

Charities SORP Committee Minutes

Date	13 August 2015	
Venue	CIPFA Offices, 77 Mansell Street, London	
Joint Chair	Laura Anderson Nigel Davies	<i>OSCR Charities Commission in England and Wales</i>
Members Present	Sarah Anderson Caron Bradshaw Richard Bray Michael Brougham Pat Dennigan Mark Hill Noel Hyndman Carol Rudge Joe Saxton Jenny Simpson Darren Spivey Mark Spofforth	<i>Deloitte LLP CFG Cancer Research UK ACIE Focus Ireland Sainsbury Family Charitable Trusts Queen's University, Belfast Grant Thornton nfpSynergy Wylie & Bissett LLP Royal National Lifeboat Institution Spofforths Chartered Accountants</i>
In attendance	Alison Scott Anne Davis Una Ní Dhubhghaill	<i>CIPFA, Secretary to the SORP Committee CIPFA, Secretary to the SORP Committee Charity Regulatory Authority</i>
Apologies	Jenny Carter Tom Connaughton Pesh Framjee Geoff Hunt Simon Ling Kenneth McDowell Fiona Muldoon Sheila Nordon	<i>FRC The Rehab Group Crowe Clark Whitehill, Technical Advisor to CIPFA Secretariat Wolfson Foundation National Association of Almshouses Chiene & Tate Charity Commission Northern Ireland ICTR</i>

1 Welcome, Apologies for absence and declarations of interest

- 1.1 Laura Anderson welcomed members to the meeting.
- 1.2 Apologies for absence were received from Jenny Carter, Tom Connaughton, Pesh Framjee, Geoff Hunt, Simon Ling, Kenneth McDowell, Fiona Muldoon and Sheila Nordon.
- 1.3 Laura Anderson asked if there were any declarations of interest to be made. No declarations of interest were noted by members.

2 Approval of the minutes

The minutes of the meeting on 26 May 2015 were considered and approved.

3 Consultation Update

- 3.1 Nigel Davies asked Committee members for their feedback on the consultation of the Charities SORP (FRS 102) and the consultation on the replacement of the Charities SORP (FRSSE), which close on 18 September 2015
- 3.2 The Joint SORP-making body and Committee members have been actively promoting the consultation by the following communication channels:
 - Articles in newsletters
 - Events e.g. Charity Commission included it as an item at its public event in Birmingham on 9 July which was attended by 90 delegates
 - Email communications
 - Websites
 - Twitter feeds
- 3.3 In addition to the above activities, ICAEW, ACCA and CIPFA are planning webinars to promote the SORP consultations and encourage feedback.
- 3.4 Feedback from the regulators in Northern Ireland and the Republic of Ireland was that the focus in these jurisdictions has been on developing the legal framework and accounting regulations necessary to make the SORP a mandatory requirement for charity reporting, rather than focusing on promotion of the SORP consultations.
- 3.5 Anne Davis reported that, to date, only one response to the SORP consultations has been received. The SORP Committee discussed possible reasons for the limited feedback on the consultations which were as follows:
 - the summer holiday period is usually a quiet time of the year for consultation responses;
 - most large charities are not affected by the proposals, and therefore may not be responding to the consultations because of this; and
 - there appears to be no negative feedback on the proposals and an understanding of the suggested way forward for the replacement of the SORP (FRSSE). If charities and their advisors are broadly happy with the consultation proposals, they are less likely to respond to the consultations.
- 3.6 It is hoped that more responses to the consultations will be received by 18

September 2015. Committee members were asked to continue to promote the consultations in order to encourage feedback from charities and their advisors.

4 Developments in the digital display of accounts

4.1 Nigel Davies introduced this agenda item by referring to paper 2, the project report by the The Financial Reporting Council's (FRC's) Financial Reporting Lab ("the Lab") [Digital present: current use of digital media in corporate reporting](#) which was published in May 2015. The report summarises investors' views on digital communication used by companies in corporate reporting. While the audience for charity accounts may be different than in the corporate world, some of the key findings in the report about digitalisation of annual reports and other forms of communication for financial and non-financial information may be relevant to the Committee when thinking about topics to inform the development of the SORP.

