

# Charities SORP Committee Minutes

(approved at the 6 February 2015 SORP Committee meeting)

Date	11 December 2014	
Venue	Directory of Social Change, 24 Stephenson Way, London, NW1 2DP	
Joint Chair	Nigel Davies	Charities Commission
Members Present	Sarah Anderson Caron Bradshaw Richard Bray Michael Brougham Tom Connaughton Pat Dennigam Mark Hill Geoff Hunt Noel Hyndman Kenneth McDowell Sheila Nordon Simon Ling Carol Rudge Joe Saxton Jenny Simpson David Spivey Mark Spofforth	Deloitte LLP CFG Cancer Research UK ACIE The Rehab Group Focus Ireland Sainsbury Family Charitable Trusts Wolfson Foundation Queen's University, Belfast Chiene & Tate ICTR National Association of Almshouses Grant Thornton nfpSynergy Wylie & Bissett LLP Royal National Lifeboat Institution Spofforths Chartered Accountants
In attendance	Mei Ashelford David McConnell Una Ní Dhubhghaill Pesh Framjee  Alison Scott Anne Davis	FRC Charity Commission Northern Ireland Charity Regulatory Authority Crowe Clark Whitehill, Technical Advisor to CIPFA Secretariat CIPFA, Secretary to the SORP Committee CIPFA
Apologies	Laura Anderson	OSCR, Joint Chair of the SORP Committee

## Action

### 1 Welcome, Apologies for absence and declarations of interest

- 1.1 Nigel Davies welcomed members to the meeting and noted with thanks that the Directory of Social Change had hosted the meeting. The meeting was one of many firsts: the first with CIPFA providing the Secretariat support, the first with member representation from the Republic of Ireland and the first to have the newly established Charity Regulatory Authority represented.

1.2 Apologies for absence were received from Laura Anderson.

1.3 Nigel Davies clarified that declarations of interest arise where a member has already given advice or has a published position on a particular matter which is before the Committee for debate. He asked if there were any declarations of interest to be made. No declarations of interest were noted by members.

## **2 Introductions by members of the Committee**

Nigel Davies invited members of the Committee to introduce themselves briefly, regarding their professional background, areas of expertise and interests for wanting to be a Committee member and in the charities SORP.

## **3 Networking over lunch**

## **4 The SORP Agenda – a 3 year perspective**

4.1 Nigel Davies invited Committee members to give their views on key themes and issues facing the charity and voluntary sector, by jurisdiction, in the next three years.

### **4.2 Republic of Ireland (ROI)**

Committee members highlighted the following key issues for the charity and voluntary sector in the Republic of Ireland:

- the impact on the Companies Law Bill 2012 which is due to be enacted in 2015 and possible implications for the audit exemption threshold for charities. In the ROI, the audit exemption threshold for charities is 250,000 euro (old threshold);
- charity regulation is developing in ROI. There is a new Charity Regulator, the Accounting and Reporting Regulations are yet to be finalised, and there is concern about the overall regulatory approach, particularly a nervousness about what will be mandated for small unincorporated charities;
- given that the Accounting and Reporting Regulations are awaiting final approval, the SORP is regarded as best practice in ROI and is not mandatory;
- there is a desire in the ROI to adopt best practice; and
- there is no current provision for independent examinations.

### **4.3 Northern Ireland**

Committee members highlighted the following key issues for the charity and voluntary sector in Northern Ireland:

- charity regulation in Northern Ireland is still in its infancy and the Charity Commission for Northern Ireland are only beginning to map the sector;
- pending this mapping, it is currently believed that Northern Ireland's charity sector consists of mostly small charities;
- unlike England & Wales, the legislation in Northern Ireland does not provide exemptions for small charities and there is no equivalent to excepted charity status;
- therefore any sort of reporting will be a shock to many charities;
- accounting and reporting regulations are being drafted by the Department for Social Development but are not yet in force;
- until these regulations are in force, adoption of the SORP is not mandatory but remains best practice

- a quirk of company legislation in Northern Ireland means that the audit gross income threshold for incorporated charities is currently £250k; and
- this means that many smaller incorporated charities above this threshold are potentially going to be held to the standard of the SORP until the DSD regulations come into force.

