

SORP Committee

Minutes of the SORP Committee Meeting of 4 March 2009 (Approved at the June 2009 SORP Committee Meeting)

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Present:

Andrew Hind, Chair of the SORP Committee (left after item 4)
Kirsty Gray, Deputy Chair of the SORP Committee (chair from item 5)
Debra Allcock Tyler
Tidi Diyan
Pesh Framjee
Peter Gotham
John Graham
Chris Harris
Keith Hickey
Noel Hyndman
Ray Jones
Tris Lumley
Carol Rudge
Kate Sayer
Catriona Scrimgeour

In attendance:

Nigel Davies, Secretary to the SORP Committee
Alan O'Connor, Accounting Standards Board
Kevin Broad, Charity Commission

Apologies:

Lynne Robb
Paul Spokes

Item 1: Opening remarks and declarations of interest

1.1 The Chair opened the meeting and noted the impact that recent events in the banking and financial services sector was likely to have on both the general debate about accountability and transparency to the public and on the appropriate level of regulation in other sectors.

- 1.2 Declarations of interest were made in relation to item 7 on the agenda by:
- Chris Harris – who noted that CIPFA as the coordinating body for a UK response to International Public Sector Accounting Standards Board (IPSASB) had an interest.
 - Alan O'Connor – who advised that he had been involved in coordinating the ASB's response to IPSASB and to CIPFA
 - Pesh Framjee – who advised that, as a member of the ASB Committee for Accounting for Public Benefit Entities (CAPE), he had been involved in drafting the ASB's response.

Item 2: Approval of the minutes and matters arising

2.1 The minutes of the meeting of the 17 October 2008 were considered and approved.

Item 3: Matters arising from the minutes

3.1 Matters arising from the minutes were:

- The June 2009 meeting will consider papers (refer to minute 5.2, October 2008 meeting) on the distinctive features of accountability for charities that justify a charity specific solution, the future of the charity reporting and accounting framework, and the timing of a future SORP.
- Alan O'Connor updated the Committee about the ASB's plans for a standard on heritage assets based around the exposure draft FRED42. Although 20 of the 32 responses received had preferred the proposals in FRED40 and the Discussion Paper, the ASB were not persuaded there was a better accounting solution than the current FRS15 based approach. A disclosure standard based on the proposals in FRED42 is expected in mid 2009.
- The promotion of the 2nd edition of the SORP by way of articles in Third Sector (November 2008) and Charity Finance (December 2008) was noted. References in audit reports should be to SORP 2005 and if in a separate context there is a need to identify the edition, it would be to SORP 2005 (2nd edition May 2008).

3.2 To facilitate discussion, agenda item 7 was taken next.

Item 7: IPSASB Conceptual Framework consultation

7.1 Nigel Davies introduced this item, recapping on the work of IPSASB and how a future framework for charity reporting and accounting will be shaped by international accounting standards. He noted that whilst IPSASB provided an international framework, its focus was on government accounting.

7.2 The work of IPSASB had a direct bearing on a UK debate initiated by HM Treasury about whether those charities for which a government body appointed the majority of trustees or acted as trustee should be consolidated within government accounts. The draft response to IPSASB placed considerable emphasis on charities being independent of government, a stance that was reflected in IPSASB's draft conceptual framework.

7.3 In discussion it was noted that the Local Authority SORP had been amended so that the criteria for control included the right to benefit and losses, in place of benefit or losses. Following the change, on this basis a charity was unlikely be consolidated. The Committee concluded that a coincidence of benefit, where the work of a charity in assisting its beneficiaries relieved the government of a burden was insufficient to prove control because the benefit received was not being actively managed by the government for its benefit. Trustees are bound to act in the interests of the charity and so powers of appointment alone also do not confer control.

7.4 Trusteeship by government bodies was not ruled out provided the trustee or those appointed as trustees act properly in the charity's interests. It was agreed that trustees are not agents or representatives for an appointing government body because it is a principle of trust law that funds are held on trust for the beneficiary and not the trustee. The trustees control and manage trusts fund in the interests of the charity not for the benefit of any appointing body.

7.5 It was noted that in Scotland the legislation states that a body cannot be a charity if its constitution expressly permits Ministers to direct or control its activities.

7.6 CIPFA's request for a coordinated UK response to the consultation was discussed. CIPFA argued a coordinated submission would have greater impact and would also not rule out separate submissions. The Committee concluded that while responding to all the issues raised by the consultation was perhaps outside its remit, a separate letter from the SORP Committee highlighting the nature of charities, trust law and their independence from the state would be an important contribution to the conceptual framework's development. It was important that the nature of trusteeship was recognised and in particular that appointing bodies cannot use trusteeship to control a charity in order to obtain benefit for the appointing body.

