

# Charities SORP Committee Minutes

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| Date            | 14 December 2016  |  |
| Venue           | CIPFA Offices, 77 Mansell Street, E1 8AN  |  |
| Joint Chair     | Laura Anderson<br>Nigel Davies  | <i>OSCR<br/>Charity Commission in England and Wales</i>  |
| Members Present | Sarah Anderson<br>Caron Bradshaw<br>Michael Brougham<br>Tom Connaughton<br>Pat Dennigan<br>Mark Hill<br>Noel Hyndman<br>Sheila Nordon<br>Joe Saxton<br>Jenny Simpson<br>Darren Spivey | <i>Deloitte LLP<br/>CFG<br/>ACIE<br/>The Rehab Group<br/>Focus Ireland<br/>Regeneris Limited<br/>Queen's University Belfast<br/>ICTR<br/>nfpSynergy<br/>Wylie + Bissett LLP<br/>Royal National Lifeboat Institution</i>  |
| In attendance   | Mei Ashelford<br>John Tracey<br>Alison Scott<br>Easton Bilsborough<br>Pesh Framjee<br><br>James Brooke Turner<br><i>For item 2</i> Melanie Hide                                       | <i>FRC<br/>Charity Commission Northern Ireland<br/>CIPFA, Secretariat to the SORP Committee<br/>CIPFA, Secretariat to the SORP Committee<br/>Crowe Clark Whitehill, Technical Advisor to<br/>CIPFA Secretariat<br/>ACF Observer, The Nuffield Foundation<br/>Royal National Lifeboat Institution</i> |
| Apologies       | Richard Bray<br>Simon Ling<br>Tom Malone<br>Kenneth McDowell<br>Carol Rudge<br>Mark Spofforth   | <i>Cancer Research UK<br/>National Association of Almshouses<br/>Charity Regulatory Authority<br/>Saffery Champness<br/>Grant Thornton<br/>Spofforths Chartered Accountants</i>  |

## Action

### 1 Welcome, apologies for absences and declarations of interest

- 1.1 Nigel Davies welcomed members to the meeting. The committee welcomed Mel Hide from the RNLI, who joined the meeting for agenda item 2, with her colleague and committee member Darren Spivey.
- 1.2 The committee also welcomed James Brooke Turner from the Association of Charitable Foundations (ACF), who joins as an observer to the committee.
- 1.3 Apologies for absences were received from Richard Bray, Simon Ling, Tom Malone, Kenneth McDowell, Carol Rudge and Mark Spofforth.

1.4 Nigel Davies asked if there were any declarations of interest to be made. No declarations of interest were noted by members.

## **2 Presentation RNLi Annual Report and Accounts 2015**

2.1 Mel Hide and Darren Spivey gave a presentation to the Committee where they reflected on the process involved in producing the RNLi Annual Report and Accounts for the year ended 31 December 2015, in light of the charity winning the PwC: Building Public Trust in Corporate Reporting Award for 'excellence in reporting' in Charities for 2016.

2.2 Mel gave a background to the development of the annual reporting process at RNLi. Previously an Annual Review document was produced which was separate from the Trustees' Annual Report and Accounts. The integrated approach now taken, where one document is produced, is considered to have a range of benefits. The 'One Courageous Community' theme which was used for the 2015 Annual Report was introduced and an overview of the process undertaken to produce this document was given.

2.3 Both Mel and Darren outlined the need for integration between the report and the accounts, and gave a number of suggestions about how this was achieved. They considered reporting on governance to be just as important as reporting on the financials. The need for integration was noted as one of the priorities for the document going forward, as the charity aim to build on the success of the 2015 report.

2.4 Nigel Davies thanked Mel and Darren for their presentation. The Committee then discussed the key points from the presentation. A summary of the discussion is as follows:

- Pesh Framjee believed the presentation demonstrated the importance of the 'front end' of the Annual Report and Accounts. Both preparers and auditors have a role in emphasising the importance of this, and it is something that should be done in the SORP itself.
- Noel Hyndman asked about the RNLi's appetite for transparency within the report and whether this involved finding a 'comfort zone' around what was disclosed. Mel noted that RNLi saw the need to be honest and transparent of utmost importance, especially given recent events and changes within the sector.
- James Brooke Turner asked about how the charity tackled impact reporting. Mel saw this as an evolving process for RNLi. It involves asking the 'so what?' questions when looking at the charity's performance and achievements, and also involves all sections of the organisation.

