

Charities SORP Committee Minutes

Date	17 November 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 Tom Connaughton Pat Dennigan Mark Hill Geoff Hunt Noel Hyndman Simon Ling Kenneth McDowell Carol Rudge Joe Saxton Jenny Simpson Darren Spivey	<i>Deloitte LLP CFG Cancer Research UK ACIE The Rehab Group Focus Ireland Sainsbury Family Charitable Trusts Wolfson Foundation Queen's University, Belfast National Association of Almshouses Saffery Champness Grant Thornton nfpSynergy Wylie & Bissett LLP Royal National Lifeboat Institution</i>
In attendance	Mei Ashelford Jenny Carter Anne Davis Pesh Framjee Fiona Muldoon Una Ní Dhubhghaill Alison Scott	<i>FRC FRC CIPFA, Secretary to the SORP Committee Crowe Clark Whitehill, Technical Advisor to CIPFA Secretariat Charity Commission Northern Ireland Charity Regulatory Authority CIPFA, Secretary to the SORP Committee</i>
Apologies	Sheila Nordon Mark Spofforth	<i>ICTR Spofforths Chartered Accountants</i>

Action

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 Sheila Nordon and Mark Spofforth.
- 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 and matters arising

- 2.1 The minutes of the meeting on 14 October 2015 were considered and approved.
- 2.2 Laura Anderson gave an update on matters arising from the previous meeting which are not covered by the agenda for this meeting. The updates were as follows:
- Raising standards of annual reports and accounts and education: this will be discussed further as part of the syndicate sessions on key issues for SORP research (agenda items 5 and 6).
 - The SORP making- body needs to action the suggestion that it writes to the panel led by Sir Stuart Etherington to clarify the statement in the report: *Trust in charities, confidence in fundraising regulation* that fundraising expenditure is readily available from charity accounts submitted to the Charity Commission.
- 2.3 The SORP Committee were informed of the latest version of Bulletin 1. The Committee discussed the following points regarding Bulletin 1:
- Implication of the effective date of Bulletin 1. Jenny Carter noted that the impact of having one effective date for the Bulletin (reporting periods on or after 1 January 2016) may be that some charities that were previously large would not fall into the category of larger charity for a period, and then from 1 January 2016 would be classified as large again. Nigel Davies responded that feedback from the consultation process suggested that respondents found it confusing to have two different effective dates for different items in the same Bulletin. In addition, the Charities SORP amendments in the past have never been retrospective, and the implications had been considered in the Charity Commission's CC15c.
 - Richard Bray raised concerns regarding the practical implications of charitable companies applying a true and fair override to use merger accounting in certain circumstances. There were concerns regarding the potential for different interpretations and applications, which will be a matter of judgement. While differences in interpretation may happen, Nigel Davies suggested that some of these concerns might best be dealt with by issuing an information sheet.

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No other matters were raised regarding Bulletin 1. Bulletin 1 will now be considered by CAPE at their meeting on 1 December 2015.

3 Verbal Update from FRC

- 3.1 Jenny Carter provided a verbal update to the Committee on FRC's work. FRC's work regarding the implementation of the EU Accounting Directive is now complete. Since July 2015, the FRC has issued FREDs but these do not have an impact on charities.
- 3.2 The expectation by the FRC is that there will no changes to the accounting standards that will affect charities before the triennial review of FRS 102. The timings for the triennial review are likely to be such that any new standards are effective on or after 1 January 2019. The Charities SORP

Committee, as well as other SORP Committees, will be involved in the feedback process as part of the triennial review when appropriate.

4 Transparency Awards Panel Findings

- 4.1 This agenda item has been postponed to the next Committee meeting in February 2015. Nigel Davies to follow up with Ian Oakley-Smith. **ND**

5 Syndicate session: key issues for SORP research (Committee discussion)

- 5.1 Prior to the Committee discussion, Laura Anderson asked Geoff Hunt and Joe Saxton to introduce the papers they circulated to the Committee to aid discussion on possible topics for the SORP discussion paper on the development of the SORP.

- 5.2 Geoff Hunt circulated to the Committee examples of some of the weaknesses he sees in the annual report and accounts of charities that apply for grants from the Wolfson Foundation. Some of the key weaknesses which were highlighted were:

- Trustees' Annual Report:
 - poor narrative on operating results; and
 - poor and inaccurate reserves assessment and policy.
- SoFA:
 - confusing presentation in the SoFA;
 - difficulties in being able to analyse operating surplus/deficit because capital and revenue items are mixed up in the SoFA; and
 - difficulties in being able to analyse fundraising costs.

- 5.3 Joe Saxton introduced the research on "*Is the length of charity annual reports related to the size of charity?*" undertaken by nfpSynergy in October 2015. Some annual report and accounts are 177 pages long and others are 23 pages. The research concluded that there was no correlation between the length of a charity's annual report and accounts and the size of the charity. Joe is particularly interested in discussing how reports can be produced which can be understood by a lay-person.

- 5.4 Laura Anderson then asked the Committee to discuss possible research topics in pre-assigned syndicate groups based on the feedback paper that had been circulated prior to the Committee meeting.

6 Syndicate feedback and next steps in the SORP research

- 6.1 Laura Anderson asked each of the syndicate groups to provide feedback on the top 4 research topics that they felt were important to be included as part of the research topics for future development of the SORP.

