

# Minutes

**Board** Charities SORP Committee

**Date** 22 February 2023

**Time** 10:00 – 13:00

**Venue** Microsoft Teams

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**Joint Chair** Laura Anderson *Office of the Scottish Charity Regulator (OSCR)*  
Rossa Keown *Charity Commission for Northern Ireland (CCNI)*  
Amie Woods *Charity Commission for England and Wales (CCEW)*

**Members present** Caron Bradshaw\* *Charity Finance Group*  
Michael Brougham *Independent Examiner*  
Tony Clarke *Clarke & Co Accountants*  
Tom Connaughton\*\* *The Rehab Group*  
Diarmaid Ó Corrbuí *Carmichael Centre for Voluntary Groups*  
Noel Hyndman *Queen's University Belfast*  
Francesca de Munnich *Association of Charitable Foundations*  
Joanna Pittman *Sayer Vincent*  
Carol Rudge\* *HW Fisher*  
Jenny Simpson *Wylie and Bisset LLP*  
Neal Trup *Neal Howard Limited*

**In attendance** Alison Bonathan *CIPFA, Secretariat to the SORP Committee*  
Sarah Sheen *CIPFA, Contract Manager*

**Observers** Deirdre O'Dwyer *Charity Commission for England and Wales (CCEW)*  
Jelena Griscenko *The Charities Regulator in Ireland*  
Adrian Wallis *Financial Reporting Council (FRC)*

Apologies	Daniel Chan	<i>PwC</i>
	Tim Hencher	<i>Scottish Council for Voluntary Organisations</i>
	Gareth Hughes	<i>Diocese of Down and Connor</i>

\*Caron Bradshaw and Carol Rudge left the meeting at 12:30pm

\*\* Tom Connaughton joined the meeting at 11am

- |            |  | <b>Action</b>               |
|------------|--|-----------------------------|
| <b>1.</b>  | <b>Welcome, apologies for absences and declarations of interest</b>  |                             |
| 1.1        | The Chair welcomed SORP Committee Members to the meeting.  |                             |
| <b>1.2</b> | <b>Declarations of interest</b>  |                             |
| 1.3        | The Chair noted four standing declarations of interest:<br>Daniel Chan sits on the CIPFA Charities and Public Benefit Entities Board.<br>Caron Bradshaw is a Country Champion for the IFR4NPO project.<br>CIPFA works with Humentum on the IFR4NPO project.<br>Sarah Sheen is Secretary to the CIPFA Charities and Public Benefit Entities Faculty Board.<br><br>No additional declarations of interest were noted.<br><br>The Secretariat highlighted a note from the minutes of the meeting held on 14 December 2022 that the declaration of interest relating to Steven Cain's (CIPFA Secretariat) role on the IFR4NPO project has been removed as Steven is no longer a regular attendee of meetings of the Charities SORP Committee.  |                             |
| <b>2.</b>  | <b>Paper 1 – Minutes of the Meeting of 14 December 2022</b>  |                             |
| 2.1        | The minutes were accepted as an accurate record of the meeting held on 14 December 2022.   |                             |
| <b>3.</b>  | <b>FRC update – introduction to FRED 82 Draft amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland and other FRSs Periodic Review</b>   |                             |
| 3.1        | The Chair noted that FRED 82 <i>Draft amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland and other FRSs Periodic Review</i> (the FRED) impacts the modules covered by papers 2 and 3 on the agenda for this meeting. The Chair reflected that Committee Members will have different levels of knowledge of the FRED and that Committee Members should ask questions if there is anything they are unsure of.<br><br>The Chair explained that the extra meeting of the Charities SORP Committee scheduled for 27 March 2023 will be to consider the impact of the FRED on the sector. Ahead of this meeting, Committee Members are invited to send comments on the FRED to CIPFA by 1 March. The Secretariat added that the paper to be discussed at the extra meeting will be a draft of the SORP-making body's response to | All<br>Committee<br>Members |

the FRED consultation. Any comments from the Committee that will help the Secretariat in drafting the response will be welcomed.

- 3.2 The Chair invited the observer from the FRC to make a presentation on the FRED. The observer from the FRC went through the “[at a glance](#)” presentation on the FRED available from the [FRED section](#) of the FRC’s website.

The observer from the FRC explained that changes were proposed to FRS 102 for a range of reasons, including:

- changes to IFRS standards
- to incorporate changes in response to updated IFRS standards that were not made in 2017 because they were considered ‘too new’ at that time
- amendments proposed in the [IFRS for SMEs Accounting Standard Exposure Draft](#)
- responses to the FRC’s request for views on FRS 102, and
- other developments in corporate reporting.

