

# Summary of discussion and points from the Charities SORP Committee and SORP engagement strand convenors

Date	17 November 2020	
Venue	Microsoft Teams meeting	
Joint Chair	Laura Anderson Nigel Davies Damian Sands	<i>Office of the Scottish Charity Regulator (OSCR)</i> <i>Charity Commission for England and Wales (CCEW)</i> <i>Charity Commission in Northern Ireland (CCNI)</i>
Members present	Caron Bradshaw Michael Brougham Daniel Chan Tony Clarke Tom Connaughton Diarmaid Ó Corrbuí Tim Hencher Noel Hyndman Joanna Pittman Carol Rudge Max Rutherford Neal Trup	<i>Charity Finance Group</i> <i>Independent Examiner</i> <i>PwC</i> <i>Clarke &amp; Co Accountants</i> <i>The Rehab Group</i> <i>Carmichael Centre for Voluntary Groups</i> <i>Scottish Council for Voluntary Organisations</i> <i>Queen's University Belfast</i> <i>Sayer Vincent</i> <i>Grant Thornton</i> <i>Association of Charitable Foundations</i> <i>Neal Howard Limited</i>
In attendance	Gillian McKay Milan Palmer 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	Jenny Carter Deirdre O'Dwyer Jelena Griscenko Claire Morrison Clare Thomas Amie Woods	<i>Financial Reporting Council</i> <i>Charity Commission in England and Wales (CCEW)</i> <i>The Charities Regulator in Ireland</i> <i>Office of the Scottish Charity Regulator (OSCR)</i> <i>Charity Commission in England and Wales (CCEW)</i> <i>Charity Commission in England and Wales (CCEW)</i>
Convenors	Chris Bolt Roberta Fusco Christine Scott Tony Ward	<i>Small Charities &amp; Independent Examiners</i> <i>Professional &amp; Technical Strand A</i> <i>Professional &amp; Technical Strand B</i> <i>Large Charities</i>

Sue Wilson  
Louise Thomson

*Major funders, government and public bodies  
Charity trustees*

Apologies

Gareth Hughes  
Diarmuid McDonnell

*Down and Connor Diocesan Trust  
Convenor; Academics, regulators & proxies  
engagement strand*

## **1. Purpose of the Meeting**

1.1 This is a meeting between the convenors of the engagement strands and the Charities SORP Committee to share and discuss the issues that have been generated by the engagement strands to date in the exploration stage for SORP development.

At the start of the process all the engagement strands had been given the same questions to consider as a guide to be used at the convenors' discretion to help them get started but it was clear that nothing was off limits for debate and discussion.

There have been some consistent areas of focus and strands have considered both individual issues and looked at the areas from different standpoints.

The broad areas of focus have so far been:

- the overall structure and presentation of the SORP
- the trustees' annual report
- presentation of the financial statements, and
- specific accounting issues.

Some of the emerging issues that are:

- The SORP is a technical document which is not very accessible to trustees and there is a need to improve further the linking of the report at the front with the numbers that follow.
- The majority of charities applying the SORP are small and consideration needs to be given to the number of small charities that will need to apply SORP revisions.
- Volunteer trustees often rely on their independent examiners to produce the accounts and help with the report – if trustees are to be engaged then the language of the SORP would need to change.
- The topics based approach does work but they need to be the right topics and there is a need for a SORP index.
- Drafting of the SORP – the distinction of requirements for larger charities from the requirements for all charities is a start but in respect of the accounts though, smaller charities need to work out the provisions which apply to them (including any exemptions). Is this the best structure for smaller charities?

- The SORP follows the drafting convention of using 'must' and 'should' – there should be a review of this to improve the drafting.
- The SORP is based on FRS 102. The application of the full accounting framework might, in some cases, hamper the ability to tell the story. Is there a possibility that FRS 102 might include some 'carve outs' for public benefit entities?
- Consideration of a 'key facts' two-page document which might help transparency and accountability for the users of charity accounts.
- Technical issues need to be subject to further review. Consideration will be given as to whether the SORP should be prescriptive in its treatment of these issues or whether it should allow more options.
- Given the reliance of trustees of smaller charities on others to help them, the engagement strands will deliberate on whether the SORP is a 'handbook to be followed slavishly or a guide to charity reporting.
- Tiers in charities – this would apply to larger charities as well as smaller ones. The key is that each charity can tell its story.

