Minutes

Board	Charities SORP Committee
Date	9 September 2021
Time	10:00 – 12:00
Venue	Microsoft Teams

Joint Chair	Laura Anderson	*Office of the Scottish Charity Regulator (OSCR)*
	Nigel Davies	*Charity Commission for England and Wales (CCEW)*
	Rossa Keown	*Charity Commission for Northern Ireland (CCNI)*
Members present	Caron Bradshaw	*Charity Finance Group*
	Michael Brougham	*Independent Examiner*
	Daniel Chan	*PwC*
	Tony Clarke*	*Clarke & Co Accountants*
	Diarmaid Ó Corrbuí	*Carmichael Centre for Voluntary Groups*
	Tom Connaughton	*The Rehab Group*
	Tim Hencher	*Scottish Council for Voluntary Organisations*
	Joanna Pittman	*Sayer Vincent*
	Max Rutherford	*Association of Charitable Foundations*
	Jenny Simpson	*Wylie and Bisset LLP*
	Neal Trup	*Neal Howard Limited*
In attendance	Alison Bonathan	*CIPFA, Secretariat to the SORP Committee*
	Gillian McKay	*CIPFA, Secretariat to the SORP Committee*
	Milan Palmer	*CIPFA, Secretariat to the SORP Committee*

	Sarah Sheen	*CIPFA, Secretariat to the SORP Committee*
Observers	Jane O'Doherty	*Financial Reporting Council (FRC)*
	Jelena Griscenko	*The Charities Regulator in Ireland*
	Claire Morrison	*Office of the Scottish Charity Regulator (OSCR)*
	Amie Woods	*Charity Commission for England and Wales (CCEW)*
Apologies	Gareth Hughes	*Diocese of Down and Connor*
	Noel Hyndman	*Queen's University Belfast*
	Carol Rudge	*Grant Thornton*

*Tony Clarke joined the meeting at 10:10

1.	**Welcome, apologies for absences and declarations of interest**	**Action**
1.1	The Chair welcomed SORP Committee Members to the meeting.	
	A particular welcome was extended to Rossa Keown (CCNI) who has taken over from Damian Sands as Joint Chair for the Charity Commission for Northern Ireland.	
1.2	**Declarations of interest**	
1.3	The Chair noted two standing declarations of interest:	
	Sarah Sheen has worked substantially for CIPFA on the IFR4NPO project and is Secretary to the CIPFA Charities and Public Benefit Entities Faculty Board.	
	Daniel Chan sits on the CIPFA Charities and Public Benefit Entities Board	
2.	**Chair Update on SORP Development Programme**	
2.1	The Chair noted that the SORP Development Programme is on track. The Chair noted the ambitious nature of the timetable and thanked the SORP Committee for their work in keeping the SORP Development Programme on track.	
	Further, the Chair noted thanks to the Engagement Strands for their ongoing engagement and feedback and SORP Committee members for their additional commitment and engagement with the Working Groups.	
	The Chair invited comments or questions on the SORP Development Programme; no comments or questions were raised.	

3. **Minutes of the Meeting of 4 August 2021**

3.1 Tim Hencher noted he should have been included in the list of apologies for the last meeting.

Minor amendments were noted.

Otherwise, the minutes of the meeting were accepted.

3.2 **Matters arising**

3.3 There were no matters arising from the minutes of the meeting held on 4th August 2021.

4. **Paper 2: Possible approaches treatment of legacies in the SORP**

4.1 The Secretariat introduced feedback on the treatment of legacies from the Engagement Strands and Working Groups as reported in Paper 2. Feedback from Engagement Strands and Working Groups suggested that the content of the SORP is largely self-explanatory. It was noted that feedback from the Engagement Strands and Working Groups indicated that more SORP guidance on the treatment of legacies would be beneficial.

Feedback from Engagement Strands and Working Groups acknowledged that accounting for income from legacies has more of an impact on smaller charities, therefore consideration could be given to using tiered reporting to reduce the reporting requirements for smaller charities. It was acknowledged that making this change was subject to having the required latitude to apply section 1A flexibly otherwise FRS 102 may prevent this.