The observer noted that there are a number of questions in the FRED, and that respondents do not have to provide a response to all questions if they are not relevant.

- 3.3 The observer from the FRC highlighted key changes to FRS 102 being proposed in the FRED:

- Section 23 (*Revenue* in the extant FRS 102, proposed to be renamed *Revenue from Contracts with Customers* in the FRED) has been drafted based on IFRS 15 *Revenue from Contracts with Customers*. It was noted that Section 23 does not include income from non-exchange transactions.
- Section 20 *Leases* has been drafted based on IFRS 16 *Leases*.
- FRS 105 includes several proposed changes, but this is likely to be a discussion point for the Charities SORP Committee as FRS 105 is not available to charities.
- Section 34 *Specialised Activities* does not include any substantial changes. It was noted that the Appendix has been merged into the main Section. This proposed amendment is intended to clarify requirements rather than change the substance of the Section.

The observer drew the Committee’s attention to the [Staff Draft](#), which shows the proposed amendments to FRS 102 in context, and noted that details for the round table discussions are available in the [FRED section](#) of the FRC’s website.

- 3.4 The Chair invited questions; no questions or comments were made.

#### 4. Paper 2 – Income in the Charities SORP (Modules 5 and 6)

- 4.1 The questions discussed by the Committee from paper 2 are listed in Annex 1 below.

#### 4.2 ***Paper 2 Section 2 – Responses to the feedback and tentative advice of the Charities SORP Committee – Treatment of funds for income from capital grants***

The Chair invited the Secretariat to introduce the section of paper 2 on treatment of funds for income from capital grants.

The Chair confirmed that the Committee:

- is content with amendments made to paragraphs 5.27 – 5.29 to clarify that charities may create a designated fund for income from capital grants or donations for fixed assets if they wish to do so (see annex 1, question 1), and
- agreed that the example in paragraph 5.25 remains relevant and should be retained (see annex 1, question 2).

The Chair asked whether any examples of the appropriate timing of grant recognition could be drafted in addition to that provided in paragraph 5.25. A Committee Member commented that it would be useful to have a worked example of a grant or income shown in a designated fund. The Chair questioned whether such a worked example should be included in the SORP, or in the example accounts. The Committee Member responded that either would be useful, but that any worked example should focus on small charities as their financial statements are distorted if income is not presented correctly.

The Secretariat expressed the view that such a worked example should be outside the SORP as the inclusion of too many examples in the SORP could lead to a rules-based SORP.

In summarising, the Chair noted the Committee's view that there is a need to do more on supporting charities to set a reserves policy from a governance point of view.

#### 4.3 ***Paper 2 Section 2 – Responses to the feedback and tentative advice of the Charities SORP Committee – Principles-based approach to the presentation of the Statement of Financial Activities***

The Secretariat introduced the section of paper 2 on a principles-based approach to the presentation of the Statement of Financial Activities (SoFA).

A Committee Member expressed the view that guidance in paragraphs 4.31 – 4.36 of the current SORP is good and agreed with the proposal to include cross-references to these paragraphs in Module 5.

A Committee Member commented that the proposed cross-reference is to the correct paragraphs in Module 4, but that the guidance in Module 4 could be improved by the inclusion of the appropriate treatment of a grant for a service that is not a performance-related grant. The Secretariat asked the Committee Member to send CIPFA an example of the type of transaction that is being referred to.

#### 4.4 ***Paper 2 Section 2 – Responses to the feedback and tentative advice of the Charities SORP Committee – Use of the Performance Model for recognition of income from grants***

The Secretariat introduced the section of paper 2 on use of the Performance Model for recognition of income from grants. The Secretariat clarified that where CIPFA has anticipated the content of the revised FRS 102 based on the FRED, modules will be reviewed once FRS 102 is available to ensure consistency of the SORP with FRS 102.

The Chair confirmed that the Committee agreed to proposals in questions 6 and 7 (see annex 1) to clarify the requirements of the performance model for the recognition of grant income and to align the language of the SORP to that adopted in the FRED.

#### 4.5 ***Paper 2 Section 2 – Responses to the feedback and tentative advice of the Charities SORP Committee – Materiality and legacies***

The Secretariat introduced the section of paper 2 on materiality and legacies.

The Chair confirmed that the Committee was content with proposed amendments to the SORP to include reference to materiality alongside guidance on the treatment of legacy receivables where notification of the legacy is received post year end (see questions 8 and 9, annex 1).

4.6 ***Paper 2 Section 2 – Responses to the feedback and tentative advice of the Charities SORP Committee – Materiality and income from donated goods, facilities and services***

The Secretariat introduced the section of paper 2 on materiality and income from donated goods, facilities and services.