2.5 The committee also enquired about the changes brought in by SORP (FRS 102), which was used by the RNLi in their 2015 report. Darren confirmed the Annual Accounts had increased by approximately 5 to 6 pages as a result of the new FRS 102/SORP requirements, and a substantial amount of time had been spent incorporating the changes brought in by the framework during the year.

2.6 Alison Scott noted that it had been the secretariat's intention to follow this presentation with a session on Integrated Reporting <IR>, an initiative which is being adopted in both private and public sector reporting. However, this would be included on the agenda of a later meeting in 2017. CIPFA are currently working with the International Integrated Reporting Council (IIRC) on the 'Integrated Reporting: Public Sector Pioneer Network', where the <IR> reporting model is being adapted for the public sector.

- 2.7 It was agreed that the slides from the RNLI's presentation would be shared with the committee. Mel offered to take any questions [online](#) which were not able to be answered during the meeting. **EB**
- 3 Approval of the minutes of the meeting of 13 October 2016 (Paper 1)**
- 3.1 The draft minutes of the previous committee meeting were approved, subject to a number of minor amendments.
- 4 Members' matters arising and members' verbal update on their SORP consultation events**
- 4.1 The members of the committee gave details of events and other promotional activities which their own organisations were running and others that they had been involved in or were aware of since the last Committee meeting in October.
- 4.2 The committee were reminded that details of events and articles should be sent to Easton Bilsborough at CIPFA for inclusion in the summary of feedback to be produced. As the consultation had now closed, it was requested that the committee send details (including event attendee numbers, summary notes and the results of any informal votes taken) to Easton by Wednesday 4th January 2017. **Ctte**
- 4.3 Nigel thanked the committee and their colleagues for their efforts in both hosting and facilitating these consultation events. Funding was no longer available for the Charity Commission to host events around consultations itself as a result of changes within the regulator. Therefore as a result the committee's involvement, there had been a high level of participation and response to the research exercise across the whole of the UK.
- 5 Overview of the SORP consultation responses received (Supplementary Paper)**
- 5.1 Easton Bilsborough introduced the supplementary paper which gave an overview of the consultation responses received to the research exercise on the Charities SORP (FRS 102) which closed on Sunday 11 December 2016. This paper would be circulated to the committee electronically following the meeting. **EB**
- 5.2 A total of 161 written responses had been received to the close. This was based on the responses received by Monday 13 December 2016. It was noted that those responses received in the seven days following the consultation closing date are to be included within the research results, as agreed with the joint-chairs. Therefore, the total number of responses is expected to be greater given a number of late submissions are expected. All responses will be available to view on CIPFA's [website](#).
- 5.3 The number of responses received was compared to other Charity SORP-making body's consultations in table B of the paper. Nigel noted that it was difficult to compare this consultation to the research exercise undertaken in 2008/2009 as responses were restricted to notes taken at roundtable events and questionnaires.
- 5.4 Easton explained that no analysis of the responses was available at this initial stage. A report will be produced for the March 2017 Committee meeting which will summarise all responses received and provide an analysis structured around the 5 sections and 15 questions contained the consultation document.
- 5.5 Pesh Framjee thought the number of responses received was surprising as he felt colleagues were 'SORP'd out' after the recent introduction of SORP (FRS 102). Caron Bradshaw echoed this sentiment, with many CFG members feeling 'overloaded' by both the range of proposals within the consultation and its timing

relative to the introduction of SORP (FRS 102) and the planned review of FRS 102.

