

Charities SORP Committee Minutes

Date	14 October 2015	
Venue	CIPFA Offices, 77 Mansell Street, London	
Joint Chair	Laura Anderson Nigel Davies	<i>OSCR Charities Commission in England and Wales</i>
Members Present	Sarah Anderson Caron Bradshaw Richard Bray Michael Brougham Tom Connaughton Pat Dennigan Geoff Hunt Noel Hyndman Simon Ling Kenneth McDowell Sheila Nordon Darren Spivey Mark Spofforth	<i>Deloitte LLP CFG Cancer Research UK ACIE The Rehab Group Focus Ireland Wolfson Foundation Queen's University, Belfast National Association of Almshouses Saffery Champness ICTR Royal National Lifeboat Institution Spofforths Chartered Accountants</i>
In attendance	Jenny Carter Anne Davis Pesh Framjee Fiona Muldoon Alison Scott	<i>FRC CIPFA, Secretary to the SORP Committee Crowe Clark Whitehill, Technical Advisor to CIPFA Secretariat Charity Commission Northern Ireland CIPFA, Secretary to the SORP Committee</i>
Apologies	Mark Hill Carol Rudge Joe Saxton Jenny Simpson Una Ní Dhubhghaill	<i>Sainsbury Family Charitable Trusts Grant Thornton nfpSynergy Wylie & Bissett LLP Charity Regulatory Authority</i>

1 Welcome, Apologies for absence and declarations of interest

- 1.1 Nigel Davies welcomed members to the meeting.
- 1.2 Apologies for absence were received from Mark Hill, Carol Rudge, Jenny Simpson, Joe Saxton and Una Ní Dhubhghaill.
- 1.3 Nigel Davies asked if there were any declarations of interest to be made. No declarations of interest were noted by members.

2 Approval of the minutes and matters arising

- 2.1 The minutes of the meeting on 13 August 2015 were considered and discussed. Some minor amendments regarding wording in bullet point 3, page 6 of the minutes were suggested and agreed by the Committee. Anne Davis to action. **AD**

- 2.2 Nigel Davies asked the Committee if there were any other matters arising that they would like to raise which were not covered by the agenda. The following matters were raised:
- Mark Spofforth referred to the Commission's accounts monitoring reviews, particularly its latest report in August 2015 which concluded that 43% of charities included in the review had unusually low levels of charitable expenditure either because they had made a mistake in their annual return, the accounts understated the expenditure or the accounts did not state the amount of charitable expenditure. It was suggested that the results of the Commission's accounts monitoring review should be considered as part of the future research for the development of the SORP in order to better understand why these errors are occurring. This suggestion will be discussed further at the next SORP Committee meeting. **ND/LA**
 - Caron Bradshaw raised concerns regarding the comment relating to fundraising expenditure in accounts included in the report: *Trust in charities, confidence in fundraising regulation* which was issued in September 2015. The funding system proposal in the report assumes that fundraising expenditure is readily available from charity accounts submitted to the Charity Commission. This is not the case and perhaps the SORP making-body would like to consider writing to panel led by Sir Stuart Etherington to clarify this matter. **ND/LA**

3 Bulletin 1 – discussion

a) analysis of changes from FRED 59 to final standard and analysis of consultation of response

- 3.1 Alison Scott introduced the first paper to the Committee which detailed the changes between FRED 59 and the final published amendments to FRS 102 issued in July 2015. Most of the amendments were anticipated in FRED 59 but some were not the same as initially anticipated, as detailed below:
- Amendment to the "seriously prejudicial" exemption. Additional guidance included in paragraph 21.17A of FRS102 has been provided in this area. This paragraph is not replicated in the SORP and the new guidance does not alter the relevance of this paragraph to charities. Therefore no change is required to the Update Bulletin.
 - Amendment to the guidance on merger accounting. FRED 59 only

permitted merger accounting for group reconstructions. Also FRED 59 did not permit merger accounting for charities that are companies, except where permitted by law. The Accounting Council notes in the final standard FRS 102 that 'true mergers' (other than those that might be considered group reconstructions) are not likely to be common. However, Appendix IV: Note on legal requirements notes that an individual public benefit entity may apply the true and fair override if it considers it appropriate to its circumstances, and provides the corresponding disclosures.

