

## **SORP Committee**

### **Minutes of the SORP Committee Meeting of 8 July 2010 (Minutes approved at the October 2010 SORP Committee Meeting)**

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#### Present:

Andrew Hind, Chair of the SORP Committee  
Laura Anderson, OSCR  
Tidi Diyan  
Pesh Framjee  
Peter Gotham  
John Graham  
Chris Harris  
Keith Hickey  
Noel Hyndman  
Ray Jones  
Carol Rudge  
Kate Sayer  
Paul Spokes

#### In attendance:

Nigel Davies, Secretary to the SORP Committee  
Glenn Collins, Head of Advisory Services  
Association of Chartered Certified Accountants (ACCA) –  
attending for item 4  
Richard Martin, Head of Financial Reporting  
Association of Chartered Certified Accountants (ACCA) –  
attending for item 4

#### Apologies:

Debra Allcock-Tyler  
Tris Lumley  
Lynne Robb  
Catriona Scrimgeour

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

1.1 The Chair opened the meeting by noting that the Accounting Standards Board (ASB) has decided to develop a public benefit entity (PBE) standard and that the outcome of the ASB's consultation had been a vote of confidence in the SORP. The ASB has yet to notify the SORP making body of its new representative to replace Alan O'Connor.

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

2.1 The minutes of the meeting of the 14 December 2009 were considered and were approved.

## **Items 3: Update on the ASB proposals for the future of UK GAAP**

3.1 Ray Jones introduced this item and noted that there were 150 responses to the ASB's consultation on the future of UK Generally Accepted Accounting Practice (UK GAAP) with one third coming from the charity sector. Over 90% of respondents were supportive of the Charities SORP and the idea of a Public Benefit Entity (PBE) standard.

3.2 The ASB's plan for the future of UK GAAP includes a high level PBE standard which will address the key aspects of PBEs not dealt with by general standards. The Accounting Standard's Board (ASB) Committee for Public Benefit Entities (CAPE) is charged with developing the PBE standard. A draft is to be developed by December 2010.

3.3 The PBE standard will deal with the differences that characterise PBEs which general standards do not address and so will be sector specific. The PBE standard will be at a relatively high level and so there will be space in a future Charities SORP to develop the standard for public sector application.

3.4 There are some uncertainties that affect a future Charities SORP. The small and medium enterprise (SME) standard developed by the International Accounting Standards Board (IASB) may not suit all charities. Also the ASB are concerned to give freedom for small (income under £6.5m) entities to follow either a UK Financial Reporting Standard for Smaller Entities (FRSSE) or the SME standard. Full international financial reporting standards (IFRS) would also be an option allowing charities to 'move up a tier' if they so wish. This freedom makes developing a Charities Statement of Recommended Practice (SORP) more difficult because there are significant differences in accounting treatments between the options. For example regarding the revaluation of fixed assets.

3.5 In discussion it was agreed that it was essential that the new PBE standard should apply whichever standard a charity applied. The charity specific aspects of the charities SORP should also apply to all charities.

3.6 Although the FRSSE had its attractions given that over 99% of charities would be classified as small (gross incomes under £6.5m). The concern was that the ASB has said that it will not guarantee a long-term future for the FRSSE. The FRSSE is based on UK GAAP. Were the SORP based on the FRSSE then it would need updating once the FRSSE was removed so imposing a further burden of change on the sector. It would also impede charities wishing to move to an IFRS based framework. However it would be helpful if it were possible to draft the SORP in such a way as to signpost the FRSSE for those charities adopting it.

3.7 It was noted that few charities currently adopt the FRSSE as the SORP requires a greater level of disclosure reflecting the public interest in charities as compared to small owner managed businesses. Also whilst many charities may be small they had more complex activities than a comparably sized company. For example many small charities have wholly owned subsidiaries to carry out non-charitable income generating activities.

3.8 The Committee concluded that given the uncertainties it was difficult to finally determine this point now.

3.9 In closing the Committee debated what entities the PBE standard should cover. It was noted that social enterprise is loosely defined. The boundaries might in practice be a bit ambiguous.