#### 4.4 Scotland

Committee members highlighted the following key issues for the charity and voluntary sector in Scotland:

- OSCR's ongoing consultation on its regulatory framework;
- issues in financial reporting relating to which of the SORPs to follow, accounting issues such as pension liabilities for final salary pension schemes, loan instruments and possible impact on bank loan covenants and some disclosures e.g. trustee disclosures;
- there is no exemption from filing charity accounts in Scotland. In Scotland, 60% of charities are below the £25k income ;
- different audit thresholds across jurisdictions would result in a charity having to comply with the stricter regime i.e. the lowest audit threshold; and
- need to think small first when developing standards and regulations.

#### 4.5 England and Wales

Committee members highlighted the following key issues for the charity and voluntary sector in England and Wales:

- public perception of charities and what is important. Recent research by nfpSynergy found that 25% of the public don't believe that a charity chief executive should be paid anything. Although this may be unrealistic, this is typical of a perceptions gap between the public and the sector. There are currently gaps in knowledge about how charities operate and how the public think they are. Transparency is important in order to enhance the public's understanding of charities and promote public trust.
- The SORPs should be made as accessible as possible.
- The SORPs must address financial reporting concerns such as the impact of defined benefit schemes, switch from grants to performance contracts, capital and revenue grants and implications on fund accounting, distinction between promise, commitment and liability for grant-making bodies, sources of funding, allocation of overheads across activities, risk management, financial performance and measurement and financial stability.
- audit exemptions levels, including the recent Cabinet Office consultation in this area;
- dual or multiple registration requirements for charities in the UK and associated regulatory jurisdictional differences;
- changing landscape of charities and different legal structures;
- better understanding about how charities can be distinctive and demonstrate public benefit;
- encouraging charities to have a holistic approach to financial reporting rather than a mechanistic one;
- better link between the Charity SORP and the work done on integrated reporting internationally;
- level of detail included in the SORP. It should not be assumed that the quality of financial reports will improve if more detail is required by the SORP. Need to consider learning from the standard setting

process by other regulators and perhaps consider setting up a reporting panel to pick up accounting and financial reporting issues not dealt with adequately in the SORP; and

- online Financial Reporting and best practice in this area.

#### 4.6 Secretariat

Nigel Davies invited the Secretariat to provide their views on any additional key themes and issues facing the charity and voluntary sector in the next three years:

- Link between revenue recognition changes in IFRS, FRS 102 and the SORP;
- Boundary and links between the not-for-profit sector and the public sector in relation to accounting and governance; and
- Implications of a possible increase in the audit threshold on the Charity SORP, in particular the Trustees Report requirements that apply to larger charities; and
- Future development of International not for profit financial reporting standards for areas where there are no legal or regulatory guidance. This initiative is being led by Ian Carruthers (CIPFA) on the back of CCAB Research in to this area.

### **5 Update from the FRC**

- 5.1 Mei Ashelford, Project Director at the FRC, provided a verbal update on the developments to UK accounting standards at the FRC.
- 5.2 Mei reported that the FRC has consulted on the future of financial reporting for small entities as part of its implementation of the EU Accounting Directive. The FRC proposed to withdraw the FRSSE and replace it with a standard for micro-entities (FRS 105) and bring other small entities within the scope of FRS 102 with limited mandatory disclosures (FRS 102 for Small Entities). The initial analysis of responses suggests strong support for this proposal.
- 5.3 The Committee discussed the implications for charities of the new accounting standard for micro-entities. A micro entity is legally defined as a company with a turnover less than £632,000 a year. The FRC proposes that FRS 105 will be based on the recognition and measurement requirements of FRS 102 but that further simplifications may be introduced.
- 5.4 The Joint Chair noted that the applicable UK Companies Act regulations excluded charitable companies from adopting the micro-entity reporting framework. He noted that when the previous SORP Committee had considered this option it had decided against it and had recommended that charities be kept outside of the scope of micro-entity reporting.
- 5.5 The Committee considered whether it would be appropriate to request a change in law in order to allow charities to benefit from the micro-entity standard. However, after some discussion, the Committee rejected this on the grounds of public interest.
- 5.6 It is expected that the FRC will issue detailed exposure drafts of FRS 105 and other amendments to FRS 100 to 102 for consultation by the end of February 2015.
- 5.7 Based on the above update, Nigel Davies gave the Committee an overview

of the key timescales for developing the replacement to the SORP (FRSSE). The Committee would have to discuss a draft replacement for the SORP (FRSSE) at its meeting on 6 February 2015 meeting, in order to seek approval for consultation from the FRC by mid-March 2015. If approved by the FRC, a three month consultation period would follow.