- 5.6 Nigel Davies was concerned that, as with previous consultations, engagement with the funding community appeared to be an issue. Only 1% of respondents fell into this category. In response, Caron Bradshaw commented that many charities which fund other charities will be included within other categories. For example the ACF's response, which is included within 'Sector Umbrella Bodies'. James Brooke Turner confirmed that the ACF's response involved gathering the view of their board, which includes both users and preparers of charity accounts. However, it was acknowledged that this group does not include public bodies which provide the majority of the sector's funding. Easton Bilsborough highlighted that a number of responses had been received from those involved in commissioning at a local government level, and the consultation had been advertised through CIPFA's Procurement & Commissioning Network (CPCN).
- 5.7 Mark Hill noted the lack of engagement from government and other public funders is likely to be a result of these bodies not using annual accounts and requiring charities to complete forms which contain more detailed financial information. It would be unlikely that charity accounts would be sufficiently detailed to be used by funders as their primary source of financial information, and are used to simply ensure the charities legitimacy. Laura Anderson shared the outcome of the roundtable event held with the Scotland Funders' Forum where many attendees welcomed getting to a stage where funders are able to use charities accounts without the need to request additional financial information.
- 5.8 Engagement with the public was also noted as an issue, with only 2% of respondents falling into this category. Joe Saxton informed the committee that nfpSynergy had run a series of focus groups with the general public who donate to charities around charity reporting and other topics, using the most recent annual report and accounts of Shelter. The results of this exercise should be available next year, and are to be included on the agenda of the March 2017 meeting. These results will be presented separately from the results of the research exercise.

**EB/AS**

## **6 Update from the FRC**

- 6.1 Mei Ashelford provided a verbal update on the development to UK accounting standards.
- 6.2 She opened her update by commending the committee on their approach of consulting on the SORP and analysing this feedback ahead of the forthcoming review and changes to FRS 102.
- 6.3 Mei explained the FRC had recently released two new documents. The first is a Financial Reporting Exposure Draft which proposes limited amendments to FRS 101 and is not relevant to the charity sector. The second is an amendment to FRS 101 and FRS 102 regarding the requirement for a qualifying entity to notify its shareholders in writing where it intends to take advantage of the disclosure exemptions in FRS 101 and FRS 102. This change is relevant to the charity sector and comes from the recent consultation where the requirement for shareholder notification was considered to be no longer cost-effective for entities to comply with. The amendment is effective for accounting periods beginning on or after 1 January 2016.
- 6.4 Mei explained that the requirement is currently included in the draft information sheet (Page 4, Paper 3); however following the amendment to FRS 102 it would no longer be required.

- 6.5 Mei reported that the recent invitation for comments on stakeholder experiences of implementing FRS 102 generated 46 responses. The FRC felt that it had been a successful exercise in generating comments from a range of stakeholders – including smaller accountancy practices.
- 6.6 She noted Phase 1 of the Triennial Review of UK accounting standards was running to time at this stage, with an exposure draft expected in March 2017. It is expected that Phase 1 will not include any significant changes and aims to fix any implementation issues, as detailed in the current FRC [consultation](#).