There was a focus on the operating environment. This meant discussion had concentrated on the limitations imposed on the reporting context of FRS 102 i.e. the application of wealth creating principles to public benefit entities. There may be opportunities in the future to influence the development of FRS 102 or to utilise the reporting guidance offered under the international not for profit work which is currently being developed. This could also include making suggestions for changes to the next edition of FRS 102.

Key points from each strand so far:

*Smaller charities and independent examiners engagement strand*

- Whether there needed to be a new definition of what a smaller charity is (noting the SORP definition of £500,000 or €500,000).
- Since trustees rely on their independent examiners when compiling the accounts they are unaware of the options open to trustees eg natural classification; it would be useful to have examples to show how the options might be used in practice.
- Evidence based research is needed on what trustees think of the SORP, particularly for smaller charities.
- The group is not suggesting a separate SORP but that the SORP should be written differently, from the perspective of small charities then adding on requirements for larger charities and specific circumstances.
- More training for trustees and independent examiners is needed, including for any SORP revisions.

*Larger charities engagement strand*

- Tiering is needed for large charities, to reflect the difference in size, activity and influence. For example, an endowed charity will have a large asset value and simpler income streams from investments versus a fundraising charity with more complex income streams.
- Every review leads to increased reporting provisions in the SORP – consideration should focus only on changes which are necessary and benefit both accounts preparers and users.
- Reserves and sustainability – what do reserves represent? The economic situation will be very different if a charity has an endowment. Consideration is needed as to how the public and the users of accounts understand and make sense of charity reserves.

*Technical and professional engagement strand A*

- The need to connect the trustees' annual report and the accounts to ensure that they both tell the same story
- What is the purpose of the SORP, what is it trying to achieve and what is the best way of conveying that message?
- Whether an upside-down SOFA starting with how the resources were spent and then considering how the charities raised those resources should be considered if it would better communicate the messages to the users of the accounts.
- Disclosures and decluttering – FRS 102, Companies Act, other legislative requirements mean there is a lot in the accounts that is not due to the SORP prescriptions. Some of these disclosures are considered not to add value but they add length and time to prepare them.
- Whether reserves should be brought forward in the accounts – there is a poor understanding of what they represent and how they are used. Other technical issues merit discussion, for example the treatment of legacies.

*Technical and professional engagement strand B*

- Structure and presentation of the SORP:
  - the SORP cannot be a one stop shop due to the range of charities using it to report. Would be useful if SORP signposted to other reporting requirements or guidance? It was noted that this will require considerable resource to set up and maintain.
  - The SORP has been written with the drafting convention and terms such of 'must', 'should' and 'may'. Would it be better to focus only on 'must' in the SORP, as this may make it easier for trustees to understand it with any guidance published separately?
  - There is a need to consider a tiered approach based on types of charity eg grant making versus social enterprise.
  - Other SORPs focus only on the accounts.

- Considering including more on impact reporting, being mindful this may be difficult for smaller charities
- Consider the going concern disclosures and how they are reported including separate reporting on sustainability
- Reserves reporting - providing a meaningful narrative on how a charity has performed in relation to the reserves policy
- Financial review – concerned about how risk management and risk management reporting can be improved

#### *Charity trustees' engagement strand*

Focussed on governance and concentrated on issues that affect trustees and asked the following questions:

- What does the SORP-making body consider a successful SORP looks like? Is it understood by trustees? Is it fully complied with? Does it lead to engagement from a range of stakeholders and increasing public trust and confidence?
- Who is the audience for this SORP? In its current form it is not written for trustees as an audience.
- Do the thresholds in different jurisdictions and cross border working present further challenges to an understanding of the SORP's requirements?
- Does the type and complexity of charity influence the reporting required of it?
- Is the SORP fit for purpose particularly in helping the charity tell its story? Is it proportionate?
- Do we need a think small first approach and then look at an inverted pyramid to add on additional layers of complexity?

It was noted that in the commercial sector the requirements for directors differ according to the size of company. Do we need to consider a similar approach bearing in mind the importance of public confidence and perception?