The Chair noted that, although the Major Funders and Donors and Government and Public Bodies (MFDGPB) Engagement Strand had discussed the briefing paper, their report had not been received in time by the Charities SORP Committee and so comments would be made verbally. The Chair therefore invited members of the MFDGPB Engagement Strand to provide comments as relevant.

A Committee Member, who is a member of the MFDGPB Engagement Strand commented that the Engagement Strand preferred the income recognition criterion of ‘virtually certain’ for legacies as prescribed by the 2005 SORP rather than the recognition requirements criteria from FRS102 found in the current SORP. The Engagement Strand noted that charities could refer to expected legacy income in the notes to the accounts if the legacy does not yet meet the recognition criteria.

A member of a Professional and Technical Engagement Strand A reported a similar issue, i.e. that the Engagement Strand had conducted discussions and a separate report should have accompanied that engagement strand submission, these comments were not reflected in Paper 2. The Joint Chairs and Secretariat both confirmed that no report had been received and asked that verbal updates were made as relevant during discussions with written follow-up after the meeting if necessary.

4.2 **SORP Committee discussion of Paper 2**

4.3 The Chair made reference to the three topics for discussion per Paper 2 i.e.:

- whether to incorporate an explanation of legacies as a specific item in the trustees' annual report
- whether to offer additional advice and guidance by way of information sheets
- whether the SORP should seek to reduce the amount of disclosure in respect of legacies for smaller charities.

The Chair opened the discussion of treatment of legacies by asking Committee members to reflect on these issues before opening the discussion by asking:

- is there a case for change?
- what action should be taken if there is a case for change?

The Chair reminded Committee Members that it might be possible to consider a case to change to FRS 102 if the view is that specific circumstances exist that require specific treatment.

4.4 Committee members provided comments and feedback as follows:

- The size of the charity is arguably less significant than the importance of the legacy to the charity. Consideration of the materiality of the legacy to the charity is therefore, in the view of one Committee Member, more important than discussion of 'carve-outs' for smaller charities.
- A view was provided that the guidance in the SORP was considered to be clear on the treatment of legacies. However, a Committee Member raised the issue of whether the SORP could be clearer on the importance of the materiality of a legacy to the charity in deciding its accounting treatment.
- There is a trade-off with respect to disclosure. There is an argument for including more by way of explanations of legacies, but this will lead to more volume in the annual report and accounts at a time when there is appetite to 'declutter'.
- Reflecting on their experience of smaller charities, one Committee Member agreed that legacies have not caused problems from an accounting perspective and that the current SORP requirements are suitable. The Committee Member noted that the change from recognising when receipt is "virtually certain" to recognising when receipt is "probable" did not, in their experience, cause additional problems. Two committee members agreed with this view.
- It was noted that the requirement to "control" the rights or other access to the economic benefits associated with a legacy can be problematic. This can lead to charities recording income from legacies before they can draw on the legacy. It was noted that the Trustees' Annual Report could clarify issues around legacies being accounted for before the resources have been received.
    - One Committee Member highlighted that such misunderstanding could arise in any situation with a timing difference between the

charity becoming entitled to income, therefore recognising it, and the charity receiving the cash. This is not a legacy-specific issue.

- Events post year-end can create difficulties as it requires judgement to determine whether such events are adjusting or non-adjusting. One committee member suggested that inclusion of flowcharts in the SORP would be helpful in this respect, and more broadly, when supporting non-accounting specialists in accounting for legacies.
- Use of “normally” (e.g., in SORP paragraph 5.31 “Receipt of a legacy must be recognised when it is probable that it will be received. Receipt is normally probable when …”) was highlighted by one Committee Member as creating ambiguity. The Committee Member suggested removal of “normally” would create greater clarity.
- A Committee Member highlighted that some charities would account for legacies on a case-by-case basis while some (likely to be larger charities) will take a pipeline approach. Any additional guidance will need to take account of both methods.
- The Secretariat highlighted that IFRS 15 *Revenue from Contracts with Customers* may create further complexity if it is reflected in the next iteration of FRS 102. The observer from the FRC noted that it is too early to advise on this matter. However, one Committee Member noted that the inclusion of the principles of IFRS 15 in FRS 102 could represent a significant change, for example when accounting for contentious legacies. The discussion at the Committee meeting was framed around FRS102 as it currently is.

