**SORP Committee**

**Minutes of the SORP Committee Meeting of 11 June 2014**

**(Approved by Joint Chair)**

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Present:

Debra Allcock-Tyler

Laura Anderson, Joint Chair of the SORP Committee

Tidi Diyan

Pesh Framjee

Peter Gotham

John Graham

Keith Hickey

Noel Hyndman

Ray Jones

Carol Rudge

Kate Sayer

Paul Spokes

Sam Younger, Joint Chair of the SORP Committee

In attendance:

Nigel Davies, Secretary to the SORP Committee

Mei Ashelford, Financial Reporting Council (FRC) (observer member)

Dr Louise Crawford, Dundee University

David McConnell, Charity Commission for Northern Ireland (CCNI) (observer member)

Apologies:

Caron Bradshaw (observer member)

Tris Lumley

Catriona Scrimgeour

**Item 1: Opening remarks and declarations of interest**

* 1. Laura Anderson welcomed members to the concluding meeting of the charities SORP Committee. She noted that the Financial Reporting Council’s (FRC) Board had approved the two SORPs at its meeting of 22 May and thanked Nigel Davies and Ray Jones for their work in bringing the SORPs to a successful conclusion. She also thanked committee members for their dedication and commitment to the process.
  2. Dr Louise Crawford was welcomed to the meeting. On behalf of the Committee, the Chair thanked Pesh Framjee and Crowe Clark Whitehill for hosting the meeting.
  3. She asked if there were any declarations of interest to be made. No declarations of interest were noted.
  4. Nigel Davies advised that in view of this being the last meeting, the minutes for the June meeting would be circulated in draft before being approved by the Joint chair.

**Item 2: Approval of the minutes and matters arising**

2.1 The minutes of the meeting of the 12 January 2014 and annex were considered and approved.

2.2 Sam Younger noted that in approving the two SORPs, the FRC’s Board was content with the approach taken in the area of disclosing senior staff pay. The FRC was also content with the issue being kept under review whilst good practice develops and is adopted across the charity sector.

2.3 David McConnell advised that the Department for Social Development were responsible for bringing forward regulations to do with charity reporting and accounting. A consultation on draft regulations is anticipated for the autumn of 2014 with a view to charities preparing accruals accounts complying with the applicable SORP. Currently there are no form and content requirements.

2.4 Nigel Davies noted that the Charity Regulatory Authority was to be established in the Republic of Ireland and would be operational from 16 October 2014.

**Item 3: CCAB research: international financial reporting for the not-for-profit sector**

3.1 Dr Louise Crawford opened the discussion of the research by the Consultative Council of Accounting Bodies (CCAB) on whether there was evidence that some form of international accounting standard (IAS) for not-for-profits (NFPs) was needed. She advised that the research was undertaken in collaboration with Professor Gareth Morgan, Sheffield Hallam University, Oonagh Breen, University College, Dublin and Carolyn Cordery, Victoria University of Wellington, New Zealand.

3.2 The research had been undertaken to a tight timescale from August 2013 to January 2014 with feedback sought globally by means of a web based survey in English. Although the responses were likely to be skewed to English speaking countries and networks known to the CCAB research panel, in total 605 responses were received from 179 countries with all UN classified continents participating. Of the respondents, 42% were NFP staff and of the respondents, 68% were primarily involved in preparing accruals accounts.

3.3 In all 19 questions were asked and narrative comment was invited on a number of the questions posed. A large number of respondents chose to comment providing a depth of qualitative comments and a number of these are used to illustrate the findings from the research. An executive summary and the full report: *International financial reporting for the not-for-profit sector* can be obtained from the CCAB website.

3.4 Overall 72% of respondents agreed or strongly agreed that an IAS for NFPs was needed although a minority of respondents, mainly from Europe and America were strongly opposed. The strongest support came from Asia and Africa. In particular 82% of NFPs in Africa supported an IAS but she noted that the prevalence of forms of cash accounting was highest in Africa. This may mean that rather than an IAS, NFPs were looking for a form of uniform guidance that would cover both cash based and accruals based accounts. She noted that the evidence suggested that funders were less satisfied with cash based accounts and that NFPs faced a multitude of different reporting requirements from funders which commensurately increased the burden of reporting. In terms of applicability to NFPs, respondents from Europe and America favoured having a size limit above which an IAS applies whereas respondents from Africa favoured all applying an IAS.