#### *Major donors and funders and government and public bodies engagement strand*

- Funders are engaged readers of the accounts but don't always find all the information required in the accounts.
- Funders' main focus on going concern and reserves and would like to see greater clarity and understanding on what the 'free' reserve is. More information about prospects for the future would be helpful.
- Funders read the notes, which can be highly technical including numerous pages of unhelpful technical notes, for example, pensions reporting runs to many pages of unhelpful technical data. The simple fact needed is the appropriate liability and where this is included in the financial statements.
- Duplication of the prior year SOFA is simply not useful.

- Support costs are particularly interesting to funders. However, this is not reported consistently. It would be good to provide examples, showing what is a clear presentation and good explanation of expenditure on support costs and how it is relevant to a charity. This will help charities to see and understand how this can be adopted.

*Academics and regulators and proxies for public interest engagement strand*

- The strand's discussions have been very much focused around the link between good reporting and good governance in a charity. Impact reporting would be a very useful way by which charities can explain the impact they are having, in a way that users of the accounts can really understand what is going on.
- Four areas of focus: income, expenditure, reserves and resilience, and public benefit.
- The role of trustees in reporting needs to be enhanced to enable the key messages to be communicated. A two-page summary of commentary and of the accounts shared publicly may be helpful.
- Research on better understand why poor reporting happens and the lack of engagement of trustees in reporting is needed.
- Consideration should be made of the role of the trustee and how that reporting could be enhanced, to include:
  - What do the trustees consider the most important things about that charity?
  - How do they think the report supports the story the charity wants to tell?

## **2 Points raised in discussion from the engagement strands' feedback:**

### 2.1 The points arising from the discussion for future consideration by the SORP Committee were:

- There were tensions between robust financial reporting versus the need for clear narrative reporting. Many of the issues had been considered before but a fresh discussion is still valuable.
- Agreement that consideration as to what is a successful SORP and what are the key features that would make it successful?
- This is a good opportunity to think small first to enable all charities to produce effective trustees' annual reports and accounts.
- Any proposals need to recognise what is in our gift to change and what is constrained, for example by FRS102.
- The proposal for decluttering, for example the pensions note, is important but this must be balanced with the need for robust financial reporting.
- There have been a number of SORP versions developed which have focussed on the themes raised above eg "thinking small first" so the question raised is

why hasn't it happened? The committee considered that SORP development is a best thought of as a series of a journeys and not a fixed destination.

- There might be an impetus to signpost to other reporting resources and allowing the regulators to focus on generating good resources and examples of best practice to support trustees and preparers of accounts.
- What is the purpose of the SORP? Should the committee recognise that there are many?
- Is one SORP required or should a series of SORPs be a better solution with guidance notes? It was noted that the Anglican church produces its own version for parochial church councils.
- What lies within the committee's gift (as an advisory body)? Perhaps the committee should focus on making the SORP accessible rather than disclosures that cannot easily be adapted.
- The proposal for a 2-page summary of what a charity is doing being prepared by the regulators for each charity they regulate. This has been suggested previously where a SIR (Summary Information Return) was developed by CCEW with the same objectives but subsequently discontinued.
- Some faith-based charities produce an accountability guide, on the basis the SORP is not accessible and needs to be interpreted for these bodies. This underlines that there is not one size that fits all. The options for smaller charities need to be looked at in more detail.
- Having more options is not the same as simplicity- choice brings its own complexity when thinking of smaller charities. A better approach might be more templates, guides and help outside of the SORP for smaller charities.
- Even larger charities' accounts contained information which might be deemed irrelevant.
- Non trustees often write the report and the writer ends up reproducing information that already exists but is reported in other publications. Is this an opportunity to use digital means to signpost where else this information is disclosed with less required by the SORP?
- The reflection phase may allow engagement strands to prioritise issues.
- Telling charities what their exemptions and options are will build in complexity which then needs to be understood. Would it be more helpful for trustees if the SORP was able to be less prescriptive? Would it help to have questions trustees must answer and use templates to capture this rather than the SORP itself?
- Options for smaller charities are important but examiners often push charities into adopting the full provisions of the SORP. There is therefore a need to consider resources that enable trustees to produce accounts that are as useful as possible.
- It would be good to examine the use of technology, such as downloads from the SORP or some other method. A good example is filling in a tax return that guides organisations through the sections that need to be completed. Could

something similar be done for the SORP, where a charity is guided to what needs to be disclosed?