7.7 The Committee concluded that:

- **The Secretariat should draft a letter welcoming the framework in general terms but emphasising the need for it to be clear about the independence of charities from government.**
- **Pesh Framjee, Kate Sayer, and the Deputy Chair kindly volunteered to review the draft letter, following which it would be circulated to the full Committee prior to submission.**
- **The Secretariat will liaise with CIPFA and advise them of the Committee's conclusions and its approach to the consultation.**

Item 4: Roundtable feedback – a further update

4.1 Nigel Davies introduced this paper which noted that the roundtable series now comprised 27 separate events with 20 having already taken place. The interest and attendance rates have been very good. Participation has included funders, preparers, auditors with the initial feedback demonstrating a widespread support for the SORP framework.

4.2 An initial analysis of the questionnaire results indicated a widespread consensus on many of the issues discussed. The interim findings were discussed and noted by the Committee

4.3 Initial feedback from the two events held to date with funders indicated that funders were extremely cautious about removing small charities from the requirements of SORP or in giving too much discretion in the presentation of their financial performance. Funders supported consistency of presentation and the current reporting and accounting framework. However, there are indications that information about who funds the charity would be welcomed. The Committee noted that the

full results of the roundtables will be analysed by an independent team of academics led by Professor Hyndman of Queen's University, Belfast.

4.4 In discussion the Committee noted that beneficiaries should be contacted either directly or via an umbrella body or focus group for their perspective on charity reporting. The Committee welcomed the analysis that Queen's University would be undertaking of the data. It was also noted that whilst reporting should meet the needs of stakeholders, the SORP itself is used by preparers and their advisers and so should be written for the use by this audience when preparing accounts.

4.5 The statutory accounts do need to be in a form that can be used by stakeholders, whether to inform them at an AGM or to fulfil the reporting needs of funders, so reducing the need for additional information. The desire of funders to know the extent of statutory funding of individual charities was also noted. There also needed to be a balancing of stakeholder interests to ensure effective reporting and whilst regulators may also find the report and accounts very useful, they were not the primary audience.

4.6 The Committee concluded that:

- **The Secretariat should attempt to seek the views of beneficiaries regarding charity reporting by way of structured interviews or events.**
- **The final report on the feedback from all the roundtables to be received from Queen's University at the September meeting.**

Andrew Hind then left the meeting after passing the chair to Kirsty Gray.

Item 5: Interviews and discussions with funders

5.1 Kevin Broad introduced this paper by recapping on the questions used as part of the structured interviews. Funders had expressed an interest in who was funding a charity and all the funders said they used the report and accounts as part of their funding decisions. The funders questioned whether a 'one size fits all' approach could work across the board and none of the funders favoured charities having the option to not disclose commercially sensitive information.

5.2 It was noted in discussion that in practice funders did require the report and accounts as part of their approval process but funders varied in the extent to which they evaluated the contents. Funders very often asked for additional information as part of the application process and as part of their post award monitoring.

5.3 Since the interviews had not followed an identical format to that of the half day roundtables comparability may be an issue. The issue of commercial sensitivity had not been a selected theme of the roundtables and some charities in a competitive tender process remained concerned that their accounts gave valuable information to competitors whereas commercial abbreviated accounts for small companies provided very little information.

5.4 The Committee concluded that:

- **The Secretariat should contact again those interviewed to invite them to complete the questionnaire as a follow up exercise.**

Item 6: Technical research agenda

6.1 Ray Jones gave an overview of the progress of the research agenda. Six areas had been identified by CAPE for review by the SORP Committee. Three working groups had met so far to review the accounting treatment of designated funds, the accounting for capital grants, and the accounting for charity combinations and consolidations.

6.2 The initial conclusion of the working group concerning designations was that they should be retained but their use restricted to designating those assets held and used for the provision of charity service or activity. The current approach regarding accounting for capital grants should be retained and the next SORP should elaborate on the nature of control in the context of charity combinations with the option of merger accounting retained.

6.3 In discussion it was noted that the interplay of the current definition of reserves and designations was a difficulty. Also restricted funds may cover a broad area of the charity's activities giving considerable flexibility to their use. Designations were considered useful to the readers of the accounts, for example, to set aside funds to meet pension obligations that cannot readily be funded solely from future income streams. It was also noted that changes in circumstances may mean designations are removed or reassigned.

6.4 It was agreed that the current treatment of capital grants in SORP is correct. Whilst in commercial accounting a government grant may well be fairly seen as a subsidy, the situation for charities is different and to recognise a grant differently from the accounting treatment of an appeal would introduce inconsistency. However if a future SORP was modelled around a commercial style income and expenditure account, then this conclusion would need revisiting.

6.5 It was agreed that mergers do happen and that accounting for charity combinations needed to recognise this fact. Internationally, the US Financial Accounting Standards Board, FASB 117, retained the option of merger accounting for charities. For incorporations an approach where the 'gain' was recognised as a gift from the predecessor unincorporated charity was seen as a good solution. A fuller discussion of combinations was needed in the next SORP to cover overseas NGOs which, while separately registered in a country, may be managed as a branch of an international UK registered charity.

Items 8: Dates of meetings in 2009

8.1 The dates of the future Committee meetings in 2009 are: June 17, September 22 and November 10.

Items 9: Any other business

9.1 There being no other business the meeting closed.