

SORP Committee

Minutes of the SORP Committee Meeting of November 1 2006 (Approved at the January 18 2007 SORP Committee Meeting)

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Present:

Andrew Hind, Chair of the SORP Committee
Kirsty Gray, Deputy Chair of the SORP Committee
Debra Allcock Tyler
Pesh Framjee
Peter Gotham
John Graham
Keith Hickey
Ray Jones
Claire Newton
Carol Rudge
Kate Sayer
Catriona Scrimgeour
Paul Spokes

In attendance:

Nigel Davies, Secretary to the SORP Committee
*Andrew Lennard, Research Director, Accounting Standards Board
*Alan O'Connor, Secretary to CAPE Committee, Accounting Standards Board

*In attendance for agenda item 4 only

Apologies:

Tidi Diyan
Chris Harris
Noel Hyndman
Tristan Lumley

Item 1 Chairman's opening remarks

1.1 The Chairman opened the inaugural meeting of the new SORP Committee and welcomed new and continuing members.

1.2 The Chairman noted that members had earned their place through a vigorous process of open recruitment. There were only 3 members continuing over from the previous Committee. The Chairman drew attention to the importance of the work of the Committee in establishing the framework for charity accounting and reporting and also noted that acceptability and utility were important characteristics of a good SORP.

1.3 The Deputy Chair noted that in Scotland the registration of charities, including charities established in England but operating also in Scotland, meant that the new SORP Committee had an important national role.

1.4 Following initial introductions by all members present, apologies were noted.

Item 2: First Paper ‘Introduction to the SORP- making process and ASB code of practice’

2.1 The paper was introduced and the role of the Commission and OSCAR as the SORP making body was explained. This role would involve facilitating and clear the development process and obtaining clearance and publication of the SORP produced following the deliberations of the Committee. The role of the Committee is to develop the recommendations. Once developed, a draft SORP must be cleared by the Committee for Accounting for Public-benefit Entities (CAPE) and then by the Accounting Standards Board (ASB). The draft SORP is then subject to consultation and review. The final draft, post consultation, is then approved by the CAPE and ASB before being franked as a new SORP. A new SORP is then reflected in updated Regulations.

2.2 The committee debated the potential users of the SORP and many stakeholders were identified. It was agreed that the SORP needs to serve not only finance staff and trustees in charities, but also funders, donors and the wider public.

2.3 The Committee discussed the extent to which the SORP is a recommendation rather than a requirement and the extent to which recommendations might place a burden, especially upon smaller charities preparing accruals accounts. It was recognised that the Regulations and FRS18 effectively make compliance with SORP recommendations mandatory, except where specific exemption is granted for smaller charities.

2.4 The Committee agreed that a communications strategy was needed to better identify the role of the SORP, the Committee and the constraints placed upon the SORP by developments in accounting standards. Each member to notify the Secretary of their ideas for more effective communication of the nature and role of the SORP.

2.5 The Committee agreed that in shaping a future SORP that clearer distinctions were needed between an absolute requirement and aspects which might be wholly discretionary for smaller charities.

3. Second Paper ‘Consideration of the challenges and options for the review’

3.1 The first half of the paper was introduced and the Committee was invited to consider whether a signposting approach was preferable to attempting to provide a ‘one-stop shop’ and whether the SORP was sufficiently accessible.

3.2 The Chairman invited the Committee to discuss issues concerning accessibility of the SORP and the report and accounts produced, the form the SORP should take, the needs of smaller charities preparing accruals accounts, the impact of

changes in accounting standards and convergence with international financial reporting standards.

3.3 The Committee concluded that:

- **A ‘one-stop’ shop approach was the preferred approach which best addresses the needs of the sector.**
- **A future SORP might better address the needs of smaller charities, not subject to statutory audit, first and then address the issues of greater complexity required for those charities subject to audit.**
- **The SORP should become more user friendly, and minimise the use of technical terms.**
- **Where a recommendation is wholly optional, this must be clearly distinguished from where recommendations should or must apply.**
- **The SORP, particularly in requiring any additional disclosures, should only impose additional reporting burdens if they were wholly necessary.**

3.4 The second half of the paper was introduced, in particular the options for a new SORP, a SORP re-write, an Update Bulletin and the role of Information Sheets.

3.5 The Chairman invited members to debate the options and to consider the way forward. There was widespread agreement that a new SORP in 2007 would not be welcomed by the sector and that a new SORP in 2009/10 latest was preferable, subject to developments in accounting standards, including convergence with international standards, in the interim.

