

# Minutes

**Board** Charities SORP Committee

**Date** Thursday 8 July 2021

**Time** 10:00 - Noon

**Venue** Microsoft Teams

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Joint Chair	Laura Anderson Nigel Davies Damien Sands	<i>Office of the Scottish Charity Regulator (OSCR)</i> <i>Charity Commission for England and Wales (CCEW)</i> <i>Charity Commission for Northern Ireland (CCNI)</i>
Members present	Caron Bradshaw Michael Brougham Daniel Chan Tony Clark Diarmaid Ó Corrbuí Noel Hyndman Gareth Hughes Joanna Pittman Carol Rudge Max Rutherford Jenny Simpson Neal Trup	<i>Charity Finance Group</i> <i>Independent Examiner</i> <i>PwC</i> <i>Clark &amp; Co Accountants</i> <i>Carmichael Centre for Voluntary Groups</i> <i>Queen's University Belfast</i> <i>Diocese of Down and Connor</i> <i>Sayer Vincent</i> <i>Grant Thornton</i> <i>Association of Charitable Foundations</i> <i>Wylie and Bisset LLP</i> <i>Neal Howard Limited</i>
In attendance	Milan Palmer 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	Jane O'Doherty	<i>Financial Reporting Council</i>

Jelena Griscenko *The Charities Regulator in Ireland*  
Claire Morrisson *Office of the Scottish Charity Regulator (OSCR)*

Apologies Tom Connaughton *The Rehab Group*  
Tim Hencher *Scottish Council for Voluntary Organisations*  
Carol Rudge *Grant Thornton*

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

1.1 The Chair welcomed SORP Committee Members to the meeting.  
The Chair expressed anticipation that the meeting's discussion would produce some meaningful outcomes and proposed that all items on the agenda are followed with no proposed changes to order or timings.

**1.2 Declarations of interest**

1.3 Daniel Chan declared that he also sits on the CIPFA Charities and Public Benefit Entities Board  
Caron Bradshaw is a Country Champion for the IFR4NPO project  
Sarah Sheen is the secretariat of both the IFR4NPO project and the CIPFA Charities and Public Benefit Entities Board.

**2. Chair's update on SORP Development Programme**

2.1 The Chairs wish the SORP development process to continue to be as transparent as possible. The SORP microsite now contains a page on the site that contains links to the briefings that are sent to the engagement strands. In addition, feedback from the strands will also be attached to the papers as an appendix.

The recommendations of the engagement strands are not published, rather the minutes are a record of the Committee's discussion.

The engagement strands are now very busy as anticipated from the very condensed timetable on each of the Briefings on the topics they identified (as subsequently agreed by the Committee). The engagement strands will provide feedback on the current SORP making process by the end of this year, in advance of the drafting stage, commencing February 2022.

**3. Minutes of the meeting of 27 May 2021**

3.1 Daniel Chan wished to include the declarations of interest as mentioned earlier, in minute 1.3, to be also added as to the declarations section of this meeting.

3.2 **Minute 3.1**

*“The key users are the beneficiaries/service users and that the drafting aim should be amended to reflect this.”*

The Committee considered that the order of this minute should be changed to say, “the beneficiaries are the service users in many charities”.

In addition, the Committee was of the view that the following should be added ie “It is recognised that the focus of charities should always be the service users”

**Minute 4.1 last bullet point on the list (of section 4.1)**

“A view was expressed that charities’ focus should be its beneficiaries, therefore there needs to be an overwhelming case to increase the number of tiers.”

The Committee decided that this bullet should be deleted.

Subject to the amendments outlined above the Committee agreed the minutes were an accurate record of the last meeting.

**3.3 Matters Arising 1: Action in respect of the Aims of the SORP drafting process**

3.4 An email was circulated on 7 July 2021 welcoming comments from the Committee on the redrafting of text, a rewording of Aim 1. Comments from Committee members are welcome. They should be submitted to the Chair by the end of the month.

**3.5 Matters arising 2: Response to IFR4NPO Consultation Part 1**

3.6 The joint Chairs will be issuing a response regarding IFR4NPO Part 1. This response will be circulated to members by Friday 9 July 2021. Members will be invited to provide comments but otherwise, there was no obligation to consider the response as a committee member. The joint Chairs will be responding by the deadline on 30 July 2021 and so all comments would be appreciated by 26 July.

