

# Charities SORP Committee Minutes

Date	30 April 2020	
Venue	Online TEAMS meeting	
Joint Chair	Laura Anderson	<i>Office of the Scottish Charity Regulator (OSCR)</i>
	Nigel Davies	<i>Charity Commission for England and Wales</i>
	Sarah Finnegan	<i>Charity Commission for Northern Ireland</i>
Members present	Caron Bradshaw	<i>Charity Finance Group</i>
	Michael Brougham	<i>Independent Examiner</i>
	Daniel Chan	<i>PwC</i>
	Tom Connaughton	<i>The Rehab Group</i>
	Diarmaid Ó Corrbuí	<i>Carmichael Centre for Voluntary Groups</i>
	Tim Hencher	<i>Scottish Council for Voluntary Organisations</i>
	Gareth Hughes	<i>Down and Connor Diocesan Trust</i>
	Noel Hyndman	<i>Queen's University Belfast</i>
	Joanna Pittman	<i>Sayer Vincent</i>
	Carol Rudge	<i>Grant Thornton</i>
	Max Rutherford	<i>Association of Charitable Foundations</i>
	Jenny Simpson	<i>Wylie + Bissett LLP</i>
	Neal Trup	<i>Neal Howard Limited</i>
In attendance	Gillian McKay	<i>CIPFA, Secretariat to the SORP Committee</i>
	Milan Palmer	<i>CIPFA, Secretariat to the SORP Committee</i>
	Sarah Sheen	<i>CIPFA, Secretariat to the SORP Committee</i>
Observers	Jenny Carter	<i>Financial Reporting Council</i>
	Jelena Griscenko	<i>The Charities Regulator in Ireland</i>
Apologies:	Tony Clarke	<i>Clarke &amp; Co Accountants</i>

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

- 1.1** The Chair welcomed SORP Committee Members to the meeting. The Chairs indicated they would particularly welcome feedback from the committee on chairing the meetings via Microsoft Teams and how well the Teams meeting works for committee business.

The Chair introduced and welcomed Sarah Finnegan to the meeting from Charity Commission for Northern Ireland. Sarah's work in the regulatory environment for Northern Irish charities was outlined. This would be useful experience in supporting the work of the committee.

The Chair indicated that this meeting had an exciting agenda and the Chairs were looking forward to the engagement process.

Declarations of interest were sought. The Chair noted that an interest does not include any colleague who wants to be an engagement partner. No interests were declared.

## **2. Minutes of the meeting of 12 March 2020 and matters arising**

Members were asked to contact CIPFA directly with any typographical corrections. The draft minutes of the previous committee meeting were approved subject to a number of amendments.

Committee

### **2.1 Matters arising**

A committee member welcomed the financial reporting guidance on COVID-19 that had been issued urgently following the request at the committee's last meeting. However, it was noted that COVID-19 continued to have an impact on financial reporting and that substantial guidance had been issued by, for example, the FRC and other bodies on numerous issues which would impact on charities. It was therefore suggested that there is a need in the sector for further work on accounting and financial reporting guidance.

The committee member suggested the following topics should be considered in this guidance:

- FRC guidance – this needed to be interpreted for charities and trustees would need to consider the different scenarios which may impact their annual reporting
- There are now specific matters for charities with subsidiaries, including the impact of going concern reporting and accounting for gift aid payments of trading subsidiaries.
- The reporting of sector access to the relevant Government initiatives, many of which were not announced at the time of the initial guidance (e.g. the furlough scheme). Questions arise relating to the disclosure of these transactions: e.g. staff remuneration disclosures; how these initiatives should be reported in the SOFA. Trustee annual reporting will need to consider how charities have used these initiatives and there will be particular reporting considerations about how to account for these at charities' financial year end particularly for 31 March year ends.
- The pandemic had led to scenarios in the following areas which the current SORP may not have envisaged, in particular:
  - recoverability of legacy debtors
  - recognition of grants
  - repurposing of funds.

A number of the committee members were of the view that guidance would be useful. They supported the production of guidance and indicated they would be interested in joining the working party and were of the view that:

- there will be numerous charities that don't have access to the guidance that had been produced, particularly with regard to the specifics of charity reporting, including the following issues:
  - pensions
  - recovery plans
  - investment portfolios
  - state aid, and
  - shops
- charities were already adopting a wide range of accounting and reporting treatments, even for the treatment of employees that have been furloughed
- the joint SORP-making body is seen as a trusted source of guidance. It was recognised that substantial amounts of guidance had been issued on COVID-19 (the major professional accounting firms had done so) but charities would look to the joint SORP-making body to provide further guidance for the sector. This had been mentioned by the ICAEW Charity committee.