4.2 The key points from the discussion by the Committee were as follows:

- it is important to understand how individuals access and use information and in what level of detail. In general, individuals only read what is of interest to them.
- understanding the age profile of users of financial and non-financial information is a potential influencer of different formats for financial and non-financial information;
- different formats can be used for different purposes e.g. the annual reports and accounts are often found in pdf but other types of communication relating to financial and non-financial information can be communicated via other communication channels such as websites and social media channels.
- some digital formats have limitations in how they can be used, depending on how they were set up and the type of software available to users. For example, pdf files have limited reviewing/feedback functionality.
- There was strong support for giving charities flexibility in the way they use the available technology and communication channels rather than including guidance on this matter as part of any future developments for the SORP. The SORP Committee did not support incorporating guidance on digitalisation as part of the SORP or other requirement for the preparation of the annual report and accounts.
- In addition, there was strong support for having a set of annual accounts and report in one document and making this as accessible as possible. Monitoring and compliance difficulties are likely to arise if the information contained in the annual report and accounts is dispersed throughout different parts of a charity's website or via other communication channels, instead of being held in one place in the annual report and accounts, a document which is readily accessible.

5 Reporting Social Value

5.1 Nigel Davies introduced the agenda item by referring to paper 3, Measuring and Reporting Social Value. He also welcomed John Maddocks from CIPFA to the meeting.

5.2 John Maddocks gave a presentation to the Committee on measuring and

reporting social value. In September 2015, CIPFA will be publishing Social Value: Defining, Delivering and Reporting, which aims to bring together all the different approaches for measuring and reporting social value. The publication also incorporates the feedback CIPFA has received from various round table discussions on the subject.

5.3 The key points from the presentation are summarised below:

- there has been a noticeable increase in interest in measuring and reporting social value by charities, funders and commissioners. One of the reasons for the recent growth in interest in social value is the Public Services (Social Value) Act 2012, which requires certain public authorities at the pre-procurement phase of procuring services to consider:
 - how what is being procured might improve the economic, social and environmental wellbeing of an area; and
 - how the authority might secure that improvement in the procurement process itself.
- The Act does not include a definition of social value and there are different approaches and tools for measuring and reporting social value. Some approaches focus on service users and/or organisation and some focus on providing information to external stakeholders. Other approaches emphasise corporate social responsibility.
- Reporting and measuring social value has significant challenges, including:
 - different definitions of social value, what is measured and what is reported;
 - difficulties in attributing outcomes to a particular initiative;
 - lack of balance and comparability in measurement and reporting;
 - different perceptions of social value for example, the social value to the user of services may not be the same as the social value to the organisation.
- Whether a framework and a standard for measuring and reporting social value are needed is open to debate. There are benefits associated with standardisation but one size may not fit all and differing organisations may have differing levels of resources available to devote to measuring and reporting social value.

5.4 Nigel Davies thanked John Maddocks for his presentation. The Committee then discussed the key points from the presentation. A summary of the discussion is as follows:

- The Committee were of the view that it is important to keep abreast of reporting developments since it may influence the future development of the SORP.
- However, there were mixed views as to whether the SORP is the right place to include guidance on measuring and reporting social value because of the challenges involved in defining, measuring and reporting social value and also providing assurance on those measures. In addition, measuring and reporting social value relates to a particular context, normally delivery of public services, which may not be relevant to all charities.
- Some members of the Committee were of the view that social value is similar to public benefit. Charities operating in England and Wales are required to report on public benefit and therefore, it may not be appropriate to include a requirement of reporting on social value in future developments of the SORP.

- Some members of the Committee were of the view that the SORP could encourage charities to think about the theory of change and how to measure their activities and impact but were uncomfortable with having a requirement of measuring and social value as a possible future development of the SORP.

6 Discussion topics to inform the development of the SORP

6.1 Nigel Davies introduced this agenda item by referring to paper 4, discussion topics to inform the development of the SORP. The Committee were invited to feedback to the joint Chairs on their thoughts for future topics to inform the development of the SORP.

6.2 The Committee's discussion on future topics to inform the development of the SORP was wide-ranging. The key points discussed were as follows:

