

SORP Committee

Minutes of the SORP Committee Meeting of 20 November 2013 (Approved at the 9 January 2014 SORP Committee Meeting)

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

Present:

Debra Allcock-Tyler
Laura Anderson, Joint Chair of the SORP Committee
Pesh Framjee
John Graham
Keith Hickey
Ray Jones
Carol Rudge
Paul Spokes
Sam Younger, Joint Chair of the SORP Committee

In attendance:

Caron Bradshaw, Charity Finance Group (CFG) (observer member)
Nigel Davies, Secretary to the SORP Committee
Fiona Muldoon, Charity Commission Northern Ireland (CCNI)
(observer member)
Mei Ashelford, Financial Reporting Council (FRC) (observer member)

Guests from partner organisations:

Nicholas Brooks, Institute Chartered Accountants England and Wales
(ICAEW)
Michael Bougham, Association Charity Independent Examiners
(ACIE)
Bill Cormie, Institute Chartered Accountants of Scotland (ICAS)
Anna Lewis, Wales Council Voluntary Action (WCVA)
Richard Martin, Association Chartered Certified Accountants (ACCA)
Sheila Nordon, ICTR
Gerald Oppenheim, Association Charitable Foundations (ACF)
Conor Woods, Chair of Chartered Accountants Ireland Charity and
Not-for Profit Group (CAI)

Apologies:

Tidi Diyan
Peter Gotham
Noel Hyndman
Tris Lumley
Kate Sayer
Catriona Scrimgeour

Item 1: Opening remarks and declarations of interest

1.1 Laura Anderson opened the meeting and on behalf of the Committee she welcomed the invited partners from organisations which had hosted SORP consultation events. She thanked them on behalf of the SORP making body for their assistance in hosting events and supporting the SORP consultation process and also for coming to share their experience of the consultation process.

1.2 She thanked Directory of Social Change for hosting the meeting.

1.3 She invited any declarations of interest to be made. No declarations of interest were noted.

1.4 A change was made to the order of the agenda with the meeting to conclude with the update from the Financial Reporting Council (FRC).

Item 2: Approval of the minutes and matters arising

2.1 The minutes of the meeting of the 5 June 2013 were considered and approved.

Item 3: Reflections on the feedback from consultation events

3.1 Laura Anderson introduced this item by inviting the representatives of partner organisations present to share their views on how the SORP consultation process had gone and any particular points or issues that they wished to highlight.

3.2 Sheila Nordon, ICTR, noted that the Charity Regulatory Authority (CRA) had yet to be established in the Republic of Ireland (RoI). It was unlikely that a decision would be made on whether the Charities SORP should become mandatory in the RoI until the CRA had been established. Currently the SORP is voluntary best practice with perhaps as many as 1 in 5 charities reporting under it.

3.3 She noted that the SORP consultation event held in Dublin and hosted by CAI and ICTR had had over 250 participants and there was a great deal of interest in the SORP. The Financial Reporting Standard for Smaller Entities (FRSSE) was not an option available to charitable companies in the RoI and was little used. The inclusion of references to the RoI and RoI company law in the draft SORP had been widely appreciated.

3.4 Michael Brougham, ACIE, noted that there was a lot of concern amongst smaller charities about the burden of reporting under the new Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102). He anticipated many might choose to switch to receipts and payments accounts or convert to Scottish Charity Incorporated Organisations to avail themselves of this option.

3.5 Anna Lewis, WCVA, noted her members appreciated Ray Jones presenting at the two events in Wales. She advised that WCVA members sought as much clarity as possible as what needed to be done under the new SORP. Smaller charities needed a SORP that was clear, simple and easy to follow as possible.

3.6 Gerald Oppenheim, ACF, noted that the 320 or so ACF members were both preparers and users of charity accounts. He thanked Ray Jones for presenting at an ACF seminar attended by 25 members. The consultation process had been excellent but ACF had flagged a number of concerns in their response to the draft SORP on behalf of its members. He noted that some Foundations had also replied individually.