**4 Paper 2: Agreeing a way forward on reserves**

4.1 The Chair reminded the Committee of the need to consider whether there is a case for change. If so where did this direct SORP development.

The joint chair explained that, although the Committee would normally be able to expect CIPFA to collate the feedback, as part of this process the Chairs are trying to manage the workload between them and CIPFA.

As a general observation on this topic, it was surprising how much conformity there is across the engagement strands though not all comments are supportive around the current position in the SORP.

**4.2 Definition of Reserves**

4.3 The feedback from the engagement strands appeared to be unanimous that there needs to be a definition of reserves within the glossary. It was noted that there used to be one in the SORP, but it was removed at the last update.

The choice from the engagement strand feedback was whether to produce a new definition or whether to use the definition previously included in the 2005 SORP. The definition adopted will need to distinguish between those reserves free and able to be used and those that are not.

The Committee sought to understand why it was removed from the SORP in the last edition. The Chair commented that this was to reduce the regulatory burden on small charities. The former Charities SORP committee was concerned that expecting small charities to provide an analysis on reserves increased the reporting burden and that they should instead be reporting reserves in a way that was meaningful to them. The feedback from the engagement strands indicated that, in hindsight, that this might not have assisted accounts preparers.

Some of the Committee members commented that accounts preparers would prefer more guidance regarding and specification in the SORP on reserves. Rather than seeing a definition of reserves as increasing the reporting burden the definition was perceived as being helpful. The Committee felt that the SORP should be assisting the sector to understand what reserves mean.

There was general support within the Committee to reinstate the former 2005 definition within the glossary.

Subject to these comments there were two points to note on this issue:

- Freedom of choice may be helpful but, particularly for smaller organisations it leaves them seeking further advice to work out how to go forward with this.
- Reinstatement of the definition was agreed upon, but what should be questioned is whether there is a correlation between the quality of reporting and the lack of a definition.

It might follow that if there is clarity in the definition that the quality of reporting on this topic would improve, although a clear definition is unlikely to be the only factor influencing quality.

Language is also a key influence on how people interpret the SORP. Is there a flaw in the assumption of knowledge with respect to the users of the SORP?

The Chair commented that if these assumptions were relating to the addition of a note there may be a flaw in our assumptions, but if relating to a balance sheet item this should not be relevant.

In summary, the Committee agreed to reinstate a definition of reserves in the SORP.

#### 4.4 **Section 1: What should the definition of free reserves be?**

4.5 The Committee was of the view that a clear definition of reserves was needed. The word 'free' tends to be used frequently in relation to reserves. Questions arise as to whether the definition of what is meant by this term should be included to give a steer to all charities but particularly small charities.

The general preference of the Committee was to revert to the 2005 SORP definition rather than a high-level definition. It was felt that there needs to be an identification of unspent reserves in the year.

It was noted that the Funders and Donor engagement strand had an interesting discussion and thought that the OSCR flowchart on reserves was useful. A Committee member enquired whether it would be helpful to also include a visual guide as well as a definition in the revised SORP?

Committee members considered that it might also be useful to signpost to other sources of reference, rather than increasing the information in the SORP. This may reduce the size of the SORP and make it more useful to its users.

Suggestions on this issue are included in section 5 of paper 2 (the proposal about additional forms of guidance).

It was noted that the Identification of reserves is a considerable issue in Ireland. Comments included that many statutory funders do not understand reserves and will not let charities build up reserves. Guidance that might help all stakeholders understand what reserves represent may be useful.

A definition may also be useful for restricted funds. In some circumstances, it is possible to recognise multi-year grants over years and therefore a charity could end up, if the 2005 definition were adopted, with negative reserves. Guidance needs to be provided to explain that this might be appropriate in the case of accounting for multi-year funding.

CIPFA noted that care needs to be taken with signposting as all sources change over time and whether the sources remain accurate and consistent with the SORP. Consideration needs to be made on whether such signposting is consistent with the FRC's *Policy on Developing Statements of Recommended Practice (SORPs)*.

