

SORP Committee

Minutes of the SORP Committee Meeting of January 18 2007 (Approved at the April 12 2007 SORP Committee Meeting)

Contact: Nigel Davies, Secretary to the SORP Committee
01823 345470
Nigel.davies@charitycommission.gsi.gov.uk

Present:

Andrew Hind, Chair of the SORP Committee
Kirsty Gray, Deputy Chair of the SORP Committee
Debra Allcock Tyler
Tidi Diyan
Pesh Framjee
Peter Gotham
Chris Harris
Keith Hickey
Noel Hyndman
Ray Jones
Claire Newton
Carol Rudge
Kate Sayer
Catriona Scrimgeour
Paul Spokes

In attendance:

Nigel Davies, Secretary to the SORP Committee
Alan O'Connor, Accounting Standards Board

Apologies:

John Graham
Tristan Lumley

Item 1: Chairman's opening remarks and matters arising

1.1 The Chair opened the meeting by welcoming Noel Hyndman, Chris Harris and Tidi Diyan. The Chairman acknowledged the great contribution made by Luke FitzHerbert to the charity world and the thinking of the Committee and expressed, on behalf of the SORP Committee, sympathy with Debra Allcock Tyler and the staff at the Directory of Social Change following Luke's tragic death.

Item 2: Approval of the minutes and matters arising

2.1 The minutes of the meeting of the 1 November 2006 were considered and approved.

2.2 There were no matters arising not covered by the agenda.

2.3 Clarification was sought about the relationship between the SORP Committee and the Committee for Accounting for Smaller Entities (CASE). The Committee was advised that the Accounting Standards Board (ASB) CASE Committee was instrumental in developing the Financial Reporting Standard for Smaller Entities (the FRSSSE) and would be actively working with the ASB in considering whether the FRSSSE should be replaced by the proposed International Financial Reporting Standards for small and medium sized entities (IFRS for SMEs). The CASE Committee has a commercial for profit focus. It was noted that the Committee for Accounting for Public Benefit Entities (CAPE) oversaw the work of the SORP Committee on behalf of the ASB.

Item 3: First Paper ‘Update on heritage assets’

3.1 The Chair introduced the paper. The outcome of the meeting, attended by Andrew Hind and Ray Jones on behalf of the SORP Committee, was discussed. The Committee was advised that the presentation lasted 30 minutes and the ASB board had spent a further 30 minutes in discussion. The ASB were grateful to receive external representatives and are keen to engage with interested parties as part of their work.

3.2 The ASB Financial Reporting Exposure Draft 40 Accounting for Heritage Assets (FRED 40) has introduced the collection by collection approach to the valuation of heritage assets. The Committee was advised that submissions commenting upon FRED 40 were now encouraged and should be with the ASB by 20 April 2007.

3.3 In discussion it was agreed that the SORP Committee should submit a response and that members should also respond individually and actively encourage sector submissions. Roundtable events were discussed to be convened by the SORP Committee. It was noted that whilst members attend the Committee in their own right, were their views to differ from the original view expressed by the Committee, this would potentially undermine the Committee’s collective response. However it was also noted that the views of their employing organisations may be different from that of the Committee.

3.4 The interest of Audit Scotland and the National Audit Office (NAO) and Audit Wales were noted, given the implications for Non Departmental Public Bodies (NDPBs) which hold heritage assets.

3.5 The Committee agreed:

- **To convene round table events in England and Scotland to discuss FRED 40.**
- **Committee members to advise organisations or individuals to the SORP Secretariat, who might usefully be invited to the round table events.**
- **Committee members to copy to the Secretary, for the Committee’s information, any submissions made by them or their employing organisations on FRED40.**
- **The SORP Committee to reconvene to consider all the feedback received, prior to formulating a submission on FRED40.**

- **Advice to be included in the Information Sheet as to the timing of the effect of any change in accounting for heritage assets.**

Item 4: Second Paper ‘IFRSs for Small & Medium sized entities and SORP’

4.1 The paper was introduced and the impact of convergence between UK Generally Accepted Accounting Practice (UK GAAP) and IFRSs was discussed. The International Accounting Standards Board (IASB) is planning to release a standard for small and medium enterprises (SME standard). Following convergence, the SME standard could provide a simpler and more proportionate approach than adoption of full IFRSs.

4.2 The Committee was advised that although no decisions had yet been made, the ASB were actively considering a three tier approach to convergence with IFRSs: the FRSSSE, the IASB SME standard for those in the middle tier and full IFRSs for listed entities. The Committee was advised that the IASB were due to issue an SME standard imminently but that there was concern it was overlong and complicated, due to cross referencing to full IFRSs, and still required knowledge of IFRSs by users.

4.3 It was noted that there may be a requirement to change company law if IFRSs were to apply to charities. The IFRSs were also developed for for-profit entities and there was a gap that needed addressing for private not-for-profit entities and the SORP Committee should seek to influence this agenda. It was considered undesirable for some charities to follow full IFRSs when the majority might follow an SME standard. Instead a single framework should apply. A view was expressed that a single standard was appropriate for all charities.

4.4 Public accountability and public interest were discussed, in particular that the definition of public accountability adopted by the IASB for the IFRSs was specifically related to investors and capital markets, rather than to accountability to wider society or the general public. Those entities meeting the IASB definition had to adopt full IFRSs.