3.7 Bill Cormie, ICAS, highlighted the position of smaller charities. ICAS Charities Committee members were not unanimous in their view of applying the FRSSE to charities. They also had concerns that the remuneration disclosures in the draft SORP do not go far enough. The consultation process itself was viewed as excellent and he noted that ICAS events had been well attended.

3.8 Richard Martin, ACCA, noted the extensive research undertaken by the SORP making body in 2008-09 on improvements that could be made to the SORP. There was a lot of support from ACCA members as to the style and approach taken in the draft SORP. Being clear as to requirements derived from FRSSE and FRS 102 was important. ACCA remained of the view that the FRSSE should be replaced with a standard based around FRS 102.

3.9 In terms of detail, ACCA welcomed the new terminology in the Statement of Financial Activities (SoFA). He wondered whether the use of term 'should' is helpful and instead whether a simple distinction between 'must' and 'may' recommendations would work better. He noted that Nigel Davies had collaborated in a Podcast on ACCA's website and that both Ray and Nigel had spoken at the ACCA Charities Conference. He noted that not all of the new developments in the SORP had been highlighted by questions in the Invitation to Comment.

3.10 Nicholas Brooks, ICAEW, noted that the consultation process had gone very well. The ICAEW had submitted the draft SORP to a detailed review by the ICAEW's Charities Technical Committee, the Charity and Voluntary Sector Group and Financial Reporting Committee. Nigel Davies had also presented to a focus group. Where unanimity was not possible, the ICAEW submission reflected the majority view.

3.11 He noted that broadly the new draft SORP was not controversial but there were important points of detail meriting further consideration. There had been much debate about the FRSSE option but on balance ICAEW favoured its retention. He noted that a new FRSSE would necessitate an early consultation on a new SORP. He mooted a separate FRSSE SORP as being a possible means of handling this uncertainty. He noted that strictly speaking the previous year comparative analysis of restricted and unrestricted funds was required in addition to the totals in the SoFA.

3.12 He noted that the definition of branches had been debated and there was a concern that the distinction between a branch and subsidiary in the draft SORP was drawn too narrowly in its definition. Conversely the definition of heritage assets extended the definition beyond that of FRS 102 may have introduced inconsistency by bringing certain operational assets into the heritage asset category, for example cathedrals.

3.13 Conor Woods noted that the establishment of the Charities Regulatory Authority (CRA) was an essential step in the development of charity reporting and accountability in the RoI. He noted that charities currently chose from Irish GAAP, the Charities SORP and a form of income and expenditure accounting. He noted that the consultation process had generated much interest in the SORP and considerable support for it in the RoI.

3.14 Caron Bradshaw, CFG, noted that CFG members had participated in a number of events. Like ICAEW there were mixed views of the FRSSE with many favouring the disapplication of the FRSSE for charities as a useful simplification. However, on balance, CFG recommended its retention as an option. The modular approach was very welcome and its new format was more simple and accessible. CFG members were concerned about the proposed disclosure of losses incurred through a material fraud in the SoFA.

3.15 She noted that there had been a lively debate around disclosure of senior staff salaries, performance/ impact reporting and social investments. CFG did not favour extending remuneration disclosures to details of individual salaries but felt that the inclusion of a remuneration policy might be helpful. Also the term ‘impact reporting’ might usefully be dropped from the new SORP.

3.16 Fiona Muldoon, CCNI, note that the consultation event in Belfast had been well attended with 170 delegates. It was anticipated that Regulations would be made in due course to make the ‘methods and principles’ of the SORP mandatory with effect from the implementation of the new SORP 2015.