A committee member expressed concern that there should not be a change as to how people account for reserves but rather this any change should 'shine a light' on how they describe what they already do. The Committee needs to take care in specifying a definition (and what is included in reserves and what is out of it). The SORP Committee needs to ensure that the definition is robust and used consistently where relevant but does not make the charities look less financially sustainable than current reporting. Many charities seek advice on their legal obligations ie that charities should not hold onto reserves unless there is a good reason. The SORP should not create issues that may not exist for smaller charities.

Another committee member pointed out that there is no obligation in the SORP to have a reserves policy, only a requirement to explain it if you have one, so questioned whether this makes a reserves policy mandatory?

The Chair clarified that, regarding the reserves policy, the charity must explain any policy it has for holding reserves and why they are held. If the trustees have decided that holding reserves is unnecessary, the report must disclose this fact and provide the reasons behind this decision.

It was agreed that charities should fully use the resources they hold but where necessary they will need to hold sums for contingencies. It is agreed that this can be a mixed message but where possible there needs to be clarity. The SORP will not be able to provide all answers to these questions.

Concerns were raised as to how a reserves policy is best implemented for smaller charities where understanding of the definition of reserves might be more limited. If a charity has decided to hold reserves, then it has a reserves policy. Concerns were also raised that the SORP does not give explicit instructions on what a charity should do if it does not have a reserves policy.

This led to a discussion about whether the SORP might mandate trustees having a reserves policy. [Note SORP paragraph 1.22 described above requires charities to provide reasons behind the decision not to hold reserves]

#### 4.6 **Section 2: Discussion of Reserves within the Trustees' Annual Report**

4.7 The Chair opened the discussion on what was the context for the numbers that are used within the body of the trustees' annual report. Outside of the definition of reserves, there is a consensus that the numbers for free reserves used within the trustees' annual report should link clearly to the figures within the accounts.

The Chair asked whether the Committee agreed to the 3 bullet points in section 2 of the paper:

- *Agree to linking the explanation of the reserves figure(s) in the trustees' annual report to the accounts (also see sections 3 and 4 of the report).*
- *Agree to having financial sustainability focus for reporting reserves with common reporting requirements for all tiers of charity reporting under the SORP with the detail settled in the drafting stage.*
- *Agree to simplifying, wherever possible, the terminology used in defining reserves and reporting on reserves.*

The Committee agreed that the information on reserves in the trustees' annual report needed to agree with the information in the accounts (otherwise an appropriate explanation/reconciliation should be provided either in the notes or within the balance sheet). The SORP should be there to support the sector in reporting terms and if possible, not add further complicated disclosure requirements.

It was noted that there is a tension between the focus of the Committee being "small first" and therefore being helpful and providing guidance on this issue.

There is also tension with making a hard-wired link to the SORP for a definition of free reserves arising from the financial statements. Is there a risk this may do more harm than good?

A commentary was made that this should be a definition which starts from the legal position and then works to identify where, in relation to this a charity's position is and what this might mean, depending on its size and resource needs. Charities need to remember that the reserves position is only a part of all the resources available to them and for some, it may be a small part.

It was noted that many larger charities are abandoning a reserves policy in favour of a liquidity policy which addresses how in future their liquidity will meet the challenges as they arise. Two committee members commented that they saw liquidity as a key driver in charities.

The Chair summarised that the Committee generally agreed on the recommendations with the caveat about how financial sustainability should be expressed and that this should include commentaries on other resources such as credit available and cash held.

#### 4.8 **Section 3: Treatment of Reserves in the Primary Financial Statements**

4.9 The Committee recognised that it had agreed that tying the reserves figure into the figures arising from the accounts is an important principle.

The current SORP includes substantial prescription about how reserves are calculated for larger charities but stops short of prescribing how this amount

should be presented in the balance sheet. Paper 3 considers options for reporting this ie whether there should be a new statement, for example, to capture equity and funds (which would require adaptation to the Statement of Changes in Equity in FRS 102).

The view held by the committee was that it was difficult to separately present reserve amounts on the face of the balance sheet. Commentaries also included that charities were already free to separately present this information on the face of the balance sheet and take their own decision on how they might consider reserves would be best presented, for example, offering a split between designated and general funds. There was broad agreement that achieving an effective presentation of reserves would be best offered in the notes.