5.8 Final approval of the SORP solution for small entities will be sought from the FRC in December 2015 with the intention is to issue it for accounting periods on or after 1 January 2016.

5.9 The Committee noted that timings were very tight for drafting, consulting and finalising the SORP (FRSSE) replacement. Further information on this is available in agenda item 8 below.

## **6 Implications of revisions to FRS 102 for the Charities SORP (FRS 102)**

6.1 In advance of the discussion on the paper, Nigel Davies explained the types of guidance that the SORP-making body could issue in addition to a SORP:

- Information Sheet: the purpose of an information sheet is to provide supplementary advice or support to particular issues, which may be the result of ambiguity in the text of the SORP. Information sheets are advisory in nature and there is no requirement for users to apply them. Information sheets can be issued without FRC approval.
- Update Bulletin: implement a change to the text of a SORP itself. Bulletins have to follow due process including a 3-month consultation and seek FRC approval.

6.2 Alison Scott informed the Committee that in July 2014 the FRC issued amendments to FRS 102 relating to the classification of basic financial instruments and hedge accounting. These amendments revised the criteria for the types of financial instruments that can be accounted for as basic financial instruments and removes some of the hedge accounting restrictions broadening the eligibility criteria.

6.3 The Committee discussed whether it would be appropriate to issue an information sheet.

6.4 The Committee was of the view that it was not appropriate to issue an information sheet in this area for the following reasons:

- Paragraph 3 in the SORP (FRS 102) makes it clear that users and advisers need to take into account the developments in FRS 102, since these requirements take precedence over the SORP.
- The scope of the change affects only a small minority of larger charities who are either already familiar with these changes or have the resources to buy in advice;
- There was concern that this type of subject may not be the right topic for the first information sheet because it is too narrow in scope; and
- There was also concern that it was not the role of this Committee to keep users and their advisers informed of all changes in FRS 102 but only those changes that directly affect the text of a SORP.

6.5 Anne Davis raised the point that the new SORPs are different to the preceding SORP. Users and their advisers need to keep abreast of changes

in the underlying accounting standards. Previously, the SORP was largely a one-stop shop for financial reporting for charities and there was less need to do this.

- 6.6 On the basis of the above, the Committee concluded that no Information Sheet should be issued but that a link to the FRC's website signposting changes to accounting standards should be inserted into the SORP microsite in order to increase awareness. **ND**