3.17 In discussion, the Committee noted that the recognition of legacy income was an important area of debate with a difference of views. There was a desire for clarity but also flexibility and this was hard to reconcile. It was an area that needed to be discussed again when the final changes to the draft SORP are considered by the Committee in early 2014. It was noted that the position of charities managing a ‘pipeline’ of legacies which have data on probable and eventual settlement values differed from those charities receiving few legacies which lacked this historical information. The SORP should provide definitive guidance in these different situations. There were different points in the process with probate, the determination of the available net assets in the estate, the filing and resolution of any challenges to the will, and the settlement of legacy accounts. The extent of communication by executors and appointed legal advisers often varied in quality and timeliness. Getting the right balance between principles, which are proportionate to a charity’s situation, whilst providing sufficient clarity to bring consistency, will require further discussion.

3.18 The reporting of fraud had drawn a lot of discussion with unease about having an emphasis on separate disclosure in the SoFA even when this is material amount. Some considered the company law terminology used in the draft old fashioned and favoured switching to FRS 102 terms even though this might be inconsistent with current company law terminology.

3.19 Although the disclosure of grant making was important for transparency, the disclosure of grants as a note was considered by many as a potential source of clutter if not managed well in the SORP. The category of mixed motive investments was seen by some as an unnecessary complication. Similarly the requirement for a Statement of Cash-flows under FRS 102 for both a parent entity and the group was seen as unhelpful clutter by some. It was noted that requirements for a parent SoFA in addition to a group SoFA had drawn comment.

3.20 The definition and inclusion of pledges in the draft SORP was an area of debate and would need further clarification. There was a view that even though experience may indicate pledges from a donor known to the charity may be reliably received, no actual entitlement existed until the gift was actually made.

Item 5: Implications of changes in EU accounting directive for the FRSSE and the SORP

5.1 Ray Jones introduced this item regarding the future form and content of the Financial Reporting Standard for Smaller Entities (FRSSE). He noted that the Invitation to Comment had flagged that change was coming and had flagged that more frequent changes in standards would affect the SORP.

5.2 A new Accounting Directive had been approved for the European Union (EU) and this would be implemented through regulations in the near future. The EU now permit a simplified regime for micro-entities and a mandatory regime for smaller companies that required simplified reporting. The full details are set out in the accompanying Paper 2. Paper 2 was confidential and not for publication as it contained information about the anticipated timetable that the Department of Business Innovation and Skills (BIS) wished to follow which had yet to receive ministerial approval.

5.3 Although charitable companies are excluded from the EU Accounting Directive, a change to the small company reporting regime is likely to be reflected in a new FRSSE or FRSSE replacement standard and this will impact on the SORP which is written in the context of accounting standards. It is anticipated that the new regime might be introduced on a voluntary basis before 2016 in which case two FRSSEs may be in effect, FRSSE 2015 and a new FRSSE 2016 or FRSSE 2015 replacement standard. Developments would not become clearer until BIS consulted on the new regulations and the FRC subsequently consult on the future of the FRSSE.

5.4 It will be important that any additional reporting requirement for charitable companies can be addressed through either law, a new FRSSE or the SORP as the simplified smaller company framework that is to be introduced by the Accounting Directive is very pared down and is likely to provide insufficient transparency and accountability for charitable companies.

5.5 To accommodate these developments there appear to be a number of options, none of which are without difficulty. These are:

- Revise and reissue the SORP once a new FRSSE or replacement standard is issued.
- Split the draft SORP into sections with FRSSE core modules, FRS 102 core modules and the specialised modules.
- Develop two separate charities SORPs, a FRSSE SORP and an FRS 102 SORP.
- Dis-apply the FRSSE for charities altogether.

5.6 It was noted that the Secretariat had developed the new SORP with a view that charities new to accruals accounting or charities switching from FRS 102 to the FRSSE would follow accounting policies framed around FRS 102. However, a number of respondents, including ICAS, had pointed out that a charity is eligible to adopt the extant FRSSE at any time if it meets the eligibility criteria and so cannot be obligated to follow accounting policies based on FRS 102. It therefore followed that a change in the FRSSE would necessitate a change in the SORP and similarly a new FRSSE would require a new SORP.