A SORP committee member considered that as so much guidance had already been issued it was not clear what the benefits would be of the joint SORP-making body issuing further guidance, particularly where the pandemic was so fast moving that the guidance could become out of date quickly.

Another committee member noted that as there is a coalition of sector bodies working collaboratively across the sector it would be useful to signpost these links and forums. This was supported by the previous committee member who indicated that it would be more useful to signpost guidance rather than reinventing the wheel.

The Chair reminded the committee that the issue was further complicated because the joint SORP-making body had to cover a number of jurisdictions in any guidance it provided. There is a need to make sure it is relevant to all jurisdictions.

The Chairs summed up the issue by indicating that they would consider the debate of the committee and the best course of action. This may result in a working group of some kind which could consider the best way to proceed.

### **3. Paper 1 - Further development of the engagement work**

**3.1** The Chair indicated that paper one outlines what expectations our engagement partners might have which is important to recognise. It suggests how this process may develop and how to set the frame of reference for the way forward.

**3.2** From the engagement partner recruitment pack it appears clear that the engagement partners will expect to convene around their needs. Some are users of accounts, others are accounts preparers and therefore users of the SORP, with some being both. The debate will therefore focus on what they need from accounts and/or the SORP.

- 3.3** The Chair also noted that there had been a good discussion at the last meeting relating to smaller charities and how more might be able to engage in the process. The needs of smaller charities has been one of the areas that the retired committee's working group's had examined. The committee now had the opportunity to consider how to support these charities, what was needed for this support and what role the committee might take. It was noted that the Annex to paper one provided a summary of the retired committee's working group's work on this issue and the other areas that had been examined by the working groups. The issue of supporting small charities was also covered in the SORP governance review. An extract of the issues raised is included in Annex 2 of paper one.
- 3.4** Committee members were of the view that the work of the original working groups was a good starting point for engagement partners. It would provide a frame of reference for these engagement strands. So much work had been done by these groups that this would ensure that the engagement strands would not lose time going over old ground and allow the engagement partners to build on it. However, it should be made clear to the engagement partners that the debate is likely to be wider than that of the working group topics so should not be limited to these areas.
- 3.5** Other committee members considered that the summaries though useful had not been able to bring out some of the nuances of the debate. Some of these points were worth considering, for example, what was the purpose of the SORP? Was it to promote compliance or to ensure that the users of accounts could understand the charities' activities? The committee and the engagement strands would need to provide answers for these issues otherwise they risked the SORP focussing on compliance issues rather than promoting the understanding of the accounts.
- 3.6** The committee considered it would be helpful to consider both the purpose of the SORP and SORP compliant financial statements. The SORP clearly had an important role for accounts preparers but users' needs were paramount. The working group discussions on these issues would then provide a platform for a deeper and more useful discussion.
- 3.7** The Chair stressed that starting a conversation amongst the strands has to focus on their needs (as this is what the engagement partners will expect based on the recruitment pack). It was important to understand both the kind of materials that needed to be provided to the strands and what topics would prompt them to effectively consider these issues. When the SORP governance consultation had collected evidence some respondents had taken the opportunity to provide commentary on potential SORP developments (this was why she had extracted the relevant text in Annex 2 to paper one). The Chair considered that it may be worth passing these observations to the strands, in particular those strands concerned with preparing the accounts.
- 3.8** These resources may provide the engagement strands with help relating to the questions it would be useful to consider. For example, would a slimmed down SORP and other tools be an alternative?
- 3.9** Committee members raised the following issues
- It was hoped that the development work would consider whether the existing SORP was fit for purpose or whether more radical solutions

would support the needs of SORP users and accounts preparers. The SORP committee selection process had encouraged debate in this area and how charity reporting should be transformed so information should be provided to encourage a wider debate. A possibility as to whether one SORP should be issued for all charities was raised.

- It may be useful to raise awareness of the different users of charity accounts as some of the engagement partners may have a good knowledge of the sector but may not understand the wider constituency groups and these groups may have both complementary and conflicting interests in how accounts are prepared.
- There could be potential problems when considering the breadth of stakeholders interested in trustee annual reports. A committee member noted that from an academic perspective when considering a range of stakeholders' issues relating to the most salient stakeholders should be prioritised. Salient stakeholders are those with legitimacy, urgency and power. The SORP committee needed to consider this issue as otherwise stakeholders could include almost anyone. The Chair noted that this valid point had been considered at previous committee meetings.
- The use of digital information should be considered (though a committee member considered that it was important to recognise that the vast majority of charities do not access the SORP materials digitally).
- It might be possible to produce an effective SORP which was split in such a way that it could be used by different types of charities.