4.5 In summary, the Chair noted a common aspect of the discussion was that neither the Engagement Strands nor the SORP committee had made a case to change the SORP with respect to the accounting treatment of legacies. Referring to the three issues highlighted in Paper 2, the Chair noted that:

- the size of a legacy in the context of the charity is more important than the size of the charity itself,
- there is support for additional guidance in the SORP, for example flowcharts to support decision-making,
- there is some ambiguity created in the SORP that could helpfully be removed with tighter drafting, and
- additional disclosure and/or commentary in the Trustees’ Annual Report may better allow a charity to help users of the annual report and accounts in understanding the income received from legacies. However, balance is needed to avoid creating an unwieldy annual report. This matter can be reflected on again at drafting stage when it is possible to think about the Trustees’ Annual Report in totality.
- The matter of contentious legacies can be returned to at drafting stage.

5. **Paper 3: Accrual Basis of Accounting for grants**

5.1 The Secretariat introduced the paper, noting that a revised version of the paper with a corrected title had been circulated prior to the meeting.

The Chair invited members of the MFDGPB Engagement Strand to comment if there was anything to add from their discussions on the topic. A Committee Member who was also a member of the MFDGPB Engagement Strand commented there had been some of debate within the Engagement Strand and that some points raised were like those in Paper 3. The MFDGPB Engagement Strand, he commented, was of the view that the nature of the grant, the level of restriction and expectations around performance should affect whether the accrual model is used. Funders also looked at grant making, noting that there can be inconsistency between how the grant recipient and the grant maker account for grants.

One Committee Member highlighted that the Committee should also consider the treatment of grant awarding by charities and, noted that it could be easy to lose this aspect of the discussion set against the weight of feedback around the accounting treatment of grant income.

5.2 **SORP Committee discussion of Paper 3**

5.3 The Chair opened discussions by referring to the three topics for discussion referred to in Paper 3 i.e. should:

- the accrual model be permitted as an option and, if so, for purchases of tangible fixed assets or for wider circumstances
- a second submission be made to the Periodic Review of FRS 102 to seek the extension of the accrual model from just government grants to all grants
- additional examples or advice be made available by way of an Information Sheet

The Chair noted again that if change is to be made, there must be a case for change.

The Secretariat highlighted the importance of clarity of language in this discussion. Both models used to account for grants (the performance model and the accrual model) apply the accruals concept. The Chair noted that the language used emanated from the terminology in FRS 102.

5.4 **Accounting for Grant Income**

5.5 Committee members provided comments and feedback as follows:

- a Committee Member noted support for use of the accrual method for capital grants. The current approach can cause problems due to the disconnect between accounting for grant income and, subsequently, accounting for the depreciation of the related asset. At present, the only mitigation is to use a designated fund for capital grant income.
    - some support was shown for this view, with another Committee Member noting that accounting for capital grants can distort the presentation of a charity’s financial position. While the distortion can be explained in the notes, this will not help in situations where users skim-read the accounts and focus on key information.

    - A third Committee Member provided further support for the use of the accrual model for capital grants, noting that a capital grant for a smaller charity may be disproportionate to the size of the charity. The accounts may therefore give a misleading presentation of the financial position of the charity, rather than showing a 'true and fair' view.
    - It was noted that misunderstanding over financial position as a result of accounting for capital grants can be more acute in Ireland, where the SORP is not mandated therefore may be less well understood.