A Committee Member questioned whether the value of donated goods is readily determinable as stated in paragraph B34.3 of the FRED, giving the example of charities who use donated ingredients to make food where donated ingredients may not solely be 'basics'. The Committee Member commented that the value of such donations to the charity should be considered. The Chair asked Committee Members whether this should be included in the joint SORP-making body's response to the FRED.

The Secretariat suggested that CIPFA can include evidenced examples, such as the one given by the Committee Member, in the first draft of the FRED response. The Secretariat commented that the value of many donated goods is readily determinable, and that the question of whether the donation should be measured at value to the charity is a different one.

The Secretariat clarified that FRS 102 currently does not allow donated goods to be measured at the value to the charity and that the practical expedients currently offered by FRS 102 on recording income from donated goods are related to the timing of income recognition rather than whether the charity would be expected to value the donation. A Committee Member commented that valuing donations at a food bank is impracticable due to the volume of donations.

A Committee Member questioned whether the joint SORP-making body could ask the FRC for the basis of the statement that the value of donated goods is readily available.

A Committee Member commented that the donation of ingredients to use in the preparation of food for beneficiaries is dissimilar to the donation of goods for resale and could possibly be seen as the donation of a service or facility. *[The Secretariat notes that donations of ingredients are unlikely to be considered donated services or facilities.]* The Committee Member expressed the view that a food bank in receipt of donated food could be an agent rather than a principal, as it is a conduit for donations. The Secretariat commented that it would be difficult to argue that a food bank is an agent.

With respect to practicability, the Secretariat suggested that where a charity is in receipt of a large volume of ad hoc donations of small items, the costs of recording income may exceed the benefits of reporting on the donations.

The Chair concluded that the joint SORP-making body would reflect on the Committee's comments when drafting its response to the FRED.

Referring to question 11 (see annex 1) on whether it would be useful to include guidance on the cost constraint in Module 3 of the SORP (*Accounting standards, policies, concepts and principles, including the adjustment of estimates and errors*), the Secretariat commented that such a reference may help with the issues just

discussed by the Committee. The Chair advised that this will be considered when the joint SORP-making body reviews Module 3.

The Committee confirmed it was content with the proposed amendment referred to in question 12 (see annex 1) to reflect in the SORP the approach to income recognition from donated goods for resale as set out in the FRED.

4.7 ***Paper 2 Section 2 – Responses to the feedback and tentative advice of the Charities SORP Committee – Recognition of ‘donated services’ as compared to ‘volunteering’***

At the meeting of the Charities SORP Committee on 14 December 2022, a Committee Member had questioned when an individual is providing a service, leading to the recognition of income, rather than volunteering, which does not lead to the recognition of income. The Secretariat highlighted that this matter is addressed in the FRED.

4.8 ***Paper 2 Section 4 – Impact of FRED 82 Draft amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland and other FRSs Periodic Review***

The Secretariat introduced section 4 of paper 2, noting that the SORP must be drafted in line with proper accounting practice per FRS 102.

The Charities SORP Committee discussed the language in the FRED around legacies and other non-exchange transactions, noting that the FRED includes language around these issues that is currently in the SORP and, at its meeting held on 14 December 2022, the Committee has discussed updating in the SORP. A Committee Member commented that as specialists in the sector, if Committee Members believe this language should be updated, the joint SORP-making body’s response to the FRED should recommend that the language be updated.

4.9 ***Paper 2 Section 5 – Other Drafting Proposals***

A Committee Member questioned whether the amendments proposed are addressing the needs of users of the SORP. For example, the Committee Member questioned whether requirements around discounting legacy receivables would be a matter of importance to charities and noted that charities such as food banks *are* likely to see themselves as conduits of donated goods. The Committee Member commented that from a ‘think small first’ point of view, there is a need to consider whether the content in the SORP is helping charities. The Secretariat commented that new concepts are not being introduced; rather augmentations and clarifications to existing SORP content are being proposed. The Committee Member expressed the view that work should be taking place to remove content from the SORP. Another Committee Member agreed, expressing the view that care should be taken to avoid adding complexities to the SORP.

4.10 ***Paper 2 Annex – Detailed drafting proposals***

The Chair asked Committee Members for any further comments on the detailed drafting proposals. Referring to paragraphs 5.5 – 5.7, a Committee Member commented that the SORP would benefit from clarity on whether grant income should be recorded as grant income, or as income from charitable activities, noting that the issue may be related to interpretation of “performance related”. The Secretariat noted that the intention in drafting was not to change any accounting treatment in this respect. The Committee Member and the Secretariat agreed to meet to discuss the detail of this issue separately.

A Committee Member noted that the language in the third bullet point of paragraph 5.7 could be made more reader-friendly.

