

**1 The Round Table Event**

- 1.1 A 'Round Table' event, held in London on 30 March, brought together an audience of 33 representatives from a range of charities and audit firms. Invitations had been sent to professional accountancy bodies, SORP committee members and all charities, auditors and regulators that had raised concerns about accounting for heritage assets during the last SORP consultation or had replied to last year's ASB consultation.
- 1.2 The scene was set by Alan O'Connor, the project director at ASB leading their work on Heritage assets, with Ray Jones representing the Charity Commission summarising the issues that had been identified by the SORP Committee. David Watkins, HM Treasury, also briefed the meeting on a research project at Kingston University, funded by RICS and HM Treasury, which will look at methods and approaches that might be adopted for valuing heritage assets.
- 1.3 The representatives, working in groups, considered a number of key issues arising from FRED 40 and views were feedback. There was a very high level of consensus on all issues discussed. In particular, there was unanimous support for the test of practicability to be applied at the total holding level rather than on a collection by collection basis. A move back to the position put forward by the ASB in their January 2006 discussion paper would clearly be welcomed. If this were not possible, the approach put forward by FRED 40 was still seen as preferable to the existing SORP interpretation of FRS 15.

**2 Feedback from OSCR**

- 2.1 A similar Round Table event has also been held in Scotland on 4 April and verbal feedback from this event will be provided at the SORP Committee meeting.

**3 SORP Committee Consultation Response**

- 3.1 A draft response to the ASB's FRED 40 consultation has been provided. The response is based on previous SORP Committee discussions and incorporates feedback received at the Round Table event.

**Questions:**

- 1. Is the SORP Committee content that the draft consultation response reflects the Committee's views?**
- 2. Is the SORP Committee satisfied the response gives sufficient weight to sector feedback received at the recent Round Table events?**

**4 Round Table Feedback**

4.1 A summary of feedback received at the London ‘Round Table’ event is set out below:

**4.2 *Would an “all or nothing approach” to capitalisation be better than the “collection by collection” approach proposed by FRED 40?***

There was a unanimous view that the practicability of valuation needed to be considered at the level of a charity’s total holding of heritage assets. If the test is applied at a collection level there is a real risk of distortion with small collections being recognised whilst large collections may be excluded from the balance sheet.

There was clear a view that the FRED 40 failed to deal with the partial recognition approach of the current SORP. Confusion already arises amongst some users as to exactly what is recognised and what is not and FRED 40 will do little to improve that situation. Some suggested that a partial valuation could never be “useful and relevant.”

If valuation is the stated policy then that will be understood; similarly, if valuation is not practicable and all heritage assets and excluded this will be understood. A consistent policy needs to be applied for all heritage assets held by an entity as this gives clarity and avoids the misunderstandings that arise when two distinct policies are applied within the accounts of a single entity.

All representatives agreed that the test of practicability needed to be applied at the level of total holdings and favoured the approach put forward by ASB in their earlier discussion paper.

**4.3 *Can Individual Collections be easily identified or can the boundaries be easily manipulated?***

There again was a consensus that boundaries between collections could often be blurred and could easily be defined by differing criteria, for example, an art collection could be defined by period, style, country or artist. The opportunity for redefining boundaries to achieve the desired accounting policy outcome was seen as a clear possibility. How auditors might address such issues was a further concern. These ‘boundary’ issues gave further weight to the test of practicability being applied at the level of the total holding of heritage assets rather than at a collection level.

**4.4 *How can it be demonstrated whether or not valuation is practicable and what will it cost?***

A number questioned the benefits of valuation and how this might be judged. Others questioned whether valuation could ever be “useful and relevant” information for most users. There were clear concerns as to how the test of

practicability might be applied in practice with one representative questioning whether the Commission would regard the costs inherent in valuation as a good use of charitable funds. Another suggested all valuation would do is take funds away from key objectives. The idea that valuation could improve stewardship and management of the assets was not widely accepted.

**4.5 *Should the scope of FRED 40 be extended to abbeys, monasteries, cathedrals and the ancient centres of learning or other bodies?***

There was a general consensus that assets used “operationally” as opposed to those held for heritage purposes were best left outside the scope of the proposed standard. It was recognised that valuation issues might also arise with historic structures and that the sub-sectors affected also faced issues in relation to partial capitalisation, for example, improvements or additions to medieval structures such as cathedrals. However, there was no consensus supporting an extension of the definition of heritage assets.

The Commission expressed concerns that unless these issues were addressed then the SORP Committee would need to consider them but without standards offering any test of practicability.

**4.6 *Can the notes to the accounts be made even more informative than FRED 40 proposes?***

The importance of narrative information was agreed and the general consensus was that the proposals were fine as they stood. The Commission suggested a need for public access to be explained and there was a suggestion from an audit firm representative for an inventory control note. Another questioned the prudence of including indicative values in notes.

The proposals, however, were seen as reasonable although a number questioned the relevance of the five year summary of asset movements as this was available from past accounts if users wanted such information.

**4.7 *Will the valuation of heritage assets and their inclusion on the balance sheet be detrimental to obtaining funding from foundations, government and others?***

There was no clear answer to this question as much would depend on how the position was explained. For example, large holdings could demonstrate a need for funding and draw in donors. Alternatively, there could be calls for disposals to fund new projects or additions if the Charity was seen as asset rich. Each charity could be affected differently.