- However, support for the accrual method for capital grants was not universal. One Committee Member noted that the desire for matching is understandable, however, this would be inconsistent with the required accounting treatment for charities who fundraise to buy an asset rather than securing a capital grant. The Committee Member noted that distortion frequently occurs within charities accounts. Charities sometimes have 'lumpy' finances. For this reason, the Committee Member supported use of a restricted capital fund to explain 'lumpiness' rather than use of the accrual method for capital grants.
    - Some support was shown for this view. One Committee Member noted that there will be irregular items in charity accounts; the narrative to the accounts can be used to explain these items. The Committee Member acknowledged that some users pick out key information. However, the Committee Member questioned whether a suitable case for change had been made.
    - A second Committee Member agreed that it would be difficult to remove perceived inconsistencies in the treatment of grants without creating inconsistencies in other respects.
    - In reflecting on the creation of inconsistencies, one Committee Member commented that a distinction could be drawn between capital and revenue grants in that later recognition of income from capital grants could be justified because its restricted nature. However, a second Committee Member questioned this approach, as it could prevent the recognition of other restricted funds.
- A Committee Member highlighted reservations about using the accrual method for revenue grants due to practical issues. For example, in practice, there can be confusion over whether income is from a donation or from a grant.
- However, this was not a universal view of the Committee that accounting for revenue grants should remain unchanged. One Committee Member noted that here too, there can be distortions that lead to a misunderstanding of a charity's financial position. For example, in 2020, extra grant income from Covid 19-related grants has led to some charities showing significant surpluses due to the timing of receipt.

- One Committee Member noted that revenue grants can be problematic when the activity, and associated costs, straddle the year end.
- The SORP could helpfully provide more guidance on grant conditions, as this is an area that can be problematic in practice.
    - One Committee Member noted that a more nuanced approach may help. For example, a grant letter may not contain written conditions, but grant money may not be remitted to a charity until work starts. Grant letters do not always reflect practice.
- One Committee Member noted the need for education, as users of the accounts may be inappropriately applying the same thinking adopted in the context of corporate accounts to the interpretation of charitable accounts.
- The Secretariat noted that there are similar issues in local government accounting, for which guidance is available. This guidance could be used to supplement the existing guidance in the SORP if that is helpful.

The Chair noted the use of the accrual method in grant accounting is frequently raised as an issue, therefore a consensus view is needed to allow it to be addressed. The Chair asked whether it might be desirable to offer charities the option to use the accrual method when accounting for grant income. The Chair prompted Committee Members to consider what problem it is that the SORP Committee is trying to solve. The Chair asked if the question is one of clarifying how much money a charity has that it can spend.

- In response to these prompts, one Committee Member noted that there are clear advocates for change, possibly through the introduction of an option to allow the use of the accrual method.
- It was reiterated that the narrative to the accounts is key in enabling an understanding of a charity's financial position.
- One Committee Member advocated for the use of a designated fixed asset fund as a separate column on the face of both the balance sheet and the statement of financial activities. This solution would keep grant income for fixed assets separate from the general fund and is already permitted by the SORP.
- There was support for this treatment. One Committee Member suggested mandating this approach, noting that a designated fund equal to the net book value of the relevant fixed assets would show how much is tied up in fixed assets, as well as demonstrating that the SORP Committee has done its best to respond to feedback in this respect.

The Chair invited views on mandating the use of a designated fund in accounting for capital grant income.

- Support was shown for mandating the use of a designated fund.
- One Committee Member commented that a designated fund should be part of the solution. Without showing income from grants that is tied up in fixed assets separately, the financial position shown can be misleading and can

result in suboptimal decision-making. The Committee Member expressed support for mandating this approach.

- One Committee Member expressed support for describing this treatment in the SORP using a “should” rather than a “must”.
- Support for mandating use of a designated fund was not unanimous, with one Committee Member commenting that it would not resolve the problems encountered in practice including grants with long potential return obligation periods.
- One Committee Member cautioned that the SORP Committee should be careful to avoid unintended consequences. The Secretariat noted that it may be possible to avoid unintended consequences by making it more obvious in the SORP that a separate designated fund is permitted and is recommended. The Chair noted that making existing options more obvious had been suggested in previous discussions of other SORP areas.