- The purpose of the annual report and accounts and target audience. Some members of the Committee were of the view that the annual report and accounts is aimed at an audience with sophisticated knowledge of financial information and that perhaps some simplified reporting is needed for the general public, such as an executive summary and/or a simplified SoFA.
- Some Committee members were of the view that it was important to consider other types of reporting frameworks and standards in other sectors for future topics for the development of the SORP. This could include:
 - the general financial reporting principles contained in [IFAC's Public Sector Conceptual Framework](#) ;
 - Integrated Reporting in the corporate world, which focuses on the communication of value creation by organisations to its key stakeholders.
 - Reporting developments on impact reporting, such as Social Return on Investment.
- The Committee were of the view that it is important for charities to tell their story in their annual report and accounts. Noel Hyndman reminded the Committee of previous research published in 2009 [Charity Reporting and Accounting: Taking Stock and Future Reform](#), Charity Commission/Office of the Scottish Charity Regulator (OSCR), which supports this view and also referred to academic research in this area which may help when thinking about future developments in the SORP.
- There was a general discussion on how to deal with hot topics publicised by the media such as fundraising policies, Chief Executive Salaries, government funding and supply chain monitoring for issues such as modern day slavery. Some members of the Committee were concerned that media issues could drive charity reporting.
- One possible topic for discussion in future developments of the SORP is how to better explain the value of assets held for charitable use in charities. Readers of the accounts when looking at a charity's balance sheet may interpret the charity as being wealthy if it has a significant amount of assets which are normally classified as unrestricted funds. The assets are essential to the operation of a charity and very often these types of charitable assets are not a reflection of a charity's wealth.
- Another area that could be considered for future SORP developments

is reserves policy and the narrative associated with the policy as a way of explaining a charity's apparent wealth.

- The Committee were of the view that an area that could be considered for future SORP developments are fundraising statistics and information, for example, out of every £1 donated, X% goes direct to the cause. The Committee were of the view that guidance on how this statistic could be calculated would further enhance the comparability and robustness of financial information.
- It was also suggested that the accessibility of annual reports on the website may be a topic for future discussion for SORP developments. The ICAEW used to run an [Online Charities Financial Reporting and Accounts Awards](#) which provided guidance in this area regarding accessibility, clarity and impact of annual reports and accounts online.

6.3 Nigel Davies thanked the Committee for their input which will help to update the discussion paper for future SORP developments. This agenda item will be discussed again at the next SORP Committee meeting.

AD

7 Update from the FRC

7.1 Jenny Carter, FRC, was not available to attend the meeting and provided an update by email. The key points in her update are as follows:

- The Financial Reporting Council issued on 16 July 2015 the following new accounting standards of particular interest to the Committee:
 - new standard, FRS 105 *The Financial Reporting Standard applicable to the Micro-entities Regime*;
 - new Section 1A *Small Entities* of FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
 - other changes necessary for continued compliance with company law.
- The main changes are effective for accounting periods beginning on or after 1 January 2016, with early application permitted for accounting periods beginning on or after 1 January 2015.
- The key changes are as follows:
 - Confirmation of the withdrawal of the FRSSE and the new regime for small entities, as well as a few other changes to FRS 102.
 - Introduction of the small entity exemption from preparing a cash flow statement;
 - Changes to FRS 102 regarding merger accounting, included in amendments made to Appendix IV: Note on legal requirements as well.
 - Change to the definition of related parties (and associated disclosure change), and
 - The change to disclosure in the extremely rare cases where disclosure of provisions and contingencies might be seriously prejudicial.
- Revised editions of the standards, incorporating these amendments, are expected to be available in September 2015.

7.2 Anne Davis to circulate Jenny Carter's update email to the SORP Committee members. **AD**

8 Discussion – timeline to a future Charities SORP (FRS 102) for 2018 or later

8.1 Nigel Davies informed the Committee that based on FRC's plans to update FRS 102, the earliest date that a new SORP will be issued is likely to be 2019. Therefore, the SORP Committee has some time to consider future developments for the SORP.

8.2 Based on the Committee's discussion on future developments at the meeting and timescales for updating FRS 102, the consultation on topical issues that the SORP should look at in the future, has been postponed from September 2015 to early 2016. This would allow the Joint SORP-making body, in partnership with the SORP Committee, more time to discuss possible ideas to inform future changes to the trustees' annual report and disclosure notes in the accounts.

8.3 Nigel Davies will update the SORP microsite to reflect that changes in the timings for issuing the discussion papers on future developments of the SORP. **ND**

9 Any other business and dates for next meetings

9.1 The next Committee meeting will be on **14 October, 1.30-4.30 pm at CIPFA Offices, 77 Mansell Street, London E1 8AN**. A light lunch will be served at 1-1.30 pm.

9.2 The joint Chairs suggested that the venue for the meeting for the 17 November might be Edinburgh instead of London. Given that the change of venue is short notice, Anne Davis will request feedback on the SORP Committee members' availability to attend the meeting should the venue be changed to Edinburgh. A decision regarding the venue location for the 17 November meeting will be made by the joint Chairs, taking into account feedback from the Committee. **AD**

9.3 There was no other business and the meeting closed.