- 6.2 The suggested research topics from all the syndicate groups are summarised in the paragraphs below.

6.3 Trustees report / Narrative reporting

- Better integration of the Annual Report with the Accounts. The Trustees' Annual Report should be better linked to the annual accounts, drawing on material themes. We need to help preparers to tell their story, perhaps by providing them with guidance notes, prompts and best practice examples.
- There is plenty of detail which is required as part of the Trustees' Annual Report. One key area of concern is how to encourage preparers of accounts and professional advisors to cover these areas in sufficient detail to be helpful to the readers of the annual report and accounts, including funders.
- Better reporting of operating results in the Trustees' Report to show the actual operating position for the charity.
- The new SORPs have adopted a more prescriptive approach for larger charities for reserves reporting. However, perhaps this could be revisited in light of themes arising out of the implementation of the new SORPs. Suggested additional guidance on reserves could cover the following areas: why reserves are held and possible reasons for using reserves and how reserves are calculated (not just a monetary amount stated in the Trustees' Annual Report).
- Introducing requirements to report on data protection compliance in the Trustees' Annual Report could have practical implications for auditors and independent examiners resulting in higher fees. There are other legislative requirements on charities that are not required to be mentioned in the Trustees' Annual Report.

6.4 **SoFA**

- Better definitions of support costs and fundraising costs might be beneficial since it might increase consistency across the sector. In addition, fundraising costs are hard to identify from the annual report and accounts. Concerns were raised by the Committee that even if guidance on fundraising was improved, this may not necessarily lead to consistency and change in the sector.
- The mixture in the SoFA between revenue and capital items needs to be considered. Capital funding is being recorded as income in the year of receipt and the depreciation on the relevant assets being charged as normal, resulting in huge fluctuations in reported results. This has impacted hugely on some charities over the years. Due to this mix, from a funder's perspective, it is difficult to understand the ongoing surplus/deficit of a charity. It might be helpful to include an additional column in the SoFA for capital items e.g. fixed assets restricted/unrestricted column and/or better disclosure in this area. Currently most charities create a designated fund equal to the net book value of unrestricted assets to highlight how much is tied up in capital items. However, this information is only detailed in the notes to the accounts and perhaps should be more obvious on the face of the SoFA. A combination of this and additional guidance on reserves may help to address the reporting issues of mixing revenue and capital items in the SoFA.

- More guidance and examples are needed for grant income recognition, particularly the distinction between what constitutes a performance condition and how to measure performance.
- More examples on how to account for multi-year grants and legacies would be helpful.
- Given that the general public is interested in the annual report and accounts of a charity, it might be helpful to include a simple summary containing key information after the Trustees' Annual Report. The content for this summary could be similar to the Charity Commission overview report available on the website.
- Issues from the implementation of the new SORP (s) could be considered as part of the possible topics for future SORP development.

6.5 **Statement of Cash Flows**

- Could consider presenting the Statement of Cash Flows by fund types – restricted, unrestricted and endowments.

6.6 **Next Steps**

Nigel Davies thanked the Committee for their suggestions. It is intended that the SORP making-body issue a discussion document on ideas on future changes to the trustees' annual report and accounts in 2016. The discussion document will be available for public consultation for a period of 6 months and will seek to identify topics for possible development in the SORP. The consultation will conclude in December 2016. Updates to the next SORP are to synchronise with FRC's triennial review of FRS 102 which is anticipated for 2019.

7 SORP making-body Annual Review letter to FRC

7.1 Nigel Davies introduced the Committee to the draft Annual Review letter to FRC. This letter is an annual requirement on the SORP making-body to report back to FRC on how it ensures that the SORPs continue to be consistent with the underlying UK-Irish GAAP and addresses any sector or implementation issues.

7.2 The Committee had no comments on the draft Annual Review letter to FRC.

8 Any other business and dates for next meetings

8.1 The next Committee meeting will be on **3 February, 1.30-4.30 pm at CIPFA Offices, in Edinburgh**. A light lunch will be served at 1-1.30 pm. CIPFA Secretariat will circulate dates for 2016 by the end of November.

8.2 As part of any other business, the points raised and discussed were as follows:

- **Implementation issues with new SORP (s):** Some accounting firms are increasing their fees due to implementation costs arising from the new SORP (s) since it is alleged that the new SORP(s) are more complex. Members viewed this as largely unjustified since much of the new SORPs' requirements are simply carried forward from SORP 2005.
- **International Standard for Not-for-profits:** FRC's letter to the consultation by the Trustees of the International Financial Reporting Standards (IFRS) Foundation has not been finalised. Regarding the consultation question on whether IASB should extend its remit to the development of an international not-for-profit standard, it is likely that FRC's letter will recognise the need for an international not-for-profit standard but it will be cautious about the impact on IASB's resources and priorities of developing such a standard.
- **CIPFA's international not for profit event:** There was good response from international standard setters at CIPFA's not-for-profit standards event held in October 2015. There was support for the need to develop an international standard for financial reporting for not-for-profits and commitment by the standard setters at the event to do something, even if the development and subsequent implementation of the standard was voluntary.
- **Recent SORP consultations:** Nigel Davies had a telephone conversation with the Directory of Social Change (DSC) to discuss their concerns over the recent consultation process for the SORP(s). DSC suggested that future consultations should be in one document and use less technical language.

8.3 No other items were discussed.