A Committee Member noted that there is still a reference to “entitlement” in paragraph 5.12.

## **5. Paper 3 – Presentation of the financial statements (Modules 2 and 4)**

5.1 The Chair invited the Secretariat to introduce paper 3. The Secretariat drew the Committee’s attention to the point on transparency in particular, commenting that CIPFA had not drafted a definition of “transparency” as the concept is already addressed by both materiality and understandability.

A summary of the questions from paper 3, the comments made by Committee Members and, where indicated, the Chair, Secretariat or FRC observer is included in Annex 2 below.

### **5.2 Paper 3, Section 2 – Tentative advice provided by the Charities SORP Committee – Sequencing of the SoFA**

**Question 1:** *presentation of the SoFA.*

Key themes from the discussion and tentative conclusions reached were as follows:

- Committee Members expressed views that any change to paragraph 4.2 of the SORP, which allows for the presentation of comparative information for separate classes of funds in the notes, would be unwelcome. It was noted that on a general basis CIPFA supports the presentation of comparatives on the face of the financial statements.
- The Chair commented that the joint SORP-making body will consider permitting use of weblinks to cut clutter in the accounts between meetings.
- The Secretariat will review the formatting of Table 2A to ensure it does not appear that information is duplicated within the table.

### **5.3 Paper 3, Section 2 – Tentative advice provided by the Charities SORP Committee – Natural classification**

**Question 2:** *amendments to remove references to classifying income by nature.*

Committee Members expressed the view that they were content with the proposed recommendation, but noted that it may lead to questions from users of the SORP.

**Question 3:** *amendments to reflect the reporting requirements for charities adopting natural classification.*

The Chair confirmed the Committee was content with the proposed amendments in question 3.

### **5.4 Paper 3 – Section 2 – Tentative advice provided by the Charities SORP Committee – Materiality**

**Question 4:** *additional guidance to assist accounts preparers with materiality.*

Committee Members expressed the view that additional guidance should be written to assist charities when determining what is, and what is not material. The Committee discussed where this guidance should be located. Some Committee Members suggested that additional guidance be included in the SORP to avoid preparers from having to refer to several sources of guidance when making decisions regarding materiality. The Secretariat expressed the view that guidance that is akin to

application guidance (e.g. examples of material items and indicators) should be located outside the SORP to avoid the SORP becoming rules-based.

The Chair concluded that thought needs to be given to what can be done to support charities with decisions regarding materiality.

5.5 **Paper 3 – Section 3 Funds – Approach to tiered reporting**

**Question 5:** *tiered reporting requirements*

Committee Members recommended that the disclosure requirements should all apply to all charities in all tiers. No additional disclosure requirements were recommended.

5.6 **Paper 3 – Section 3 Funds – Separate section on Tangible fixed assets funded through an appeal, grant or donation**

**Question 6:** *location of the content on tangible fixed assets funded through an appeal, grant or donation*

The Committee was content with an amendment to move text on tangible fixed assets funded through an appeal, grant or donation within Module 2.

5.7 **Paper 3 – Section 3 Funds – Disclosure of movements in funds**

**Question 7:** *proposed amendments to the outline summary of fund movements table*

Committee Members expressed support for the amendments to the table and suggested that the table should be further amended by positioning unrestricted funds above restricted funds to match how funds are presented on the balance sheet. The Chair agreed that the table be adjusted as suggested.

5.8 **Paper 3 – Section 3 Funds – Use of the term “Capital”**

**Question 8:** *proposed inclusion of an accounting explanation of “capital” in the glossary to accompany the legal explanation*

Committee Members agreed that there is potential for confusion due to the differences between the legal and accounting understandings of “capital”. Suggestions made to enhance the SORP were:

- To consistently refer to “endowment” funds (rather than “capital”) in the SORP, reserving use of the term “capital” for when it is used in a legal sense, and
- to include the two different meanings of “capital” (i.e. both the accounting and legal meanings) in the glossary.

The Chair concluded that the joint SORP-making body would take forward the suggestion to include an additional (accounting) explanation of “capital” in the SORP glossary.

5.9 **Paper 3 – Section 3 Funds – Use of “specific trusts”**

**Question 9:** *use of “specific trusts” in the SORP*

The Chair stated that the legal team from one of the regulatory bodies has been contacted to determine if it is appropriate to refer to “specific” trusts in the SORP. The term will be removed from the SORP if the legal team agree.

5.10 **Paper 3 – Annex 1**

**Question 1:** *proposed definition of “general funds”*



The Chair confirmed that Committee Members were content that the proposed definition of “general funds” be included in the glossary.

5.11 **Paper 3 – Annex 1**

Other detailed drafting suggestions were made, which have been summarised in Annex 1 to these minutes.