## **7 Changes to the UK-Irish GAAP for small company accounting and the options for the charities SORP**

- 7.1 Alison Scott introduced this paper and noted that the SORP (FRSSE) would need to be replaced as the FRC are proposing to withdraw the FRSSE as part of their implementation of the Accounting Directive.
- 7.2 There are three possible options for dealing with the replacement to the SORP (FRSSE) and the advent of micro-reporting (FRS 105):
- re-issue the existing the SORP (FRS 102) to incorporate amendments to reflect the new requirements of FRS 102 for Small Entities;
  - replace the Charities SORP (FRSSE) with two new SORPS; one based FRS 102 for Small Entities and the other one based on FRS 105 for micro-sized charities; and
  - replace the Charities SORP (FRSSE) with a new SORP based on FRS 102 for Small Entities.
- 7.3 Given the previous discussion on the applicability of the micro-entity framework to charities (see paragraph 5.3), the possibility of issuing a wholly new SORP for micro-sized charities was rejected. Therefore a charity would be permitted to apply to either full FRS 102 or if it qualifies, FRS 102 for Small Entities. The issue was how to best facilitate this choice. Currently there are two SORPs but should there continue to be two SORPs or should the FRSSE SORP simply be withdrawn and an Update Bulletin issued to advise small entities about how to use the FRS 102 SORP?
- 7.4 The Committee discussed the following points:
- consistency in recognition and measurement for charities of all sizes;
  - stability for charities that have adopted SORP (FRS 102);
  - implications for FRSSE users and small charities in general; and
  - the best time for harmonisation of the two SORPS into one SORP.
- 7.5 On the basis of the above discussions, the Committee were asked to vote on two proposals:
- issuing a replacement SORP based on FRS 102 for Small Entities and keep SORP (FRS 102) i.e. keep two separate SORPs;
  - issuing an Update Bulletin which withdraws SORP (FRSSE) and identifies for small entities those items they do not have to provide when using SORP (FRS 102) This would enable the combination of the Update Bulletin and the FRS 102 SORP to incorporate the requirements of FRS 102 for Small Entities i.e. This would be a stepping stone to only having one SORP incorporating both full FRS 102 and FRS 102 for Small Entities at a future date.
- 7.6 The Committee unanimously voted to issue an Update Bulletin as it is expected that the recognition and measurement criteria between FRS 102 and FRS 102 for Small Entities would be consistent, with the only difference

being in relation to disclosures. The Committee noted that the mandatory disclosures for small entities required by FRS 102 for Small Entities would be very limited under the new legal restrictions, but that the SORP was free to require additional disclosures for small charities on top of those required by the standard. Also small entities would be required to make additional disclosures over and above the legal minimum where these are necessary for the accounts (financial statements) to give a true and fair view.

- 7.7 Nigel Davies asked the Secretariat to start developing the Update Bulletin including consideration of possible disclosures that may be mandated in the SORP. This will be reviewed at the meeting on 6 February 2015. **AS/AD**

## **8 Arrangements for the consultation on the Charities SORP (FRSSE)**

- 8.1 Nigel Davies gave a verbal update on the key dates for the consultation of the replacement of the SORP (FRSSE) as follows:

- Suggested approval time-line for Committee:
  - 6 February 2015: discuss draft Update Bulletin
  - late March 2015: discuss consultation process and invitation to comment document (minimum of 3 month consultation process)
  - August 2015: review consultation feedback
  - September 2015: agree final Update Bulletin for FRC approval
  - Subject to the FRC time-line for revising FRS 102, December 2016: review of SORP (FRS 102) begins.
- The Committee was notified that there were fixed dates to seek FRC approval which would need to be taken in account in the development of the Update Bulletin.

- 8.2 In addition to the above suggested Committee dates, telephone conference calls may be needed after each FRC stage of FRC approval.

- 8.3 Nigel Davies requested that each Committee member think about how they might be able to promulgate the consultation process for the next Committee meeting on 6 February 2015. **All**

- 8.4 Joe Saxton suggested that it would be helpful to have a twitter account to promulgate developments of the SORP Committee, in particular the consultation process. Nigel Davies responded the currently any updates to the SORP Microsite are communicated via the Charity Commission twitter account. The SORP micro-site does not have this facility. The Secretariat will explore whether this could be done via a CIPFA twitter account. **AS/AD**

## **9 Any other business**

- 9.1 Mark Spofforth enquired as to whether it would be possible to:
- have conference call facilities at future meetings; and
  - a dedicated area of the website to access papers for the meeting.

Alison Scott and Anne Davis will look into this and report back at the next meeting. **AS/AD**

- 9.2 Alison Scott enquired as to whether Committee members were happy to share email addresses with each other. The Committee agreed that this would be appropriate. **All**

- 9.3 Alison Scott invited members to suggest points for the agenda for future meetings. In addition, the Secretariat is available to help on technical matters relating as necessary. **All**
- 9.4 Anne Davis suggested that the Committee should consider the possible implications of raising the statutory audit threshold in the jurisdiction of England and Wales on the definition of 'larger charity' used by the SORP. Nigel Davies agreed that this should be added the agenda for the meeting on 6<sup>th</sup> February. **AS/AD**
- The next meeting of the Committee will be on **6<sup>th</sup> February, CIPFA Offices in Edinburgh, 10 am until 1pm** **All**