The Committee considered that a new Statement would add further detail to the financial statements, and it was not clear what new information this statement was intended to present. Information on reserves is already presented in the balance sheet in its analysis of restricted/ designated/ unrestricted funds, if necessary, additional reporting could be added for free reserves. Similarly, the movement on funds note could be adjusted to include the same information.

In summary, the Committee did not support a new statement.

Some support was expressed for reporting reserves as a separate amount in the balance sheet. However, the Committee had reservations about whether this amount/line would be clear and easily understood by the users of the accounts and within the current context of the balance sheet. The Committee would therefore prefer that any presentation of reserves is provided as demonstrated within a note to the financial statements.

#### 4.10 **Section 4: Treatment in the Notes to the Accounts including the Assessment of Going Concern**

4.11 The Chair pointed out that there are two separate proposals for the committee to consider ie did it:

- agree to add a dedicated note to the accounts on reserves which is linked to the approach taken with the trustees' annual report
- agree to reviewing the current going concern disclosures at the drafting stage to link that note to the approach taken by trustees in holding and maintaining reserves.

In addition, there may be audit implications, as aspects of the annual report are to be subject to audit.

A committee member enquired what is the problem that it is being asked to resolve. There are a number of concerns that were raised by the engagement strands:

- A lack of understanding as to what reserves represent – the SORP cannot resolve this issue.
- Comments were included about funders not being able to navigate the information that is available, and about charities trying to 'squirrel away' money to alter their financial position.

There appears to be a fundamental point regarding the understanding of reserves in the accounts that needs to be addressed. This might require a more detailed conversation about the understanding of reserves by the sector before leading to more prescription in the SORP with a possibility of leading to more difficulties with SORP compliance.

This in turn comes back to the point that there is a lack of understanding as to what reserves are. The Committee considered that it needed to be mindful that there are limitations as to what the SORP can achieve in this area.

The Committee agreed that it needed to be careful of responding to the wrong issue. An example was given that it is often considered by the public that charity Chief Executive Officer salaries were too high. The SORP or other reporting arrangement cannot address this issue. Eventually, a solution was forced on the sector that does not address the issue with public perception and trust.

There was strong agreement from the Committee that the information is already in the accounts and so any changes should be considering presentation and ensuring that there is a linkage between what is reported in the trustees' annual report and what is in the accounts.

If the amounts relating to reserves in the accounts are not easily identifiable then funders and other users start to make their own estimation of what these amounts might be. Perhaps the SORP should ensure that relevant information is easily identifiable and that it is clear how the estimation of the relevant information has been made.

The Committee, however, recognised that the SORP cannot be 'all things to all people'. One of the Joint Chairs noted that the Trustees engagement strand considered the case for more information to be provided on reserves. However, consideration needs to be made as to what it is trying to be achieved. The SORP sets out requirements for effective financial reporting. It is potentially the case that matters such as liquidity and cash are management accounting matters and therefore not a matter for the financial statements.

In summary, the Committee decided not to recommend that there should be additional reporting requirements and no additional amounts reported in the trustees' annual report. However, if a number is used in the trustees' annual report on reserves a clear explanation should be provided for how it was estimated.

#### 4.12 **Section 5: Other Observations made including Education and Illustrations**

4.13 Section 5 of Paper 3 seeks views on whether:

- additional information on reserves reporting is helpful, though it should be noted that any additional guidance should be consistent with the FRC's Policy on the Development of SORPs
- valuable tools on reporting reserves are in existence and should be considered for signposting or the inclusion of help sheets.

It was agreed that there should be further consideration signposting other existing resources and guidance on reserves, but care needs to be taken not to 'shoehorn' everything into the SORP. Help sheets sit outside the SORP, the SORP cannot cover all situations and all circumstances and is not always the best place for detailed exemplification.



The Committee made the following comments:

- the SORP already signposts other sources this can be used provided that the signposting and other resources are consistent with FRC Policy on the Development of SORPs,
- it supported the use of flow charts in this area
- it was of the view that examples should not be included in the SORP, but other forms of guidance would be more relevant/useful.