5.6 In summarising the discussions, the Chair noted that the problem the SORP Committee is trying to solve is difficult and that it will be almost impossible to find a solution that will help all charities. Inconsistencies will remain even if the accrual model is introduced to grant accounting, therefore the SORP Committee needs to reflect on how change in respect of grant accounting will affect a charity’s accounts in totality.

The Chair noted some support for pursuing the accrual model for capital grants. However, this support was not unanimous. Further, the use of the accrual model for grant income other than from government grants would require a second submission to the FRC, as FRS 102 would not currently allow use of the accrual method for non-government grants. Consideration should be given to the need for a second submission. However, the SORP Committee should also consider the converse position and how the converse position could be addressed. If a submission was to be made to the FRC, it would need to acknowledge the downsides of the use of the accrual model for capital grants, such as the creation of an inconsistency between accounting for assets acquired through grant funding and accounting for assets acquired through fundraising. The Secretariat noted that the charitable sector is more likely to account for non-government grants that then commercial sector; this could be relevant in a submission to the FRC.

Reflecting on the discussion, the Chair concluded that, with respect to income from capital grants, there was support for mandating the use of a designated fund, noting the need to be mindful of practicalities and unintended consequences. Following confirmation with Committee Members, the Chair concluded that the SORP Committee agreed that the preferred change to the SORP would be to mandate the creation of a separate designated fund for income from capital grants, with separate presentation on the face of the financial statements and not progress with the accruals model.

5.7 **Other issues associated with grants**

5.8 The Chair noted feedback from Engagement Strands as reported in Paper 3 sought additional advice and guidance to support preparers of the accounts with respect to grants. The Chair invited comments and suggestions on this matter. Comments and feedback were offered as follows:

- One Committee Member noted that additional worked examples would help demonstrating, for example, the required treatment of:
    - capital grants,
    - a capital grant where a loan has been extended on the associated property,
    - multi-year grants,
    - single year grants.
- There was some agreement on this point, with one Committee Member noting that worked examples may help charities make judgements with respect to the existence of conditions in a grant.
- The Chair noted that worked examples would help given the diversity of the sector. Such diversity makes it difficult to provide categoric solutions to every problem a charity may face, highlighting the benefit of worked examples in enabling charities to make judgements.
- A Committee Member acknowledged that additional guidance would help but questioned whether it was the role of the SORP to provide such guidance.
    - Other Committee Members echoed this. One Committee Member suggested the use of supplementary information sheets rather than inclusion of guidance within the SORP.
    - However, should this approach be taken, a Committee Member cautioned that there must be clarity on the status of information sheets. Further, it was noted that charities should not face penalties for missing something included in supplementary guidance. It can be difficult for preparers to have working knowledge of all guidance when there is a large volume of guidance available. [*The Secretariat would note that the Information Sheets issued by the joint SORP making body includes clear commentary on their status.]*

Finally, the Chair sought views on the treatment of accounting for grants for charities that are grant awarding:

- One Committee Member noted the principal issue was with multi-year grants. The Committee Member's preference would be to spread the cost of making such a grant over the relevant number of years. However, the Committee Member noted that this requires thought in writing the grant agreement. The issue may therefore not be with the SORP, but about charities not understanding the importance of the wording of the grant agreement clearly to support the correct accounting treatment.
- Two Committee Members agreed that the grant agreement can be interpreted differently by the funder and the recipient, leading to asymmetric accounting treatment by the two parties. However, one Committee Member questioned

whether this matters. No Committee Members indicated experience of such asymmetric treatment being problematic.

- One Committee Member noted an additional layer of complexity, in that funders may include grants differently in internal budgets than in the financial statements.

5.9 In summary, the Chair noted support for additional guidance sheets and worked examples, commenting that the status of such sheets and examples should be clear.

On accounting for grant making, the Chair noted that charities may be misunderstanding the current content of the SORP. This could be reflected on at drafting stage, and in the provision of additional educational material.

The Chair thanked committee members for a productive discussion.