- The definition of related parties has been amended to maintain consistency with changes in the legal definition of related party. The definition of related parties now includes an additional bullet point of "entities that provide key management personnel services to the entity; and"
- There has been an amendment to FRS 102 to explain that "a small entity choosing to apply 'full' FRS 102 is not required to present a cash flow statement."

3.2 The Committee discussed these amendments resulting from the finalisation of amended FRS 102. The key points discussed were:

- The practical implications of the true and fair override which permits charitable companies to apply merger accounting in certain circumstances. There were concerns that in the application of the true and fair override, this would be subject to different interpretations and there may be the need for further guidance in the form of an information sheet.
- The additional bullet point in the definition of related party in the draft Update Bulletin 1 should refer to "reporting charity" rather than entity to ensure that the language being used is consistent with the rest of the SORP.

3.3 Anne Davis introduced the paper analysing the responses to the consultation on the draft Update Bulletin 1. 28 responses were received. The majority of responses were from within the UK. The key points in the feedback were as follows:

- Module 6: Donated goods, facilities and services, including volunteers: 4 out of the 28 respondents made specific comments in this area, mainly relating to the clarity of the wording in the proposed amendment in paragraph 6.12 of the SORP FRS 102.
- Module 12: Impairment of assets: 2 out of the 28 respondents suggested that additional amendments were needed to the proposed paragraph 12.20 in the SORP FRS 102 to reflect the proposed changes in FRS 102 on the reversal of impairments of assets other than goodwill.
- Module 17: charity mergers: 11 out of the 28 respondents expressed concerns over the proposed amendments in paragraph 27.4 and 27.4A of the SORP FRS 102. The concerns related entirely to the proposed prohibition of merger accounting for charitable companies, except where group reconstructions have occurred. Some respondents expressed concerns that as drafted, paragraph 27.4 and 27.4 A did not make it clear that charity reconstructions can still be treated as mergers. Others expressed concerns that the term "business combination" was confusing and was not defined in the glossary of the SORP.
- Related parties definition: 2 out of the 28 respondents suggested that the definition of related parties in the draft update Bulletin 1

needed to be amended to incorporate the final amendments in FRS 102.

- Effective date: 3 out of the 28 respondents expressed concerns regarding the lack of clarity for the effective date for draft Update Bulletin 1. The effective date for all amendments in Bulletin 1 is for reporting periods beginning on or after 1 January 2016 yet the change in definition for larger charities is retrospective for reporting periods ending on or after 31 March 2015.
- Definition of larger charities: 21 out of 28 respondents supported the proposal to de-link the definition of larger charities to the audit threshold. Respondents which did not support the proposed de-linking of the definition of larger charities to the audit threshold stated that it would be confusing to change this definition and that the definition of larger charity should be defined by reference to its jurisdiction and should be consistent with the audit threshold in the relevant jurisdiction. 3 of the respondents suggested an alternative threshold for larger charities of £1m gross income in line with the statutory audit threshold for group accounting and one suggested a threshold of gross income of £250,000, which would be aligned to the requirement for the preparation of accrual accounts by charities.

3.4 Anne Davis informed the Committee that the definition of related parties and change in wording for merger accounting were picked up by Alison Scott's paper on the changes from FRED 59 to FRS 102 and consequential changes to draft Bulletin 1. The Committee might therefore like to focus their discussion on the responses received on the following key areas:

- The treatment of donated goods and services
- Impairment of assets
- the definition of larger charities: de-linking and threshold
- effective date for Bulletin 1

3.5 The Committee discussed whether the draft wording in the proposed amendment in paragraph 6.12 relating to goods donated for distribution could be improved. The Committee concluded that the sentence could be amended as follows "the carrying amount should be subsequently adjusted to reflect the lower of deemed cost adjusted for any loss of service potential and replacement cost."