6. **Paper 4 – Committee response to FRED 82 Draft amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland and other FRSs Periodic Review**

6.1 The Chair invited the Secretariat to introduce paper 4. The Secretariat drew the Committee’s particular attention to the following points and questions:

- Section 34 has been consolidated so the former Appendix is now in the body of the section. The Secretariat noted the intention to respond that this is a positive amendment.
- The proposed effective date of the revised FRS 102 is 1 January 2025; Committee Members are invited to comment on this.
- The Secretariat asked that Committee Members send examples of how charities with peppercorn leases might be affected by Sections 20 *Leases* and 34 *Specialised Activities* (i.e. the requirements that link leases and non-exchange transactions) to CIPFA.
- Whether there should be more content on leases in the SORP.

The Chair asked for comments on these, and any other, points.

6.2 A Committee Member commented that FRS 102 can be adopted early, but noted that charities need the SORP before they can adopt FRS 102, therefore suggested that it is clarified that charities cannot adopt FRS 102 until the revised SORP is available.

A Committee Member noted the need for caution over the timeline for publication, as timelines have been pushed back in the past. The Secretariat agreed, but added that if the Committee and joint SORP-making body recommends the timeline is pushed back, this will need to be in the response to the FRED. The Secretariat added that there is a need to consider how long it will take preparers to get ready for the new requirements.

The Chair commented that as responses are published online, the joint SORP-making body could review early responses when shaping its own response.

A Committee Member informed the Committee that CFG will be holding roundtable discussions to help it shape its response to the FRED, and that Committee Members should contact CFG for details.

Committee Members were asked to send comments through to CIPFA by 1 March.

6. **Any other business including future Committee meetings**

6.1 **Future meetings**

- 27<sup>th</sup> March 2023 (10am – 1pm) – single issue meeting on the joint SORP-making body’s response to the FRED.
- 3<sup>rd</sup> May 2023 (10am – 1pm)
- 12<sup>th</sup> July 2023 (10am – 1pm)

- 20<sup>th</sup> September 2023 (10am – 1pm)

6.2 **AOB**

A Committee Member informed the Committee that CFG is intending to reinvigorate its Technical Accounting Forum, and that if Committee Members are interested in joining this, they should contact CFG.

*Disclaimer*

*These Charities SORP Committee minutes 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.*

**ANNEX 1**

**Summary of questions from Paper 2 on Modules 5 and 6 – Recognition of income, including legacies, grants and contract income and Donated goods, facilities and services, including volunteers**

Section of Paper 2	Questions
<p><b>Section 2</b></p> <p>Responses to the feedback and tentative advice of the Charities SORP Committee - Treatment of funds for income from capital grants</p>	<ol style="list-style-type: none"> <li>1. Following its clarification on the preferred approach in the SORP, is the Charities SORP Committee content with the amendments to paragraphs 5.27 – 5.29 to clarify that charities may create a designated fund for income from capital grants or donations for fixed assets if they wish to do so?</li> <li>2. Does the Charities SORP Committee agree with the Secretariat's recommendation that the example in paragraph 5.25 remains relevant and should be retained?</li> <li>3. If the Committee recommends that a different example is introduced to demonstrate the appropriate timing of recognition of income from grants in paragraph 5.25 (rather than an example including a fixed asset), what does the Committee recommend the new example should be?</li> </ol>
<p><b>Section 2</b></p> <p>Responses to the feedback and tentative advice of the Charities SORP Committee - Principles-based approach to the presentation of the Statement of Financial Activities</p>	<ol style="list-style-type: none"> <li>4. Does the Charities SORP Committee agree that the guidance in paragraph 4.31 – 4.36 is principles based? If not, how should paragraphs 4.31 – 4.36 be amended?</li> <li>5. Is the Charities SORP Committee content that a cross-reference to module 4 is included in module 5 as proposed?</li> </ol>
<p><b>Section 2</b></p> <p>Responses to the feedback and tentative advice of the Charities SORP Committee - Use of the Performance Model for recognition of income from grants</p>	<ol style="list-style-type: none"> <li>6. Is the SORP Committee content with the proposed amendments to clarify the requirements of the performance model for grant income recognition as outlined in paragraph 2.11 of this report?</li> <li>7. Is the SORP Committee content that the language concerning performance-related grants has been amended to be consistent with the language used in the FRED as outlined in paragraphs 2.12 and 2.13 of this report?</li> </ol>
<p><b>Section 2</b></p> <p>Responses to the feedback and tentative advice of the Charities SORP Committee - Materiality and legacies</p>	<ol style="list-style-type: none"> <li>8. Does the Charities SORP Committee agree that text on materiality considerations be included in paragraph 5.37 alongside content on receipt of the notification of a legacy post year end?</li> <li>9. Is the Charities SORP Committee content with the proposed location of paragraph 5.37 within the section of module 5 on Recognising income from legacies?</li> </ol>
<p><b>Section 2</b></p> <p>Responses to the feedback and tentative advice of the Charities SORP Committee -</p>	<ol style="list-style-type: none"> <li>10. Is the Charities SORP Committee content with the proposed amendments to the SORP as summarised in paragraphs 2.27 – 2.30 of this report, being:</li> </ol>