**3.10 The Committee concluded that:**

- **The next Charities SORP should initially be drafted around the PBE and SME standards but if practicable it should also signpost to the FRSSE.**
- **The Secretariat should consider undertaking some desk based research of a sample of smaller charities to determine if there are significant differences between applying the FRSSE and SME standards in practice.**
- **Committee members should advise the Secretariat by e-mail of any observations they have on what entities should be covered by the PBE standard.**

**Items 4 ACCA research and the implications for a future SORP**

4.1 The chair welcomed Richard Martin (ACCA) and Glenn Collins (ACCA) to the meeting and noted that the Committee planned to begin work on the next Charities SORP now that the Accounting Standards Board (ASB) had given the go ahead to a Public Benefit Entity (PBE) standard. The Committee was considering the small and medium enterprise (SME) standard developed by the International Accounting Standards Board (IASB) and were interested in the ACCA's own research on the SME standard.

4.2 Richard Martin introduced the work of the ACCA in this area by noting that the full report on the field testing was available on the ACCA's website. ACCA's field testing was part of a wider programme commissioned by the IASB. Five ACCA practitioners selected 5 of their clients and converted their FRSSE based accounts using the SME standard. The 25 sets of accounts contributed to a study of 120 examples globally.

4.3 The ACCA concluded that from the sample the conversion indicated few areas of great difficulty and concluded that in most ways the FRSSE and SME standard were very similar. Within the sample none had joint ventures or defined benefit pension schemes and so not all areas of potential difference had been explored. The average turnover of the company tested was £2.1m and was evenly split between enterprises with greater and fewer than 10 employees. He noted that the cut off for 'micro-entities' as defined by the European Union was 10 employees.

4.4 The ACCA found that practitioners started with model accounts and disclosure checklists and then referred to the SME standard where they were uncertain. ACCA supported the Charities SORP as key to accounting for charities.

4.5 In discussion it was noted that the SME standard did cover issues such as pensions and that the ACCA's research indicated few areas of difficulty. Ideally the SME standard could be modified to drop the cash flow requirement for example and to reinstate some accounting treatment options that were dropped from the original exposure draft of the SME standard, for example the revaluation of fixed assets. It was a question of whether the ASB would exercise such flexibility.

4.6 The FRSSSE was anticipated to have a limited life span and might be intended as a transitional arrangement. To draft a future SORP around the FRSSSE might require a second change only 2 or 3 years later to the SME standard. Ideally the future framework for charities should be as simple as possible and permit some stability.

#### **4.7 The Committee concluded that:**

- **The ACCA's research did support the SME standard as a viable basis for drafting the next SORP. The SORP should continue to be a 'one-stop' shop document.**
- **That the Secretariat should distribute a link to the full ACCA research report on the SME standard to the Committee members for information.**

#### **Item 5: Recommendations of the SORP working group on the format of SORP**

5.1 Kate Sayer introduced the recommendations of the working group. The group had considered how the SORP could be changed to be written from the perspective of small charities.

5.2 The working group had concluded that SORP should start with the principles early on. The principles, such as fund accounting, introduce the preparer to the unique features of charity accounting. The SORP should start with those aspects common to all charities and then look at those aspects applicable only to larger charities not the other way round. Looking at the existing SORP this meant moving material around rather than a lot of new material.

5.3 A future web based version is also needed. Whilst the text of the recommendations would be common to web and PDF or printed versions, a web version would allow greater flexibility in navigating the SORP. It would permit extra features such as selecting those parts needed for printing off. It could include hyperlinks and permit the cursor when hovering over a term to pull up a glossary definition of it.

5.4 Both a future printed SORP and web SORP should include flow charts to ensure that charities referred to the sections relevant to them. Appropriate use should be made of colour to differentiate between sections.

5.5 In discussion it was noted that it was essential that the recommendations were common to all versions of the SORP. It must be possible to reference the text in the same way, whether using paragraph numbers or headings. The extra web and paper copy features might make the SORP longer but the web version meant that only those sections relevant to the charity's specific needs are read. However length and presentation were key factors in the ease of adoption and use of the SORP and must not be forgotten.

5.6 Although it was not the role of the SORP Committee or the SORP making body to educate the sector in charity accounting, the SORP should be as simple as possible. Practitioners and advisors would have a key role in educating the sector. It was likely that financial constraints would mean that a future printed and bound SORP would be published externally and be a charged for publication in a similar arrangement to the current printed SORP.

5.7 Also as sector practice developed the regulators should work with sector umbrella bodies to signpost real life examples alongside any model examples published to support the SORP. However this falls outside the SORP's remit.

5.8 The Chair thanked the members of the working group for their valuable work and helpful conclusions that would be invaluable in framing the next SORP.