3.5 Respondents agreed that the main distinctive issues that needed covering were narrative reporting, fund accounting and specific assets that are held for NFP purposes and not for generating cash-flows. Practitioners and NFPs staff felt there was not enough guidance on these aspects whereas professional auditors felt that there was sufficient guidance available. Currently International Financial Reporting Standards (IFRS) and International Public Sector Accounting Standards (IPSAS) are little used by NFPs instead reliance is placed on local Generally Accepted Accounting Practice (GAAP), regulations or other sources such as the UK charities SORP or the requirements of funders.

3.6 In terms of the drafting of an IAS, respondents in Asia and Africa emphasised the limited capability and skills of local practitioners and the need for assistance with education and training. The research strongly supported the need for some form of IAS or guidance but the data did not support conclusions as to what form it should take nor indicate who should undertake developing it.

3.7 The Committee noted that Nigel Davies, Pesh Framjee and Carol Rudge were members of the CCAB sponsored panel that had been reconvened to consider what the next steps might be. Nigel Davies noted that the panel was still meeting under the chairmanship of Ian Carruthers and was considering developing proposals to engage with funders and international bodies to facilitate an IAS in the medium or longer-term.

3.8 Currently the International Accounting Standards Board (IASB) had no plans to progress an IAS for NFPs. Neither did the International Federation of Accountants (IFAC) have plans to extend IPSAS to cover NFPs. The key to an IAS for NFPs was a broad based global initiative. First steps might be to establish overarching principles for accounting for NFPs rather than a detailed IAS. Any IAS would need authenticity which requires a global involvement and engagement with its development. To make a difference it would need to authoritative, backed by local GAAPs. The Committee noted that the first charities SORP, SORP 2, which was issued in 1988, was dubbed the statement of rare practice; it was not until a regulatory framework was put in place that the SORP became accepted sector practice.

3.9 Other sources of authority were funders and the sector. The example of East Africa showed what was possible with a Statement of Recommended Accounting Practice (SoRAP) having been developed based on a previous version of the UK charities SORP. The project for an IAS for NFPs may be a very long-term one as it took 20 years for IFRS to be globally established and widely adopted.

3.10 Given the limited capability in certain parts of the world , any IAS for NFPs might be poorly implemented and so perhaps a form of guidance might be a suitable interim step to implementing an IAS for NFPs. Funders may well still require additional reporting and an IAS would therefore not fully remove this reporting burden. However an IAS for NFPs would bring a degree of consistency and provide a common framework to address the distinctive reporting and accounting issues faced by NFPs.

3.11 The Committee thanked Dr Crawford for her presentation.

**Item 4: Arrangements for tendering SORP Secretariat and had copy publication Update**

4.1 Sam Younger gave a verbal update on plans for developing the next SORP. Due to budget pressures the Charity Commission for England and wales (CCEW) could no-longer resource the two full-time policy accountants and devote the resources needed to develop the text of the SORP and provide the Secretariat service to the charities SORP Committee.

4.2 Working with the Office of the Scottish Charity Regulator (OSCR), CCEW were jointly tendering for both the printing and hard copy publication of the new SORPs, as paid-for publications, and the Secretariat and drafting function. OSCR and CCEW would remain the joint SORP-making body. It was hoped that the Secretariat function would be provided at no cost, perhaps financed in whole or part through sales of the new SORPs. There had been considerable initial interest but the contract(s) would not be awarded until the end of July. Bidders were invited to bid solely to publish the new SORPs, solely to provide the Secretariat service or to provide both.