3.6 The Committee considered the feedback relating to the proposed amendments in paragraph 12.20 relating to the impairment of assets. However, based on the feedback provided, the Committee was not persuaded that any amendments to paragraph 12.20 were needed.

3.7 The Committee considered the feedback relating to the proposed definition of larger charities. The definition of larger charities has implications for the type of content to be included in the Trustees' Annual Report, the format of the SOFA (which needs to be activity based) and the proposal for larger charities to prepare Statement of Cash Flows (which was included in invitation to comment *Withdrawal of the Charities SORP (FRSSE) and Proposals to widen the scope of Charities SORP (FRS 102)*). The key points discussed by the Committee were:

- whether to de-link the definition of larger charities to the statutory audit threshold. Having considered the feedback, the Committee

were of the view that the definition of larger charities should be de-linked from the statutory audit threshold. This view was supported by the majority of the respondents to the consultation and ensures that the SORP will be future proof from potential future changes in the statutory charity audit threshold in any particular jurisdiction.

- the threshold for the definition of larger charities was discussed by the Committee. There was a lack of agreement about alternative thresholds in the feedback from the respondents. If an alternative threshold was implemented for the definition of larger charities, then the 900 cross-border charities operating in Scotland and England and Wales might have to submit two sets of annual accounts to the regulators because of the different disclosure requirements in the Trustees' Annual Reports. The Committee deferred making a decision on amending the definition of larger charity until they had had an opportunity to discuss the feedback from the responses to the consultation on the *Withdrawal of the Charities SORP (FRSSE) and Proposals to widen the scope of Charities SORP (FRS 102)*.
- The Committee considered the lack of clarity on the effective date for implementation for draft Bulletin 1 and agree that it was confusing to have two different effective dates for different amendments included in Bulletin 1. Therefore, the Committee was of the view that all the amendments for draft Bulletin 1 should be effective for reporting periods beginning on or after 1 January 2016.

3.8 In addition to the above feedback, the Committee then discussed whether the amendment for merger accounting resulting from the finalisation of FRS102 dealt with all the feedback received in this area. The one area of debate was whether the wording in draft Bulletin 1 should be amended to make it clear the merger accounting is still permitted for charity group reconstructions. The Committee was of the view that this was not necessary since this guidance is dealt with in other paragraphs in the SORP, namely paragraphs 27.12 and 27.13.

b) next steps

Based on the above Committee feedback, CIPFA Secretariat will revise draft Bulletin 1 for approval by the next Committee meeting. **AS/AD**

4 Withdrawal of the FRSSE - discussion

a) Analysis of consultation responses

4.1 Alison Scott introduced the paper to the Committee summarising the analysis of responses to the consultation on the *Withdrawal of the Charities SORP (FRSSE) and Proposals to widen the scope of Charities SORP (FRS 102)*. 24 responses were received. The majority of responses covered the UK. The key points in the feedback were as follows:

- there was strong support (23 out of 24 responses) for dis-applying the small entities regime proposed in FRED 59. This would result in all charities applying the Charities SORP (FRS 102) for reporting periods on or after 1 January 2016.
- 22 direct responses were received in relation to the proposed amendment to require larger charities to prepare a Statement of Cash Flows. All bar one response agreed with the principle of requiring larger charities to prepare a Statement of Cash Flows.