#### **5.9 The Committee concluded that:**

- **The Secretariat should consider the additional web text and navigation features required for the web version.**
- **Representatives of both the Charity Commission's and Office of the Scottish charity Regulator's Information Technology teams should attend the October meeting so that the SORP committee can understand what features the regulators' current websites can support and the capacity of the Information Technology teams to implement a more sophisticated web version of the SORP.**

#### **Item 6: SORP work programme**

6.1 Ray Jones introduced the proposals for the future work programme. He noted that the ASB's plans for a PBE standard and their proposed timescale for developing it were now known. It would be unwise to wait until the PBE standard was published before starting on the next SORP. It is important that the next SORP is ready in time to come into effect when the PBE standard also comes into effect.

6.2 He identified 4 areas where work could begin now and proposed that work begin now. These areas were: the introduction and context to SORP, fund accounting, narrative reporting, and the structure of the primary statements. He recommended that a series of meetings of the SORP Committee be held to develop the next SORP.

6.3 In discussion it was noted that the provisional timetable was optimistic and that there were a number of uncertainties including the ASB's PBE standard being ready on time, the capacity of the Charity Commission to develop a web version in the timescale proposed and the ability to get the relevant legal regulations in place in two if not three jurisdictions.

6.4 The possibility of redrafting the existing SORP was debated but given the available resources it was concluded this could not be supported.

**6.5 The Committee concluded that:**

- **The Secretariat should proceed with drafting the four initial sections of a future SORP for consideration at the October and subsequent SORP Committee meetings.**
- **The Secretariat should keep the timetable under review as the ASB's own PBE standard is developed. The launch date of March 2012 for the next SORP should be treated as provisional and subject to change.**

**Item 7: Sector expenses working party and recommendations for the SORP**

7.1 Ray Jones introduced this item. He noted that the independent Expert Group on Expenses established by the National Council for Voluntary Organisations (NCVO) and Charity Finance Directors' Group (CFDG) has reported. It made a number of recommendations including one recommendation concerning the SORP.

7.2 The Group recommended that the SORP include a statement on internal controls. He noted that the Turnbull report had a comprehensive approach to developing the statement and recommended what it should include. The work of Turnbull applied to companies listed on the Stock Exchange. However the current risk statement in the SORP covered some of the ground already. Also the statement of trustees' responsibilities required by auditors also includes references to internal control.

7.3 In discussion it was noted that the Charities SORP had led good practice in the sector and this is a valuable role of the SORP. Examples included risk and performance reporting and these had both been positive developments. The experience of Committee members was that charities that had voluntarily adopted the Turnbull recommendations had found it helpful but very resource intensive. It had taken some time to implement.

7.4 Also were a statement of internal control to be a requirement of SORP it would then be subject to audit. This would add to audit costs. Since the Turnbull approach applies to material mis-statement or loss it was unlikely to cover small amounts such as trustees' expenses. The Committee agreed that the next SORP was about reducing burdens on charities where possible.

**7.5 The Committee concluded that:**

- **They had considered the recommendation made from the Independent Expert Group on Expenses but considered that the benefits from including a statement on internal controls was outweighed by the cost and burden of implementing the recommendation.**

## **Items 8: Dates of meetings in 2010 and 2011**

8.1 The next meeting would be in October 2010 with the Secretariat to circulate dates for a programme of further meetings through to June 2011.

## **Items 9: Any other business**

9.1 The Institute of Chartered Accountants Scotland (ICAS) had requested topics for research studies. **It was agreed that the Secretariat would circulate the request to CFDG and that interested Committee Members would contact ICAS direct.**

9.2 The developments in Northern Ireland were discussed. It was noted that the Charity Commission for Northern Ireland (CCNI) would be consulting on the accounting framework for NI charities in the near future. In discussion it was agreed that a legislative framework throughout the UK that adopted the SORP was very desirable. **It was agreed that the Chair should write to CCNI to invite them to nominate an observer member to the SORP Committee.**

9.3 Ray Jones updated the Committee on the position for NHS Charities. The first meeting of the Review Panel convened by HM Treasury to consider whether NHS charities should be consolidated into whole of Government Accounts had taken place and the Panel intended to conclude its work in the autumn. Committee members emphasised the importance of the principle at stake and reaffirmed their view that charities are independent of government and should not be consolidated in this way.

9.4 Andrew Hind advised the Committee that this would be his last meeting as he steps down from the Chief Executive role at the Charity Commission in September. He thanked the Committee for all their input, expertise and support during his time as Chair of the SORP Committee.

9.5 There being no other business the meeting closed.