4.5 It was noted that the ASB had yet to finalise the proposed Interpretation of the Statement of Principles for public benefit entities and it was uncertain how this statement would fit with the convergence agenda. It was noted that the IASB Conceptual Framework Project had no date identified for a not-for-profit interpretation of IFRSs. The Committee was advised that the convergence agenda is still uncertain, given that the ASB is considering an IFRS compliant FRSSSE and the IASB SME standard is awaited. Due to consultation plans, the final content of the IFRS for SMEs and the ASB decisions on convergence may not be known for approximately 18 months. The ASB Statement of Principles informs the work of the ASB’s SORP Committees and would therefore provide the framework for the work of the Charities SORP Committee. The Committee was advised that the ASB was monitoring closely the IASB Conceptual Framework project, as well as the Conceptual Framework project, that the International Public Sector Accounting Standards Board was getting underway.

4.6 The draft letter was considered and it was agreed that a letter was merited to highlight the impact of convergence on the not-for-profit sector. It was agreed that the SORP Committee had much expertise to offer. After discussion, it was decided that the letter be redrafted.

4.7 It was noted that a number of Non-Government Organisations were apparently in dialogue about developing their own IFRS compliant accounting solutions and that a meeting was planned in Geneva. A discussion followed about opportunities for international collaboration.

4.8 The Committee concluded that:

- **Full IFRSs were inappropriate for charities and instead a single simpler accounting framework should apply to all charities irrespective of size. (Noting that this would apply to charities preparing accruals accounts only.)**
- **After discussion with the ASB, the letter will be recirculated by e-mail for comment prior to despatch and once issued it would be published.**

Item 5: Third Paper ‘The SORP and small charities’

5.1 The Deputy Chair introduced the paper. It was noted that of the circa 42,000 currently registered charities providing accruals accounts, 10,000 only would be audited and thereby able to access professional advice routinely. The audit threshold in Scotland for non-company charities was already gross income of £500,000 (since 1/4/06) but companies had to await the implementation of the Companies Act 2006. The effective date for threshold changes in England and Wales is still awaited.

5.2 It was noted that the next SORP would be designed with the small charity preparing accruals accounts in mind. In the mean-time the possible interim solutions to assist smaller charities were discussed. The preamble was agreed in principle with some textual changes and an alteration in the ordering of paragraphs. Other ideas for changing the current SORP, including colour coding, use of bold script and graphics were discussed.

5.3 The boundaries of the SORP Committee and the Regulators in issuing advice were discussed. It was noted that an accounts preparation service could not be provided and that there was a responsibility on trustees, their advisers and preparers of accounts to make good use of the existing free resources. Better signposting to these sources of advice was needed. Concern was expressed that developments in UK GAAP and accounting generally were leading to more lengthy but less useful accounts. Where possible jargon and technical terminology needs to be avoided.

5.4 It was suggested that the existing free resources and the revised accruals pack could usefully be highlighted at sector events such as the NCVO or SCVO conferences, the DSC Charity Fair and through the Charity Trustees Network. DSC offered to highlight the available resources in ‘February News’. OSCR advised that a receipts and payments pack, modelled on the Charity Commission pack, would be issued in Scotland.

5.5 CFDG advised that there are training needs in the sector to be addressed and outlined an initiative that CFDG would wish to undertake with an accountancy firm.

5.6 **The Committee concluded that:**

- **The preamble be reordered: introduction, annual report, receipts and payments, accruals and sources of advice.**
- **Committee members to volunteer or volunteer a useful lay contact to review the revised preamble and advise SORP secretariat.**
- **OSCR and the Charity Commission are recommended to work together on reviewing the ‘accruals pack’ to provide a more accessible solution for small charities preparing accruals accounts.**

Item 6: Fourth paper ‘Draft Information Sheet’

6.1 The paper was introduced. The proposed contents and advice contained within the draft Information Sheet were subject to in depth discussion.

6.2 The differentiation between voluntary income and income from activities from charitable activities and the link between restricted and unrestricted funds were discussed. The requirement for a performance aspect of a grant as a distinguishing feature between voluntary income and income from charitable activities was also discussed. It was agreed that two alternative explanations would be prepared and considered at the next meeting.

6.3 There was broad agreement to the advice concerning the allocation of costs arising from the negotiation of contracts and performance related grants.

6.4 The Committee considered that the existing guidance on multi-year grants in the SORP was sufficient and no further elaboration was required to distinguish performance related grants from other types of grant.

6.5 The conflict of interest of Paul Spokes was noted with respect to the Charities Act 2006 amendment to grant disclosure. It was noted that the change does not apply to Charities registered in Scotland. It was agreed that the recommended practice concerning disclosure still stood but it should be noted where it was only voluntary for those charities specified in the 2006 Charities Act.

6.6 The remaining contents were approved, aside from a Companies Act related disclosure of interest paid which was not SORP related.

6.7 It was noted that those charities that are also classified as Non Departmental Public Bodies, and are therefore required to prepare accounts in accordance with the SORP and the Treasury’s Financial Reporting Manual, would be required to prepare a remuneration report as part of their annual report.

6.8 **The Committee concluded that:**

- **The draft Information Sheet be further amended for final consideration at the next meeting.**
- **SORP Committee members with any issues that they believe are appropriate to be included in the Information Sheet were to submit both the issue and their proposed solution (before the circulation of papers for the next meeting).**

Item 7: Fifth Paper ‘Accounting for Financial Instruments’

7.1 Grant Thornton UK LLP had kindly agreed to prepare a discussion paper on financial reporting standards 25 and 26 for the Committee. It was noted that the paper was still in development and consideration of this topic was therefore deferred until the next meeting.

Item 8: Any other business and date of next meeting.

8.1 The Chairman invited the Committee to raise any other business. None was noted.

8.2 **It was agreed that there should be three further meetings, Mid April, Late June and Early October. The Secretary was to circulate proposed dates for agreement.**