Section of Paper 2	Questions
Materiality and income from donated goods, facilities and services	<ul style="list-style-type: none"> <li>• an amendment to the wording of paragraph 6.6 of the SORP regarding the availability of information to measure donated goods,</li> <li>• the amendment to the location of content on income recognition for donated goods within the SORP, and</li> <li>• the removal of text on assessing the materiality of a donation from paragraph 6.6?</li> </ul> <p>11. Is the Charities SORP Committee of the view that the SORP would benefit from the inclusion of a section on the cost constraint on useful financial reporting in the module on <i>Accounting standards, policies, concepts and principles, including the adjustment of estimates and errors</i>, currently module 3?</p>
<p><b>Section 2</b></p> <p>Responses to the feedback and tentative advice of the Charities SORP Committee - Measurement of income from donated goods</p>	<p>12. Is the Charities SORP Committee content with the proposed amendments to delete paragraph 6.10 of the SORP and amend paragraph 6.6 of the SORP to reflect the approach to income recognition proposed in the FRED?</p>
<p><b>Section 4</b></p> <p>Impact of FRED 82 <i>Draft amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland and other FRSs Periodic Review</i></p>	<p>13. The SORP Committee is invited to consider the potential impact of the FRED as indicated in Appendices 1 and 2 (<i>to paper 2</i>). Does the SORP Committee wish to comment on any of the indicated aspects of the FRED in its response to the consultation on the FRED?</p>
<p><b>Section 5</b></p> <p>Other Drafting Proposals</p>	<p>14. The SORP Committee is invited to consider the list of amendments and in Annex 1 (<i>of paper 2</i>) relating to the other drafting suggestions for the expenditure Modules within the SORP. Are there any further changes the Charities SORP Committee believes are necessary to the modules/sub-sections of modules under consideration (Modules 5 and 6)?</p>

**Summary of discussions on Paper 3 – Presentation of the financial statements (Modules 2 and 4)**

Discussion Point	Comments noted from Committee Members
<p><b>Paper 3, Section 2</b></p> <p><b>Tentative advice provided by the Charities SORP Committee – Sequencing of the SoFA</b></p> <p>Q1: Does the Charities SORP Committee have any further comments on the presentation of the SoFA?</p>	<ul style="list-style-type: none"> <li>• A Committee Member expressed the view that it would be preferable to include comparative figures for a charity's various funds in a note to the accounts rather than on the face of the SoFA. The Secretariat commented that this is unlikely to be permitted under FRS 102 and CIPFA cannot recommend it. Another Committee Member noted that funds are not covered by FRS 102 therefore are different, and commented that extra pages are required to present comparatives on the face of the SoFA. The Committee Member expressed the view that presentation of two SoFAs can be confusing as users of the financial statements have to take care in noting the dates. The Secretariat noted that this issue is not specific to the charities sector. The observer from the FRC commented that the FRC's view is that comparatives should be presented, and suggested that the joint SORP-making body can refer to this issue in its response to the FRED. A Committee Member noted that paragraph 4.2 of the SORP allows for the presentation of comparative information for separate classes of funds in the notes and expressed the view that removing this from the SORP would represent a step backwards. Another Committee Member expressed the view that it will be hard to 'sell' changes to the SORP requirements in this respect.</li> <li>• A Committee Member noted that weblinks are already permitted by the SORP, for example, in paragraph 16.8, and commented that making use of links to webpages will help cut clutter in the accounts. Another Committee Member agreed. The Secretariat noted that as use of weblinks is not an accounting issue, the joint SORP-making body will be able to decide on this matter. The Chair commented that the joint SORP-making body will consider this between meetings.</li> <li>• A Committee Member queried the formatting of Table 2A as it looks like "other recognised gains/losses" appears twice in the table. The Secretariat will review this formatting.</li> <li>• The Chair confirmed that no Committee Members had any comments on the upside-down SoFA.</li> </ul>
<p><b>Paper 3, Section 2</b></p>	<ul style="list-style-type: none"> <li>• Two Committee Members expressed they were content with the recommendation in question 2, but one added that it will raise questions. The Committee Member</li> </ul>

