to the glossary in both the electronic and the hard-copy versions of the SORP.
<p>Annex 1 Question 11 on whether paragraph 7.8 (relating to the timing of recognition of expenses) should be revisited as work is completed on modules related to income.</p>	<ul style="list-style-type: none"> Agreed that paragraph 7.8 should be revisited as work is completed on modules related to income.
<p>Annex 1 Questions 12 – 14 on the use of cross-referencing rather than duplication of content across the SORP with respect to content on provisions and contingencies, grant-making and employee remuneration.</p>	<ul style="list-style-type: none"> A committee member made the comment that it would be preferable to duplicate requirements in the SORP rather than cross reference, provided the duplicated content is consistent across the SORP, to ensure the SORP is easy to use. However, support shown for use of cross-referencing within the SORP rather than duplicating content across the SORP. A Joint Chair commented that this may be an issue to be subject to consultation.
<p>Annex 1 Paragraph 8.7 regarding language around support costs as 'enablers'.</p>	<ul style="list-style-type: none"> Comment that the inclusion of the word "charitable" is unhelpful as some costs relate to other activities.