## **7 Overview of SORP-making body's Workplan 2017-18 (Paper 2)**

- 7.1 Easton Bilsborough gave an overview of the paper which sets out the steps involved were the Committee to recommend issuing a new Charities SORP for reporting periods beginning on or after 1 January 2019. He thanked Mei Ashelford from the FRC for her assistance in developing the paper, and ensuring that the processes detailed in the paper were in line with current FRC policy.
- 7.2 He drew the committees' attention to paragraph 5.4, where three additional meetings for the second half of 2017 were proposed. These additional meetings were considered necessary to ensure sufficient time is spent by the committee reviewing changes to FRS 102 and those proposed amendments to the SORP which come out of the recent research exercise. The meeting will also help ensure the committee remain on track to issue a SORP exposure draft for consultation in early 2018 or an Update Bulletin if simply amending the existing SORP. The committee agreed with the proposed approach and CIPFA would canvas for possible dates in the coming weeks. **EB**
- 7.3 Caron Bradshaw questioned whether the speed of the review cycle would remain on a triennial basis. She was concerned about the instability which having a new reporting framework every three years would bring. Nigel Davies explained that the frequency of change was dependent on the pace at which the FRC review FRS 102. However, where the amendments made to the accounting standards are more minor in nature, a completely new version of the SORP may not be required and an Update Bulletin may be sufficient. Mei Ashelford confirmed that it was the intention of the FRC to undertake a second review of UK accounting standards in 2020-2022, and for reviews to remain on a triennial basis. This was being proposed given the continual developments in IFRS and consideration as to how these developments should be reflected in UK GAAP. She noted that this approach is currently being consulted on.
- 7.4 James Brooke Turner enquired as to whether the same process of review of the SORP is required for a major review versus a minor review, and the possibility of a 'lighter touch' approach being taken by the FRC. Nigel Davies explained that there was a shortened process available where the SORP-making body simply wished to make consequential amendments to the SORP to reflect changes in accounting standards or legislative or regulatory requirements by way of an Update Bulletin.
- 7.5 This led onto a discussion around the changes which can be brought in by an 'Update Bulletin', versus an 'Information Sheet', and versus the issue of a new SORP. Previously the SORP-making body has limited one 'Update Bulletin' per SORP. This approach was taken on the basis that changes made by updates result in users having to refer to both the underlying SORP and also any 'Update Bulletins' when applying the framework. Having more than one update has the potential to confuse preparers of accounts. Parliament also has to adopt specific standards, i.e. amend the relevant legislation to refer to the latest version of the SORP. These changes can take a considerable amount of time, as seen currently seen with The Charities (Accounts and Reports) Regulations 2008 in England and Wales. As an 'Update Bulletin' is additional to the SORP, it would need to be

specifically included within the references to the accounting framework within legislation.

- 7.6 Nigel Davies noted that the option to simply amend the current SORP to reflect the changes of both phases of the triennial review 2017 by way of a second Update Bulletin did remain. However where the committee wishes to make changes to the existing SORP, a new SORP may be required to be issued. The decision on what changes are required would be dependent on the results of the recent SORP research exercise and also the changes brought in by Phase 1 of the triennial review.
- 7.7 It was noted that the Phase 2 exposure draft will set out more significant changes to FRS 102. Whilst this will be consulted on in 2017, these more fundamental changes will not be effective until 1 January 2022. This was being done to give preparers more time to prepare for these changes. Nigel explained that this presented a number of options for making changes to the SORP:
- Issue an 'Update Bulletin' for the changes brought in by Phase 2, which amends the new SORP 2019
  - Issue a new SORP for the changes brought in by Phase 2, which replaces SORP 2019
  - Issue an Update Bulletin and subsequently issue a new SORP for 2022 the changes brought in by Phase 2 and also the deferred changes brought in by the triennial review, which replaces SORP 2019
- 7.8 As the final version of the Phase 2 amendments to FRS 102 will be issued by the FRC at the end of Q3 2018, there is also a number of options around early adoption.
- 7.9 He noted that as the triennial review of UK accounting standards represents a change from the previous process used by the FRC to update UK GAAP, the Charities SORP Committee was in a position which it had never previously encountered.
- 7.10 It was agreed that CIPFA would prepare a paper which sets out the options for updating the SORP in more detail for a subsequent meeting. This would allow the Committee to debate the approach which it would advise the SORP-making body takes.

**EB/AS**

## **8 Draft wording of Information Sheet (Papers 3 & 4)**

- 8.1 Easton Bilsborough talked through the Committee through the proposed changes to the Information Sheet as set out in Paper 4.
- 8.2 The following conclusions were reached regarding the additional topics:
- The draft wording for the '*Treatment of income 'clawed back' by funders*' would be included in the information sheet.
  - The draft wording for the '*Measurement of investment properties*' by funders' would be included in the information sheet.
- 8.3 Pesh Framjee commented that the wording of the second topic does not deal with the subsequent treatment of the investment property component where a charity takes advantage of the exemption provided in section 10.47 of the SORP and paragraph 16.1 of FRS 102. In those instances where a charity initially fair values the investment property component, but subsequently ceases to do so (on the basis of it cannot be measured 'reliably without undue cost or effort on an ongoing basis'), the component is declassified as an investment property and included within property, plant and equipment using the cost model. He queried

whether the investment property component should continue to be held at fair value.