Discussion Point	Comments noted from Committee Members
<p><b>Tentative advice provided by the Charities SORP Committee – Natural classification</b></p> <p>Q2: Does the Charities SORP Committee agree with the Secretariat’s recommendation to differentiate between natural classification analysis and activity-based analysis with reference to expenses only based on precedents set in standards? If not, how can the draft SORP be amended?</p> <p>Q3: Is the Charities SORP Committee content with the amendments made to paragraph 4.5 and Table 2a to better reflect the reporting burden for charities adopting the tier 1 natural classification approach to analysis have over presenting income on the face of the SoFA? If not, how can the draft SORP be amended?</p>	<p>asked if a ‘belt and braces’ approach could be taken. The Secretariat noted that as natural classification of income is not included in other standards, there is a need for caution.</p> <ul style="list-style-type: none"> <li>• The Chair confirmed the Committee was content with the proposed amendments in question 3.</li> </ul>
<p><b>Paper 3, Section 2</b></p> <p><b>Tentative advice provided by the Charities SORP Committee – Materiality</b></p> <p>Q4: Does the Charities SORP Committee consider that there is any alternative approach [to the inclusion of numerical thresholds for materiality in the SORP] (possibly in separate guidance or other educational material) to assisting accounts preparers with materiality?</p>	<ul style="list-style-type: none"> <li>• The Chair questioned whether, when there is flexibility to not include items in the accounts, this could be explained in the SORP.</li> <li>• A Committee Member expressed the view that more explanation of materiality will help. For example, guidance could be written on what to consider (e.g. level of income) when determining what is, and what is not material.</li> <li>• The Secretariat commented that additional explanations can be written, but guidance on what should be considered when establishing materiality should sit outside the SORP. The Chair questioned this and asked whether there could be a way to include guidance in the SORP. The Secretariat expressed the view that examples of material items and indicators are akin to application guidance rather than content suitable for inclusion in the SORP.</li> <li>• A Committee Member expressed the view that a certain amount of guidance in the SORP is essential to avoid the preparers of small sets of accounts being directed to several different documents to get the information they need.</li> <li>• A Committee Member asked whether the current paragraphs on Materiality (3.15 – 3.19) could be expanded to include additional detail, as users of the</li> </ul>

Discussion Point	Comments noted from Committee Members
	<p>SORP know that information on materiality is in this section of the SORP.</p> <ul style="list-style-type: none"> <li>• A Joint Chair noted that the SORP does go beyond the content of FRS 102, and commented that organisations like CFG could pick up on ‘markers’ in the SORP when developing guidance for charities. A Committee Member commented that the Charities SORP can supplement and interpret FRS 102, but cannot replace it, and noted that the SORP does not need to cover all of the same ground as FRS 102.</li> <li>• The Secretariat noted that in addition to financial reporting standards, CIPFA reviewed audit standards and guidance when formulating its advice; it is not aware that any standards include numerical thresholds for materiality.</li> <li>• The Chair commented that ‘thinking small first’, there is a need for the joint SORP-making body to think of actions that can help.</li> </ul>
<p><b>Paper 3 Section 3 Funds – Approach to tiered reporting</b></p> <p>Q5: Is the proposed approach an appropriate approach to tiered reporting for module 2? The SORP Committee is invited to consider</p> <p>a) whether any additional reporting requirements might apply to any of the tiers for accountability or transparency.</p> <p>b) whether disclosure requirements could be reduced for tier 1 charities as indicated in paragraph 3.2 of paper 3.</p>	<ul style="list-style-type: none"> <li>• The observer from CCEW identified two disclosure requirements that could be removed for charities in tier 1 (requirements to disclose a summary of the assets and liabilities of each category of fund and details of the planned use of any material designated funds).</li> <li>• A Committee Member expressed the view that all disclosure requirements should apply to charities in all tiers. Another Committee Member agreed, commenting that the information is useful e.g. to funders.</li> <li>• The Chair agreed that it would be useful to require all charities to disclose the information.</li> <li>• The Chair confirmed that Committee Members did not have any suggestions for additional reporting requirements.</li> </ul>
<p><b>Paper 3 Section 3 Funds – Separate section on Tangible fixed assets funded through an appeal, grant or donation</b></p> <p>Q6: Is the Charities SORP Committee content with the new location of the content on tangible fixed assets funded through an appeal, grant or donation?</p>	<ul style="list-style-type: none"> <li>• The Chair confirmed the Committee was content with the proposed amendment.</li> </ul>
<p><b>Paper 3 Section 3 Funds – Disclosure of movements in funds</b></p>	<ul style="list-style-type: none"> <li>• A Committee Member expressed support for the amendments to the table and suggested that the table should be further amended by positioning unrestricted</li> </ul>