However, 10 out of the 22 responses did not support the threshold level. Alternative threshold levels include £1m (aligned to the England and Wales statutory audit threshold), the Companies Act threshold level of £10.2m and 50 % of the Companies Act threshold level. There was a lack of agreement regarding an alternative threshold for the preparation for the Statement of Cash Flows by larger charities. Furthermore, the Committee was of the view that the preparation of Statement of Cash Flows at the proposed threshold of £500,000 (UK) or 500,000 euros (Republic of Ireland) would encourage good practice and would be in the public interest. Therefore, given the overall support to the proposal to align with the definition of larger charity, based on the feedback received, the Committee was not persuaded to change the threshold at which a Statement of Cash Flows would be required. It would be required only of larger charities.

b) Next steps

- 4.2 CIPFA Secretariat will update draft Update Bulletin 1 to amend the relevant paragraphs in the SORP FRS 102 relating to the preparation of the Statement of Cash Flows. **AS/AD**
- 4.3 The Committee then discussed the overall consultation process in light of some comments received by respondents that the process was difficult to follow. CIPFA Secretariat agreed to contact those respondents to discuss to the matter further. **AS/AD**

5 Verbal Update from the FRC

- 5.1 Jenny Carter provided a verbal update to the Committee on FRC's work. In July 2015, largely in response to the implementation of the new EU Accounting Directive, FRC issued:
- a new standard, FRS 105 *The Financial Reporting Standard applicable to the Micro-entities Regime*;
 - new Section 1A *Small Entities* of FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
 - other changes necessary for continued compliance with company law.
- 5.2 FRC's work regarding the implementation of the EU Accounting Directive is now complete. The expectation by the FRC is that there will no changes to the accounting standards that will affect charities before the triennial review of FRS 102. The timings for the triennial review are not yet determined, but any amendments resulting from the triennial review are likely to be effective on 1 January 2019. The Charities SORP Committee, as well as other SORP Committees, will be involved in the feedback process as part of the triennial review when appropriate.

6 SORP research on future changes to the SORPs and discussion

- 6.1 Nigel Davies introduced the paper outlining the role of the SORP and the proposed approach and structure for future research to inform the development of the SORP.
- 6.2 The role of the SORP is seen to be fivefold: to raise standards of reporting and accounting, provide additional disclosures necessary in the public interest, provide sector specific application guidance for Generally Accepted Accounting Practice (GAAP), provide solutions for issues not addressed by GAAP e.g. the SoFA and fund accounting and influence practice in charity reporting.
- 6.3 The Committee discussed the role of the SORP as follows:
- there is a distinction between public interest and public curiosity. It was suggested that some guidance on what is meant by public interest in the context of the SORP would be helpful.
 - Within the context of smaller charities, one area for research might be which disclosures are relevant and helpful to key stakeholders of smaller charities.
 - There is a need to consider simplifying the threshold regime for the charity sector which is demanding and for smaller charities potentially confusing, particularly for charities operating across the UK.
 - Some of the editorial issues may overlap with implementation and improvement issues, so perhaps these two elements could be blended into one element for the proposed research on the SORP development.
- 6.4 Nigel Davies then ran through the proposed six elements for the SORP research phase in 2016. These elements were editorial suggestions, smaller charity perspective, implementation and improvement, SORP Committee items for debate, charity regulator items and the invitation for suggestions from preparers and stakeholders.
- 6.5 The Committee discussed these six elements. The key points in raised in the discussion were:
- the SORP should move with the times, especially in the narrative part of the report;
 - it is important that we consider how we support and engage stakeholders in this consultation, particularly donors, beneficiaries and the views of smaller charities;
 - this is an opportunity to be innovative in the sector and do some blue sky thinking, while still being consistent with GAAP;
 - our thinking in this area should perhaps be more long term and not necessarily tied to the annual reporting cycle. This is particularly relevant for areas such as impact reporting which by its very nature is more long term.
- 6.6 In order to promote the consultation for the future development of the

SORP and encourage feedback, it was suggested that the questions could perhaps be grouped into two areas, high level questions and technical questions.