4.3 The Committee were concerned that any new arrangements should maintain the quality, integrity and transparency of the work undertaken by the current Secretariat with regard to the SORP development and consultation process. The availability of a free version of the SORP and the ability to quote freely from it was essential. It was noted that although the SORPs for registered providers of social housing and further and higher education were developed by accounting firms, they were paid for this work. These sectors were much more homogenous than the general charity sector.

4.4 The Committee noted that members had given a significant ongoing voluntary input to the SORPs’ development. Although accepting that budget constraints had led to the discontinuation of the Secretariat service by CCEW and the diversion of those resources to other priorities, the Committee requested that their concerns about the planned contracting out exercise are noted by the SORP-making body.

**Item 5: Arrangements for the launch of the SORP**

5.1 Nigel Davies introduced this item and noted that the text of both SORPs was now being set for web publication. The SORP micro-site was being retained and redesigned to support two SORPs. It was intended to publish three help-sheets in support of the new SORPs.

5.2 The first help-sheet would update the destination table of paragraphs in the 2005 SORP to the FRS 102 SORP. The second would identify the significant differences in the primary statements, the trustees’ annual report and accounting policies between SORP 2005 and the FRS 102 SORP. The third help-sheet would compare the FRSSE SORP with the FRS 102 SORP and set out the significant differences so that preparers can make an informed choice between the two SORPs.

5.3 The extensive redesign and development work meant that the publication of a PDF of each SORP would be in early/ mid-July rather than at the end of June, which had been the initial aspiration. The micro-site would be developed in a phased way with the ability to select individual modules and to tailor the SORP added as later stages along with an events page and an archive page. The events page would feature events provided by SORP Committee members or those at which representatives of the SORP-making body were presenting on new SORPs. The final element would be two worked illustrative examples.

**Item 6: Future SORP Committee arrangements**

6.1 Laura Anderson introduced this item. She noted that OSCR and CCEW are to continue as the SORP-making body and that there was a continuing need for an advisory charities SORP Committee. She anticipated a recruitment process would be undertaken later in the autumn across the four jurisdictions covered by the SORPs. The recruitment process would be advertised on the SORP micro-site.

6.2 The composition of the SORP Committee would need to change to better reflect the four jurisdictions, with increased representation from Ireland. It was anticipated the contractor for the Secretariat service would assist in that recruitment process. She thanked existing SORP Committee members again for their contribution and invited all to consider re-joining a future Committee.

**Item 7: Update from the FRC**

8.1 Mei Ashelford thanked Nigel Davies and Ray Jones for their work in preparing SORPs for the FRC’s approval.

8.2 Regarding the FRSSE, she noted that until draft regulations were issued by the Department of Business Innovation and Skills, the FRC was unable to progress a successor framework to FRSSE 2015. It was anticipated that a new small company framework would be in place from 2016 and it was almost certain FRSSE 2015 would be withdrawn. The FRC intends to consult concurrently with the BIS consultation in order to expedite a replacement to FRSSE 2015.

8.3 The exact timing of a consultation was uncertain but the development work would mean a new FRSSE replacement being developed in 2015 for financial years beginning on or after 1 January 2016. Inevitably a new FRSSE replacement would necessitate an update or replacement to the FRSSE SORP.

8.4 The Committee asked that the FRC consider standardising accounting for grants across the public benefit entity sector and simplifying pensions reporting when FRS 102 is revised. Mei Ashelford noted that the FRC’s review of FRS 102 would be undertaken in 2016-17 with any changes made to FRS 102 with effect from 2018.

**Item 8: Any other business**

8.1 Ray Jones noted that work was now being undertaken by the Office of Civil Society on the new regulations needed to put the new SORPs into effect in England and Wales. He noted that the timescale was very tight and he anticipated that a consultation would be undertaken in late July on the draft regulations if the regulations were to be made in time.

8.2 The regulations would make adherence to the SORPs mandatory for financial years beginning on or after 1 January 2015. He anticipated that the regulations would permit those charities with financial years ending on or after 31 December 2014 to adopt the new SORPs early.

8.3 Laura Anderson noted that regulations in Scotland would be amended to substitute references to the new SORPs for those to SORP 2005 in the current regulations.

8.4 There being no other business the meeting closed.