**3.10** A member recognised the need to consider the salient legitimacy of stakeholder groups. However, he indicated that he preferred 'chaos theory' and warned that the engagement processes would need to avoid over-structuring the requirements which could lead to an over-homogenised result. It will also be important to consider whether charities will have time to engage with this given what else is going on.

**3.11** Generally the committee agreed:

- that the engagement strands should be provided with as much of the material of the working groups as possible
- consideration should be given to ways to support the engagement strands, it was considered particularly important to provide them with a precis of the different users of the accounts
- any supporting materials would need to be clear about the committee's ideas of deliverables for a particular engagement strand
- at the same time it would be important not to over-engineer expectations and try too hard to shape the debate

- the working group's work would be a useful starting point for the engagement strands but the engagement strands were not bound by or limited to the recommendations of the working groups.

#### **4 Paper 2, part 1 - the role of the engagement convenors**

**4.1** The Chair commented that the engagement process had not been tried before and so it was important to ensure that the proposals were moving along the right lines or whether alternative approaches might be more suitable.

The following issues that are key to this debate:

- the context and the graphic in the paper on the SORP development process with regard to engagement strands and stakeholders, and
- the background to the expectations for the process.

This first part of paper two makes suggestions as to the role of the convenor. It is a role not expected to be too challenging but it is important to make the most of the engagement process. The list at paragraph 3.2 of paper two was an important part of this and the Chair particularly sought views on the list.

The appointment process also needed to be considered (see part two of paper two), previously it was expected that each strand would appoint a convenor at an initial meeting. The impact of the COVID 19 pandemic meant that this was no longer viable and the committee's views were requested on the process outlined in the report.

**4.2** The committee considered the list at paragraph 3.2 was a good list.

They firstly considered to what extent the convenor was expected to provide and lead on the administration for the engagement strand (i.e. taking responsibility for papers, recording decisions and other administrative tasks). It would be important to outline the anticipated administrative processes for the convenor of an engagement strand and how they would be supported in this by members of the strand. The committee questioned the mechanisms which would be in place to ensure this happens. The committee considered that it would be useful to list the support that will be available to the convenors.

The Chair commented that the joint SORP-making body hadn't anticipated that the convenors would be expected to undertake substantial amounts of administrative tasks. Consideration would be given to how much regulator resource could be provided to support them.

With regard to the role of the convenor, the committee considered that:

- It was a potentially demanding role which required individuals that were experienced leaders, who were good communicators and would be capable of making sound judgements.
- There could be concerns that in setting the agenda that the convenors may have the ability to overly influence it and any feedback from the engagement strand. The committee sought

views on the feedback mechanisms to be used i.e. whether this would be a written or verbal report. It was considered there would need to be an understanding of the risks within the engagement structure and how the dialogue within the strands would be shared.

- The reference to the word 'consensus' implied reaching a unanimous view. The role should be about ensuring equity of contribution and feeding back a full range of views. It would be important to keep the committee informed of the widest possible views on each topic.

**4.3** The Chair was of the view that there was therefore a need to emphasise the facilitation side of the role of convenor.

**4.4** A committee member was of the view that some strands would be able to operate on a smaller basis (e.g. a single meeting) and this would depend on the subject matter. A different member indicated this was unlikely as ideas and concepts need to be reviewed and reworked which may take several meetings before a deliverable would be available. It was recognised again that smaller charities might find it difficult to attend more than one meeting.

**4.5 Paper 2, part 2 - Context for appointment of a convenor**

**4.6** The Chair outlined that the joint SORP-making body and the SORP committee needed to find a solution that allows for progress and upholds standards. The FRC is very clear that all outcomes of the SORP must accord with due process and standards.

Due to the COVID-19 pandemic the selection of a convenor would not be undertaken by the strands themselves but a process led by the joint SORP-making body. During this process the joint SORP-making body would clarify their expectations of the process to ensure that the prospective convenor fully understands it.

The committee considered that it may be worth circulating the role description to all those who have volunteered as engagement partners.

The Chair concurred with that view and added that it coincided with how the joint SORP-making body was planning to approach the appointment process and assess whether prospective convenors had the resources to proceed.

**4.7** A committee member enquired whether there had been any further thought around widening the restriction of engagement partners being limited to participating in one engagement strand.

The Chair responded that the joint SORP-making body was considering the variety of participants the committee had reviewed in the March meeting papers. The joint SORP-making body was of the view that it looks likely that the option to engage with other strands will now be opened, though it should be recognised that participation in more than one strand will increase the burden of participation and may influence a participant's ability to be a convenor.

A committee member sought clarification relating to paragraphs 3.3 to 3.5 of Paper 2 on the decision making process for the appointments. Would

the SORP committee have a role in the process? The committee member was of the view that SORP committee participation could make the process more complicated and convoluted so was content with the joint SORP-making body taking the decision.