3.6 **The Committee decided that:**

- **Committee members should advise the Secretary of those aspects of the SORP where greater clarity is needed, so that Information Sheets could be prepared and to do this before the next meeting.**
- **That a new SORP should be issued no later than 2010 and if possible the new SORP should be aligned with the mooted IFRS Small and Medium Sized Enterprise Standard.**
- **That to address the needs of smaller charities, ideas be submitted to the Secretary, as to how the application of the SORP to smaller charities might be better explained.**
- **That the SORP Secretariat shall draft some initial Information Sheets for consideration by the Committee at the January meeting.**

3.6 The Chairman thanked the Directory of Social Change for the helpful internet questionnaire concerning the development of the next SORP, which indicated opinions from participants were in line with the Committee’s conclusions above.

4. Third Paper ‘Accounting for Heritage assets: A background and proposals for a SORP Update Bulletin’

4.1 The Chairman welcomed the representatives of the ASB to the Committee, Andrew Lennard and Alan O’Connor. The chairman warmly welcomed the support of the ASB in the approval of SORP 2005 and looked forward to close working in the future.

4.2 A brief synopsis of the development of the thinking on heritage assets was provided by Ray Jones. The definition of heritage assets adopted in SORP 2005 was contrasted with the previous historic and inalienable categories of SORP 2000. In particular he cited the arguably arbitrary dividing line of 2001 between capitalising (recognising) and non-capitalising (non-recognition) of heritage assets was a particular issue. Acquisitions and disposals since 2001 are recognised in the balance sheet at cost but heritage assets acquired previous to this date could be excluded on cost/ benefit grounds. The SORP being framed by accounting standards was constrained in what it could do and the apparent inconsistency in approach had drawn significant criticism from the Museums and Galleries sector.

4.3 Andrew Lennard for the ASB advised that an early discussion paper on heritage assets had been discussed with interested parties and warmly welcomed as a more rational and considered answer to the recognition of heritage assets. Subsequent to the consultation the ASB Board had requested a revised proposal be developed with a view to a different solution being promulgated for comment in an Exposure Draft. He noted that the ASB had hoped that the SORP Committee could issue a draft Update bulletin for consultation alongside the Exposure Draft with a view to implementation for accounts with year ends 31 March 2007, however that timescale now looked problematic. He concluded by advising that rather than amend FRS15, the Exposure draft may be a forerunner to a specific new Standard.

4.4 The chairman invited the Committee to respond to the possible new solution proposed by the ASB as the basis for an Exposure Draft. The Committee debated the appropriateness of non-valuation, the practical problems of valuation and defining the class or sub-class of assets to be valued. After a very full debate, the Committee expressed concern that the new solution was so significantly different to the solution offered in the consultation paper, that the Exposure Draft, were it to proceed, may give rise to significant implementation problems in the sector.

4.5 It was noted that assets that might be colloquially assumed to be heritage assets that were held by faith organisations would have to be capitalised (recognised) as proposals now stood and that this might present significant difficulty.

4.6 The Committee welcomed the additional disclosures that would be required of heritage assets and their stewardship in the trustees' annual report and notes to the accounts.

4.7 **The Committee concluded that:**

- **A SORP Update Bulletin be prepared for consultation following the ASB Exposure Draft being issued and consulted upon.**
- **That the Chairman write to the ASB indicating the Committee's serious concern, should the revised proposal be substituted for the initial discussion document, and seek a meeting with the ASB to express the Committee's reservations.**
- **That the SORP Secretariat convene a round table on the subject, the format to be agreed by the Committee, as part of the consultation exercise on the Update Bulletin**

Item 5: Any other business and date of next meeting.

5.1 The Chairman invited the Committee to raise any other business.

Following discussion it was agreed that:

- **In reviewing the SORP Committee papers, the review for 2006 was complete and no change necessary, other than taking forward the issues on heritage assets, however an early start shall be made to a review in 2007.**
- **That Alan O'Connor be invited to be observer at all future meetings but that he is advised that on occasion there may be a closed session of business.**
- **The draft minutes are circulated to members within 14 days of each meeting.**
- **That the draft minutes and agenda papers be posted on the Commission and OSCR web sites after each meeting.**

5.2 In anticipation of an ASB exposure draft on Heritage Assets and the outcome of CAPE's consultation on the Statement of Principles, that the Committee reconvene in early January 2007.