- If the SORP presented the minimal reporting requirements and enabled charities to choose what to report beyond this, there may be more narrative disclosure, leaving trustees freer to tell their story.
- With regard to choice, it was noted that accounts preparation often depends on resources, time, money. This often leads to a mechanistic approach for small charities which doesn't allow for choices in the disclosures used. Also consideration needs to be given to the capacity of smaller charities.
- In later stages there will be the opportunity to consider what may be possible in certain areas, i.e. pensions disclosures which are driven by FRS 102 and not the SORP.
- On balance the discussions supported the view that the trustees' annual report and accounts should be more than just about compliance - they are an opportunity to add value.
- Have any engagement strands considered of future proofing the SORP and not just for current issues, for example, the environment, investment choice, gender pay gap? These are issues that charities may need to report on in the future. The *trustees' engagement strand* has considered these reporting requirements and opinion is divided between those who are accountants and those who aren't. COVID-19 has emphasised that these are reporting issues that trustees need to consider now. The SORP Committee and joint SORP-making body should look to lead this conversation rather than potentially having to react to future prescription.
- Diversity reporting relates back to signposting and referencing other documents, for example, the SORP could require a charity to follow a governance code and include in the reporting requirements which one has been chosen and why.
- An issue considered by the engagement strands was that the accounts largely provide a snapshot of the charity at the financial year end and the trustees' annual report sets out what it has achieved and where it thinks it is going. Does this longer time horizon need to be better defined for the report?
- Going concern reporting focusses on reporting requirements but financial sustainability is not just a matter of whether a charity will be in business next year but should focus on a projection of reserves into some point in the future. If a charity cannot effectively demonstrate this it may have an adverse effect for fundraising.

### **3 Committee members' reflections from research presentations**

#### **3.1 The committee considered:**

- There was a real need for to reflect on the output of the public interest research and the key facts summary that has been proposed via the engagement strands and research.
- There are many issues to potentially consider and the question is how best to set priorities and maintain focus. Effecting technical solutions is relatively easy but changing the ways charities choose to report takes much longer.



- How do accounts and the SORP drive standards in charities versus other reporting requirements such as those imposed by the law and regulation. The capacity of regulators to check the accounts submitted is limited and may be better supported by the proposed two-page summary.
- There was substantial commonality but numerous proposals. How will these proposals be managed and prioritised? Will all the changes be included in the next edition of the SORP or might the proposals need to be introduced in stages. The committee is committed to improving the SORP but if there are a lot of changes how will accounts preparers be able to engage with these changes?
- A view was provided that the SORP was about the 'how' rather than 'why' or 'what'. Trustees need to understand the 'why' first, then the 'how', then the 'what'. Perhaps consideration might be given to moving from the current mentions of 'must' and 'should' to provisions to assist trustees based on the 'how', 'why' and 'what' to report?
- The SORP covers four jurisdictions. Whatever the outcome of the engagement process and research it would be useful if there was a common understanding of the different reporting requirements. It was also important to get others on board with the SORP.

3.2 The Chair commented that it was important not to curb enthusiasm for new ideas because of the potential implementation challenges. It was hoped that the engagement process itself would help to support effective implementation.

3.3 The Chair noted that the meeting had been a useful opportunity for the engagement strands to meet with the committee and that paper one provides more detail on the work covered by the strands. Also, the Chair noted that each convenor has been given the opportunity to provide additional summary materials to the SORP Committee and these would be distributed subsequent to the meeting.

#### **4. December meeting**

4.1 SORP Committee members had been sent dates for a December meeting. This meeting was intended for members to have more opportunity to reflect on the feedback from the engagement strands and the research meetings.

#### **5. Minutes of previous meetings**

5.1 The minutes from the 9 and 13 November 2020 SORP Committee meetings will be considered by correspondence rather than waiting for the December meeting. This will also allow more time for discussion of the agenda items.

5.2 The Chair thanked the convenors of the engagement strands for presenting their feedback so successfully to the committee and thanked the committee for their engagement with the convenors.