Discussion Point	Comments noted from Committee Members
<p>Q7: Is the Charities SORP Committee content with the proposed amendments to the outline summary of fund movements table? Does the Committee have suggestions to further improve this table?</p>	<p>funds above restricted funds to match how funds are presented on the balance sheet.</p> <ul style="list-style-type: none"> <li>• Another Committee Member agreed this suggestion would lead to a better presentation.</li> <li>• The Chair agreed that the table be adjusted as suggested.</li> </ul>
<p><b>Paper 3 Section 3 Funds – Use of the term “Capital”</b></p> <p>Q8:</p> <p>a) Does the Charities SORP Committee consider there is potential for confusion with respect to the use of “capital” in the SORP?</p> <p>b) Is the Charities SORP Committee content that cross-referencing “capital” (when used in the context of endowment funds) to the glossary will adequately reduce the potential for confusion? If not, what further amendments to the SORP does the Charities SORP Committee recommend?</p> <p>c) Does the Charities SORP Committee recommend that the glossary definition of capital should be amended to clarify that it does not refer to expenditure on fixed assets when used in the context of funds?</p>	<ul style="list-style-type: none"> <li>• A Committee Member agreed that there is potential for confusion and suggested the SORP should consistently refer to “endowment” funds, reserving use of the term “capital” for when it is used in a legal sense per the glossary.</li> <li>• A Committee suggested it would be useful to include the two different meanings of “capital” (i.e. both the accounting and legal meanings) in the glossary.</li> <li>• A Joint Chair noted that the two different meanings of “capital” has caused confusion in Scotland, where work has been undertaken to unpick the meaning of “capital funds”. The Secretariat commented that it would be beneficial for CIPFA to be able to consider this work.</li> <li>• Referring to part (c) of the question, the Chair concluded that the joint SORP-making body would take forward the suggestion to include an additional (accounting) explanation of “capital” in the SORP glossary.</li> </ul>
<p><b>Paper 3 Section 3 Funds – Use of “specific trusts”</b></p> <p>Q9: Is the Charities SORP Committee content to remove references to “specific” trusts from this paragraph of the SORP?</p>	<ul style="list-style-type: none"> <li>• The Chair stated that the legal team from one of the regulatory bodies has been contacted to determine if it is appropriate to refer to “specific” trusts in the SORP. The term will be removed from the SORP if the legal team agree.</li> <li>• A Committee Member noted that there is such thing as a “specific purpose trust”.</li> </ul>
<p><b>Annex 1</b></p> <p>Q1: Is the Charities SORP Committee content with the proposed definition of “general funds”?</p>	<ul style="list-style-type: none"> <li>• The Chair confirmed that Committee Members were content that the proposed definition of “general funds” be included in the glossary. The Secretariat asked Committee Members to consider whether this proposed definition would create a contradiction with the definition of “free reserves” that had been considered at previous meetings.</li> </ul>



Discussion Point	Comments noted from Committee Members
	<ul style="list-style-type: none"> <li>• The Chair invited comments on the rest of Annex 1. Comments were made by Committee Members as follows: <ul style="list-style-type: none"> <li>○ In paragraph 4.44 of the Appendices, reference is made to income being released from the permanent endowment fund. A Committee Member questioned whether the use of “permanent” is necessary. The Secretariat will review this.</li> <li>○ A Committee Member offered to email detailed suggestions for paragraphs 2.15 and 2.16 to the Secretariat. Thought is needed; for example, if a charity receives a grant for a specific purpose, the restricted fund might be negative until the fund is ‘topped up’ with unrestricted funds.</li> <li>○ There is still some use of the word “gift”, e.g. in paragraph 2.18.</li> <li>○ Suggested that the first sentence of paragraph 4.3 <i>[on requirements to present comparative figures]</i> is removed, as the content is already stated in Module 3 and it may cause confusion to repeat the content here. However, another Committee Member expressed the view that the first sentence of paragraph 4.3 provides context for the rest of the paragraph, therefore should remain in place. The Chair concluded that the joint SORP-making body would consider this point in the context of consideration of comparative information.</li> <li>○ A Committee Member questioned the removal of paragraph 4.28. The Secretariat explained that it has been proposed that the paragraph is removed as it refers to the analysis of income by activity, which is not a common way to describe the analysis of income across financial reporting standards, and noted that the existing income headings are still included in the SORP. The Secretariat further noted that the paragraph could potentially be left in the SORP if the objective is to require full costing of activities. There was agreement that the paragraph should be reinstated but noted that there is a need for clarity where charities are adopting the natural classification approach.</li> </ul> </li> </ul>