- 6.7 **ACTION: Thinking ahead of the consultation, it would also be helpful if the SORP Committee members could send suggestions to Anne Davis of organisations that would be interested in participating and publicising the consultation to the sector.** ALL

7 Draft SORP-making body letter to IASB Trustees' consultation

- 7.1 Nigel Davies introduced to the Committee the paper detailing the draft response by the Charities SORP-making body's to the IFRS Foundation Trustees' review of structure and effectiveness. The IFRS Trustees are asking for feedback as to whether IASB should extend its remit beyond the current focus of the organisation to develop standards for entities in the private, not-for-profit sector. The deadline for comments is 30 November 2015.
- 7.2 For background information, Nigel Davies shared with the Committee the SORP-making body's response to IASB's consultation on its work programme in 2011, which included in its work plan the application of a conceptual framework to the not-for-profit sector (phase G of the work plan). This element of the work plan was dropped.
- 7.3 The Committee discussed the SORP-making body's draft response. Key points in the discussion were:
- Concerns by organisations such as the World Bank about the way accounting standards are developed in the accounting profession and funding pressures.
 - the feedback from the international standard setters' event on 5 October hosted by CIPFA which looked at the current landscape of not-for-profit (NFP) reporting in different countries concluded that the majority of those present supported the development of international guidance for NFP financial reporting. A number of potential options were discussed at the event, including whether IASB should extent its remit to develop standards for the NFP sector or whether this could be done by IPSASB. Resourcing the development of a NFP international standard and board composition for any international NFP standard setting organisation were two challenges that were raised at the event.
 - Some professional bodies do cover charity accounting in their professional qualification syllabus or have additional qualifications for specialisation in this area.
- 7.4 Nigel Davies thanked the Committee for their feedback on the SORP-making bodies' draft response to the IFRS Trustees' consultation and will consider amending the response as appropriate in light of these comments. ND

8 Any other business and dates for next meetings

- 8.1 The next Committee meeting will be on **17 November, 1.30-4.30 pm at CIPFA Offices, 77 Mansell Street, London E1 8AN**. A light lunch will be

served at 1-1.30 pm.

8.2 Nigel Davies informed the Committee that possible dates for the SORP Committee meetings in 2016 will be circulated shortly. Committee members should note that the first meeting of the SORP Committee in 2016 in either February or March will be in Edinburgh.

8.3 As part of any other business, Nigel Davies informed the Committee that the FRC and the Charity Commission are consulting on conventions for the electronic tagging of charity accounts. The iXBRL accounts tagging convention (Charity "taxonomy") has been updated in line with the Charity SORP (FRS 102) and the FRC's financial reporting standard FRS 102. The taxonomy will be used when tagging charity accounts for electronic filing and for other analytical purposes. Electronic tagging helps users of financial information to extract relevant information from corporate reports and analyse it more efficiently. The Charity Commission intends that electronic tagging will be voluntary for charities. The deadline for comments is 8 December 2015.

ACTION: SORP Committee members were asked to publicise this consultation via their usual communication channels.

ALL

8.4 Nigel Davies asked the Committee if there was any other business they would like to raise. The following points were discussed and clarified:

- The Charities (Accounts and Reports) Regulations 2008 have not yet been updated by the Office of Civil Society for the new SORPs.
- ICAEW's Tech 16/14BL *Guidance on donations by a company to its parent charity* includes Counsel's opinion that the payment of gift aid by a trading subsidiary to a charity was a distribution. Some have suggested that since the gift aid payment is a distribution by the trading subsidiary to its charitable parent, then it will need to be accounted for before the year end in the statutory accounts, like any other distribution. This will raise accounting and tax issues for both the trading subsidiary and the parent charity. There was a concern that the lack of definite guidance on this matter may lead to different interpretations being implemented in the sector. The Committee discussed the matter and agreed that different interpretations may arise on different areas as well. It was noted that ICAEW had initiated this review and was actively involved in developing guidance for practitioners. However, the Committee requested Richard Bray, member of the ICAEW's Charities Technical Committee, that he keep the SORP Committee informed of any further developments in this area.

RB