8.4 This was seen as being based on the user's interpretation of 'ongoing basis' and the judgement of the charity in determining the frequency by which the component should be revalued. The FRC queried why a charity would be suddenly prevented from measuring the component at fair value, when it had done so in the previous reporting period. Pesh Framjee noted that this was encountered where charities were paying professional valuations fees on an annual basis, which was considered as a poor use of charitable funds by trustees. It was noted that such valuations do not have to be undertaken by a professionally qualified valuer (per paragraph 10.56). In addition, where the charity does not believe the methods and significant assumptions which were applied in determining the fair value have changed from the previous reporting period, this value can continue to be used – provided the charity's assessment of the appropriateness of this value is disclosed.

8.5 The following conclusions were reached regarding the removal of topics:

- The worked example which illustrates the accounting treatment for a cash flow hedge by charities based on the example contained in FRS 102 would not be included in the Information Sheet. However, the example would be included on CIPFA's website, and circulated through other means. It was noted that as the example will not be included within the Information Sheet, it will not constitute guidance which has been issued by the Charities SORP-making body.
- It was agreed not to include those topics which cover the accounting and reporting regulations for charities reporting in the Republic of Ireland (RoI). The Committee agreed with the proposal to issue a separate Information Sheet once the RoI Charities (Accounting and Reporting) Regulations 2016 are brought in.

**EB/AS**

8.6 The committee considered the draft wording page by page. A number of typographical errors were noted and the following amendments noted:

Parent charity as a qualifying entity and exemption from parent only cash flow

8.7 Mei Ashelford noted the provision contained within paragraph 1.11(a) of FRS 102 has now been removed. Therefore this wording should be updated accordingly.

Treatment of loss on disposal of a tangible fixed asset

8.8 Pesh Framjee commented that there could be a potential complication where a charity has used an asset for a variety of purposes. In such cases, the asset's depreciation/amortisation/impairment losses may have been allocated between a number of activities, as well as the basis of allocation having also changed between reporting periods. He suggested the wording is changed so charities allocate realised losses using the principles used in the current and prior reporting periods only leading up to the assets disposal. This will limit the extent to which complex calculations are required to allocate losses in these situations.

Definition of a larger charity

8.9 Nigel Davies asked that the requirement to apply Update Bulletin 1 should be changed from 'should' to 'must' as the amendments in the bulletin apply to all charities which follow the SORP for reporting period beginning on or after 1 January 2016.

Thresholds for charities reporting in the Northern Ireland under the Charities (Accounts and Reports) Regulations (Northern Ireland) 2015 and the Charities Act 2008 (Substitution of Sums) Order (Northern Ireland) 2015

- 8.10 Michael Brougham suggested that the wording for the threshold for the preparation of accrual accounts and consolidated (group) accounts should be changed to read 'gross income over...' to ensure consistency with the relevant legislation.
- 8.11 Nigel Davies then noted that a further matter has been raised by Pesh Framjee before the meeting around the requirement for a fair value reserve for charitable companies. Pesh explained that paragraphs 15.23 and 15.24 of the SORP require charitable companies to have a fair value reserve on the face of the balance sheet. The SORP states this is a requirement of the UK Companies Act 2006. He expressed the view that FRS 102 (paragraph A4.28, Appendix 4) is explicit in stating that a fair value reserve is not required in the financial statements of entities complying with Company Law.
- 8.12 Nigel explained the source of the guidance in the SORP where the Company Law requirement for a fair value reserve was signposted. He agreed that this should be revisited, and would be happy to provide sections of legislation which were originally used when drafting the requirement. ND
- 8.13 The committee agreed the requirement should be clarified in the Information Sheet, given it affects a large number of charitable companies. The Information Sheet should make it clear where charitable companies are able to opt out from the requirement for a fair value reserve. The wording would be agreed between the chairs, secretariat, technical advisor to the secretariat and the FRC. This would then be circulated to the committee within the final 'fatal flaw' draft of the Information Sheet.
- 8.14 Jenny Simpson recommended that the Information Sheet be published if possible in January 2017. This would allow it to be used by charities preparing their accounts for periods ending on 31 December 2016.