5.7 The Committee discussed the various options and noted that the Secretariat had identified views from respondents who answered the question about the FRSSE that ranged from: retaining a single document that addresses both standards, have two SORPs or producing separate FRSSE modules or text on the micro-site, or dis-applying the FRSSE altogether as an option for charities. The uncertainty over the FRSSE might cause some charities to opt for the stability offered by FRS 102.

5.8 A single document might offer ease of reference but also add complexity due to the text addressing two accounting standards.. Two SORPs offers clarity and means that the FRS 102 SORP is unaffected by future changes to FRSSE but would require charities to make an upfront choice as to the standard they will follow. A single SORP with separate FRSSE modules might bring clarity but might also be perceived as adding length through additional modules addressing similar issues from the perspective of the two standards.

5.9 The Committee sought the views of the representative of the partners organisations present. There was some support for simply dis-applying FRSSE as this was the simplest option and gives clarity as to requirements. Another representative favoured a single document with two streams, FRSSE and FRS 102. Another favoured the two SORP option which would enable the FRS 102 version to pick up simplifications once a future FRSSE is issued based on FRS 102. Another was concerned at the length of the current SORP at 200 pages and so favoured a separate FRSSE SORP. Others simply favoured a separate FRSSE SORP.

5.10 It was decided that:

- **The Secretariat would prepare a separate briefing paper on the options.**
- **Prior to the 9 January 2014 meeting the Committee the Secretariat would give consideration to arranging a conference call or seeking further views by e-mail as to the preferred option.**
- **It was recognised that it would be helpful for the Secretariat to look at structure of the document and how change could be best accommodated through the drafting options before any further discussion and a decision made.**
- **Dis-applying the FRSSE was not an immediate option as this step would require public consultation and arguably it would not fulfil the commitment of the SORP-making body and SORP Committee to ‘think small first’ in the SORP development process.**

Item 4: Update from the FRC

4.1 Mei Ashelford updated the SORP Committee on progress with other SORPs. It was noted that Further and Higher Education SORP was due to be considered again by CAPE in January 2014 before being tabled at the Codes and Standards Committee in March 2014 for sign-off.

4.2 The FRC had issued an exposure draft on hedge accounting and International Financial Reporting Standard 9. She noted that the FRC will be liaising with BIS on the changes to UK company law as a result of the new EU Accounting Directives before considering the future of the FRSSE. It is anticipated that this will be considered during 2014.

4.3 The FRC would be again considering the definition of basic financial instruments with a consultation anticipated in January 2014.

4.4 The Committee noted that the Charities SORP was unique in being affected by the FRSSE. This was because, by income, 98% of the sector would be eligible to opt for the FRSSE when preparing their accounts.

Item 6: Next steps in the SORP development process

6.1 Nigel Davies introduced this item. He advised that he was undertaking an initial analysis of the written feedback. 179 responses had been received to the consultation. The written feedback would be tabled at the January meeting for consideration. It was then planned that the revised SORP, reflecting any agreed changes, would be considered at the February meeting prior to its submission for review by the FRC.

6.2 In accordance with the FRC Code of Practice for SORP making bodies those responses that were not confidential would be published. The published responses would be accompanied by the analysis and the SORP Committee minutes identifying the agreed changes. This would be done after the relevant SORP committee minutes have been approved.

6.3 In discussion it was noted that there was likely to be much to discuss, including potentially a FRSSE SORP, problematic issues and the feedback from the responses to the consultation.

6.4 It was agreed that the SORP making body would consider convening an extra meeting in January to allow more time to debate any changes needed to the draft SORP.

Item 7: Any other business

7.1 It was noted that following the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013, advice was needed for large and medium sized charitable companies on how to incorporate the requirement for a strategic report into the charities' reporting framework.

7.2 It was agreed that the Secretariat would draft an Information Sheet for SORP 2005 and bring forward suggestions as to the relevant changes to be made to the draft SORP.

7.3 There being no other business the meeting closed.