The Committee expressed concern about some of the comments from the discussion by the engagement strands. It is important that it is understood that reserves are not about winding up a charity but about how the charity operates and manages its resources from a risk-based approach.

Reserve information is about the charity operating on a going concern basis and reporting. This should not be converted into a figure that relates to the winding up of a charity. There are separate reporting requirements for such circumstances, for example, the measurement of a property held by a charity will not be included in free reserves. Yet in circumstances where a charity was being wound up this would be included in any estimation process of the resources available. It was agreed that the reporting basis (ie a going concern basis of reporting) was a clear distinction for the reporting of reserves and was key to its understanding.

## **5.0 Paper 3: Setting a future approach to Summary Financial Information/a Key Facts Page**

5.1 CIPFA summarised the key issue for the inclusion of Summary Financial Information/a Key Facts Page and noted that what must be considered was a case for change. Currently, neither of these are mandated in the SORP as was set out in the summary report and the briefing.

The overall conclusion for the engagement strands was that there was no consensus for the Summary Financial Information/Key Facts page.

There were a variety of options considered by the engagement strands including whether this should be mandated or not.

The advantages are that it is simple, it allows for information to be in one place, and allows for comparability and benchmarking.

Audited information is a key consideration for a number of the engagement strands ie whether it would be subject to audit or not.

Comments were put forward on the practical issues which would need to be faced ie how would it work given the diverse nature of charities? Would it be a sales pitch? How would proportionality and impact reporting be accommodated? Again, on the positive side, there were commentaries that this information should be able to be produced easily as the information is already in the accounts and so this just focuses attention on the main issues.

As with the discussions by the Committee on Paper 2 one or two of the strands have focused on whether the topic was answering the right question. Possibly, the existing financial review is not clear enough, so instead is additional guidance required to highlight the information to be reported. Other arguments included the addition of another report as well as both the trustees' annual

report and accounts is an additional reporting burden but will also increase the dislocation between the current two reports.

- 5.2 A committee member noted that Key Facts is not likely to be the same thing as summary financial information. Key facts are those items that may help readers make sense of the accounts. For example, the True and Fair Foundation was criticised as many conclusions demonstrated a lack of understanding of the business model of the organisation they were assessing.

The Committee considered whether it would be more useful signposting, quick links to help audiences understand the financial challenges faced by the charity. The key facts about an organisation can help readers have a basic understanding about a charity.

The Committee also debated why this topic has been raised as an issue by the engagement strands what was being considered.

This topic was raised when the Summary Information Returns SIRs were proposed for 2005 SORP. Similar issues were considered. There were proposals that the SIRs were to become a part of the trustees' annual report. The Committee noted that the SIRs were abandoned following feedback that charities with income greater than £1m did not find it useful.

It was noted both in Paper 3 and by the Committee that any charity that wants to present information in this way can already do so, perhaps even in an annual review.

One concern is the use of financial ratios, this is a difficult area. Such reporting has its attractions as it is perceived to present common forms of measurement. It was noted that the Charities Finance Directors Group published a document that pushed against the use of ratios in a document *Inputs Matter*.

The Committee noted that it was important to ensure that the SIRs information is in the charity register and can be accessed by the public. Charities could be encouraged to bring it to the attention of the user of accounts, but the Committee was of the view that this was not an issue for the SORP.

The Committee was of the view that the case for change had not been made. Such proposals were 'fraught with difficulties', particularly deciding what would be reported in a Summary Financial Information/Key Facts Page. Charities are so diverse that it is hard to say what is key to one would be key to another.

A more principled approach to give charities flexibility may be a better alternative as summary financial information/key facts are not the same in every charity. It was agreed that there is no case for change based on the feedback from the engagement stands, but there may be the case to improve the instructions in the SORP to assist with the interpretation for the layperson and to simplify how some of the information is presented. Although it might be the case that such change should emanate from effective reporting in the trustees' annual report. Perhaps encouragement to improve presentation should be included in the SORP rather than the introduction of additional reporting requirements.