The Chair confirmed that the joint-SORP-making body would take the decisions on the appointments and would be accountable for the decisions taken.

Chairs

- 4.8** A committee member commented that it was important that the criteria for the appointment were emphasised so that applicants could make fully informed decisions as to whether they meet the criteria.

Another committee member returned to paragraph 3.2 relating to references to an engagement partner not making a contribution and/or being disruptive. He considered that it would be important to be careful about how this is presented in the engagement partner documentation which could be interpreted that dissenting voices will not be tolerated.

The Chair confirmed that this was not the intention of the commentary and that it was intended to ensure that engagement strands were able to take appropriate decisions and work co-operatively where there are dissenting views. The Chair appreciated the helpful comments and indicated that the relevant documentation would be reworded.

Chairs

A committee member was of the view that it was not clear how committee members would engage with the engagement strands. Was the expectation that individual committee members would engage with different strands?

The Chair commented that in many ways there was uncertainty as this engagement process was new. There will be an element of experimentation and the different engagement strands would find out the best way to work together.

The Chair agreed and added that it is not yet quite clear how each of the strands will function or how dynamic they will be. Until they commence it is not clear what form committee involvement might take.

## **5 Paper 3, Update on the Development of Information Sheet 6**

- 5.1** The Chair explained that the joint SORP-making body was trying to balance in the information sheets the technical aspects and the ability to tell the story. The joint SORP-making body had been assisted very much by CIPFA in provision of information sheets.

- 5.2** The committee understood that Information Sheet 6: *The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018*, as applied to Charitable Companies emanated from a decision taken by the retired SORP Committee to provide guidance for charitable companies.

The guidance focussed on energy and greenhouse gas reporting and was only applicable to large companies. The Information Sheet considers applicability (the regulations follow the Companies Act 2006 conditions for



a large company) and particularly covers exemptions. It also considers how trustees should report on energy and greenhouse gases.

**5.3** The Chair indicated that feedback could be received in the meeting but matters of technical detail should be emailed to CIPFA allowing a week for comments (date subsequently confirmed to be noon 8 May 2020). Committee

**5.4** The committee was requested to consider readability, for example, did the committee consider whether the guidance warranted more or less detail. Committee

**5.5** A committee member asked whether there is any scope to align the interpretation of turnover with the HMRC definition of turnover, which does not include grants or donations.

**5.6** The Chair sought the views of the committee noting that the interpretation in the draft Information Sheet was the same as in Information Sheet 3: *The Companies (Miscellaneous Reporting) Regulations 2018 and UK Company Charities*.

A committee member sought views on whether the definition is a statement of fact from the legal framework. It was noted that the approach within draft Information Sheet 6 was that this was an interpretation by the joint SORP-making body of the Companies Act 2006 reference to 'turnover' (the same definition was included in the Regulations) and it was for the charity to take its own decisions on the definition.

The Chair indicated that the joint SORP-making body would consider this issue. Chairs

**5.7** A committee member enquired whether paragraph 4.10 of the draft Information Sheet was worded in such a way that it could be used to avoid doing the reporting in the first place. Should there be more guidance from the joint SORP-making body on how these provisions should be applied? It was noted that these provisions emanated from the Regulations and it may not be appropriate to provide further interpretation but CIPFA would investigate whether the guidelines may have further guidance to assist charities with their decision making processes on this issue.

A committee member was of the view that the Information Sheet is readable but that it may be worth highlighting potential challenges for trustees. The committee member volunteered to provide examples of these as a few bullet points. CIPFA

**5.8** CIPFA welcomed any remaining comments or feedback by noon 8 May 2020. Committee

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

### **6.1 Any other business**

**6.2** CIPFA raised an issue which was discussed at the March meeting in relation to Amendments to FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland relating to interest rate benchmark reform*.

At the March meeting CIPFA had indicated the early view of the joint SORP-making body that this was not an issue which required further guidance or amendment to the SORP. The suggestion at the March meeting had been that if necessary a focus group of interested members could consider the issue and that if members had an interest they should contact CIPFA.

CIPFA noted that it had not been contacted by SORP committee members with an interest in forming this group. The Chair confirmed that the committee had felt there was nothing unique about the sector regarding this issue and that the amendments did not apply to enough charities to warrant an information sheet. The decision was not to proceed with this working group.

**6.2 Chairing and format of meetings**

**6.3** Committee members were asked to feedback on the chairing of the meeting and any comments on the approach to the use of Microsoft Teams. Committee

**6.4 Dates of future meetings**

**6.5** These will be circulated after the meeting. It was requested that the dates be provided as soon as possible. The Chair indicated that the next two meetings would use Microsoft Teams but depending on circumstances the following two would move around charity law jurisdictions but this would depend on the availability of transport links. CIPFA