**9 SORP-making body response to FRC Consultation**

- 9.1 Easton Bilsborough gave an overview of the paper, which gave a summary of the current FRC consultation on their proposed approach to the first triennial review and the response proposed by the SORP-making body. He drew the committee's attention to the context of the consultation and where it fits in within the process to be undertaken by the FRC. The draft response included in the appendix to the paper focuses on the overall approach being taken by the FRC, and does not include any response to the technical aspects of the proposed amendments.
- 9.2 The response highlights the concerns where financial accounting standards which are rooted in the commercial sector are applied to the charity sector - a point made in previous responses made by the SORP-making body.
- 9.3 This led onto a discussion around the inherent differences between the focus of non-for-profit financial statements compared to the financial statement of profit-orientated entities. The committee felt that these differences should be emphasised in the response. It was also suggested that the response should recommend that different approaches are taken for public benefit entities where required, and 'carve-outs' included where necessary.
- 9.4 Caron Bradshaw suggested that the sector's support for the SORP framework should be emphasised in the response. She acknowledged that whilst the findings from the recent SORP research exercise are unable to be included, previous

evidence could be referenced, and it should also be noted that there has been no 'change of tide' within the sector.

- 9.5 It was agreed for the response to be amended in light of the committee's comments and a 'fatal flaw' draft would be circulated for review by the end of the week. This would allow the response to be submitted by the 31 December 2016 deadline.

**EB/AS**

## **10 Any other business and dates for next meetings**

- 10.1 Nigel Davies read out two comments had been received by committee member Richard Bray, who had been unable to attend the meeting.
- 10.2 The first was in relation to the auditor's responsibility in respect of the Trustees' Report. This is understood to be changing as a result of revised auditor reporting standards released by the IAASB in 2015. Auditors will be required to report on any material misstatements within the 'other information' presented with the accounts and implement processes to ensure this information is factually correct and reasonable.
- 10.3 Richard was concerned that this could mean a change to the current requirement for auditors to report on whether the information in the Trustees' report is consistent with the accounts. The new requirements around the audit of 'other information' runs the risk of charity audits becoming much more expensive and increasing the burden of compliance.
- 10.4 Nigel acknowledged Richard's concern, however, the standards for auditors do not fall within the remit of the Charities SORP-making body, which looks only at the application of accounting standards.
- 10.5 It was noted that the changes in this area brought in by the IAASB have been adopted by the UK in ISA (UK) 720 (Revised June 2016). However, changes to auditor's requirements in this area have not been specifically interpreted for the audit of charities. Caron Bradshaw noted that this is being considered in the revision of Practice Note 11 (The Audit of Charities in the United Kingdom), where CFG have a representative on the working group involved in the development of this guidance.
- 10.6 Richard's second comment concerned the fundraising disclosures brought in by the Charities (Protection and Social Investment) Act 2016 ('the act') for charities registered in England and Wales. Richard felt that some of the requirements for charities to provide extra information on their fundraising practices in the trustees' annual report were not very clear, for example what constitutes a 'complaint'. He suggested that further guidance is needed for charities which are required to make the disclosures as required by the act.
- 10.7 Nigel noted Richard's concern; however the implementation of the requirements of the act was outside the remit of the Charities SORP-making body, and fell to the new Fundraising Regulator of the Office of Civil Society.
- 10.8 Easton Bilsborough confirmed that the March 2017 meeting was to be held at CIPFA's Edinburgh office, not London, as stated on this meeting's agenda. A number of committee members noted that they would be unable to attend this meeting in person, but would be able to meet in London to dial into the meeting. It was agreed that this facility would be available and a room made available in CIPFA's London office to do so.
- 10.9 There was no other business and the meeting was closed.

**EB**