A committee member raised the issue that there is no current answer to the criticism that the information in the trustees' annual report and accounts is not easy for users to understand unless they have an accounting background. Rejection of further requests for clarity then will mean that this issue will keep

being presented to the Committee in the future until someone forces a solution, as has happened with Chief Executive Officers pay.

Consideration may be given to whether there could be wording in the SORP to encourage accounts preparers to clarify these key facts. The requirement is already covered by paragraph 1.2 of the SORP, but this may be overlooked as being seen as part of the preamble. The Committee was of the view that consideration needed to be given to the issue that needed to be addressed so more thought was needed on that issue and how to encourage people to come to the SORP with the correct mindset.

The Committee noted that from the current small charities research project which has reviewed more than 12,000 sets of accounts, in more than 25% of the cases it is not clear whether the charity has adopted SORP accounts or receipts and payments accounts. If this cannot be presented clearly then there is a significant issue of non-compliance that cannot be addressed by the SORP alone.

Trustees need to be able to use the SORP, primarily it is aimed at those readers who understand accounting concepts and terminology, except Module 1 that is aimed at trustees. Perhaps the Committee could consider making recommendations for drafting that part of the SORP and aim it at trustees with less financial reporting experience and highlighting the need to present summary financial information and key facts in the trustees' annual report in such a way that it is easily accessible to the users of the accounts.

There have been suggestions that as the Regulators collect summary financial information and key facts that they could provide such information.

CIPFA noted that there was some consensus included in paragraph 3.8 of paper 3 about what could be included in a Summary Financial Information/Key Facts page this was summarised in paragraph 3.8 of the report.

The Committee noted that this information is already covered in the trustees' annual report. From a funders perspective, the key facts page will not help them make economic decisions.

The Committee considered who this information was aimed at. It expressed the view that it was aimed at people like journalists who wish to use it, but concerns were raised that such information may be used out of context.

## **6.0 SORP Working Groups – Next Steps**

6.1 The Chair reminded members that from the August meeting onwards the meetings will be split. The first part of the meeting will be items for discussion, the next part will be separated into 3 working groups A, B and C. The August meeting will discuss legacies and materiality.

Papers will be circulated prior to those meetings. There are three working groups, and a chair is required for each. It was noted that two working groups already had a volunteer chair. The meeting agreed on the following chairs:

- Caron Bradshaw; Group A
- Carol Rudge; Group B
- Daniel Chan; Group C

The working groups would agree on key actions/decisions for change with the CIPFA Secretariat. Feedback from the working groups will be collated along with the feedback from the engagement strands. This will all be fed back to the Committee for its final decision/debate at a future meeting.

Clarification was given that after the Committee members split into the working groups, the Committee will not reconvene to discuss the working group meetings on that day. The Chair of each working group will be required to collate the decisions of that group so that they can be noted by CIPFA

## **7.0 IFR4NPO Part 1 Consultation Response**

7.1 Apologies were given for the approaching deadline. It was noted that this issue had been discussed under matters arising. The draft response would be issued on Friday 9 July 2021 with the deadline for comments anticipated for 26 July 2021 for submission on 30 July. There is no obligation for Committee members to respond. It was noted that this will be the only submission the Committee will be making to this consultation.

## **8.0 AOB**

### **8.1 Future Committee Dates**

It was noted that future Committee meeting invitations should be in the diaries now.

Planning for the meetings' agenda and planning of the meetings for January and February is underway. A research meeting will also need to be organised.

### **8.2 Research meeting**

8.3 The research meeting is intended to pick up relevant items that the Committee has not yet considered.

Reference had been made to the research with smaller charities. If there are further pieces of research the Committee would be interested in discussing, then let CIPFA know, and these items can be included on the agenda.

It was noted that PwC presented sector research at the first research meeting. The PwC research exercise will be repeated soon, and PwC should be able to provide feedback from the new exercise.

The Committee noted that the small charities research project had experienced an encouraging level of response.

- responses had been received from over 425 charities.
- 120 individual respondents
- more than 12,000 sets of accounts have been examined.

8.4 Responses on the consultation to changes to corporate audit ie [Restoring trust in audit and corporate governance: proposals on reforms the audit marketplace](#) are due on 8 July 2021. Charities Finance Group will be sending a submission, and this will be shared with the Committee if the members wish to look at it.