6. Paper 4: The approach to materiality in the SORP

6.1 Paper 4 was introduced by the Secretariat.

The Chair invited any additional comments from the MFDGPB Engagement Strand. A Committee Member who is a member of the MFDGPB Engagement Strand added that the wording of the definition of materiality can be problematic, as it requires preparers to second guess the need of the users and the economic decisions users of the accounts might be making. Importantly, this can lead to a conflict of interest. For example, a safeguarding issue could lead to a change in accounts users' economic decisions. However, noting that funders usually have access to additional information outside the accounts, the MFDGPB Engagement Strand ended their discussions of materiality by concluding that the existing SORP requirements are acceptable.

Noting that the Engagement Strands appeared not to be seeking a case for change, rather they had highlighted a need for guidance and educational materials, and for an increased visibility of the relevance of materiality in the SORP, the Chair invited comments.

6.2 **Committee discussion of Paper 4**

6.3 The Secretariat noted that local authorities faced similar issues about materiality. To highlight the importance of materiality when deciding on accounting treatments in local authorities, the *Code of Practice on Local Authority Accounting in the United Kingdom* refers to materiality in most sections. A Committee Member agreed with this approach, noting that a discussion of materiality would not be effective if it were only included at the start of the SORP; materiality needs to be referred to in every section of the SORP.

A Committee Member questioned whether problems could be created if the SORP went further on materiality than it currently does. Specifically, the Committee Member was concerned that such a step may lead to issues between charities and their auditors. The Committee Member was of the view that if accountants are preparing a charity's accounts, they should already understand materiality, although another Committee Member highlighted that the preparers may be non-specialists. The Chair noted there had been support from the Engagement Strands for additional guidance on materiality, noting that the SORP Committee could reflect on whether additional guidance or education is needed with respect to the Trustees' Annual Report or the accounts and disclosures.

The Chair invited comments on potential solutions for the issue of disclosure of remuneration of key management personnel in charities with only one employee.

- A Committee Member questioned whether there could be a size threshold to ensure that charities could maintain privacy for a single employee paid a modest amount.
- However, the Chair noted that it's non-negotiable, as remuneration of key management personnel must be disclosed in total. Any changes would require a submission to the FRC, as FRS 102 would first need to be changed.
- A Committee Member suggested a tiered reporting approach. Remuneration of key management personnel is a matter of public interest in larger charities; therefore, disclosure is likely to be necessary. However, a different approach could be considered for smaller charities with a single employee.
- It was noted that companies of a similar size to the charities under discussion would likely not even be required to publish accounts. The expectation of disclosure of remuneration of key management personnel is more onerous for small charities than for similar sized for-profit companies.

A Committee Member noted that in FRS 102, there is an exemption from disclosing related party transactions between group companies and questioned whether this could be adopted in the SORP. The Chair responded that this can be reflected on at drafting stage.

The Secretariat notes paragraph 33.1A of FRS 102 that states "Disclosures required by this section [on Related Party Transactions] need not be given of transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member." The Secretariat would comment that the issue of related party disclosure is likely to have less of an impact in group accounts, in which intragroup transactions are eliminated.

6.4 In summary, the Chair concluded that there was not a consensus for asking the FRC to make changes to FRS 102 with respect to materiality, therefore no such changes would be sought.

The consensus was to retain the current content of the SORP with respect to materiality and to focus on educational materials and improving awareness.

7. Any other business including future Committee meetings

7.1 Future meetings

The Chair noted the meeting dates as outlined in the meeting agenda and noted that diary invitations had been sent by the Secretariat.

There was a question over whether the diary invitation for the November research meeting had been sent to all members of the SORP Committee – the Chair and the Secretariat would confirm this. Chair/ Secretariat

7.2 **AOB**

A Committee Member highlighted that research findings on smaller charities have been published. The link to the findings would be sent to the Secretariat and forwarded to Committee Members. (Link here).

Following the conclusion of this meeting, Committee members would join working groups to work on Donated Goods and Services. The Secretariat reminded the Committee on the technicalities of the process. As the Joint Chairs would not be joining working groups, the Chair closed the formal part of the meeting by thanking Committee members for their contributions. Secretariat