

SORP Committee

Minutes of the SORP Committee Meeting of 17 December 2010 (Approved at the February 2011 SORP Committee Meeting)

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Present:

Laura Anderson, Deputy Chair of the SORP Committee
Debra Allcock-Tyler
Tidi Diyan
Peter Gotham
John Graham
Chris Harris
Keith Hickey
Noel Hyndman
Tris Lumley
Ray Jones
Lynne Robb
Carol Rudge

In attendance:

Charles Cooke, Charity Commission
Nigel Davies, Secretary to the SORP Committee
Joanna Spencer, Accounting Standards Board
Morag Stewart, Office of the Scottish Charity Regulator
Sam Younger, Chief Executive, Charity Commission

Apologies:

Pesh Framjee
Frances McCandless, Chief Executive, Charity Commission Northern
Ireland (Observer Member)
Kate Sayer
Catriona Scrimgeour
Paul Spokes

Item 1: Opening remarks and declarations of interest

1.1 The Deputy Chair opened the meeting by welcoming Joanna Spencer of the Accounting Standards Board (ASB) as the new observer member of the ASB. Joanna advised she was on secondment from the Australian Accounting Standards Board and will be providing the secretariat support to the Committee for Public Benefit Entities (CAPE) in their work on the new public benefit entity standard.

1.2 The Committee were advised that a letter had been sent to the ASB requesting that the chairing of the SORP Committee be on a shared basis going forward. Sam Younger, the Chief Executive of the Charity Commission would join Laura Anderson, Office of the Scottish Charity Regulator, as joint chair of the SORP Committee. The

new arrangements are to be considered by the ASB Committee for Accounting for Public Benefit Entities (CAPE) and the ASB's Board in January.

Item 2: Approval of the minutes and matters arising

2.1 The minutes of the meeting of the 13 October 2010 were considered and were approved.

2.2 The Secretary advised that the draft protocol for handling the development of the SORP modules had been circulated with the papers for the meeting. The draft module on the Trustees' Annual Report would be the first dealt with under the protocol. The Committee's experience of using the protocol and any resulting changes would be an agenda item for the next meeting.

Items 3: Update on the ASB proposals and plans for the future of UK GAAP

3.1 Joanna Spencer updated the Committee on progress in the development of the Public Benefit Entity Standard (PBE Standard). The ASB had reached an initial view on a number of issues that would be included in the consultation draft including:

- Soft loans;
- Business combinations (including merger accounting);
- Investment properties held for a social benefit rather than wholly as commercial investment; and
- Heritage assets

3.2 The ASB is also considering highlighting in the consultation on the PBE Standard how indicators of control might be identified.

3.3 A number of issues remain for consideration by the ASB's Board including:
Resources received from non-exchange transactions, including the treatment of legacies and gifts;
Accounting for multi-year funding obligations;
Impairment of assets based on service potential including consideration of depreciated replacement cost.

3.4 It is still anticipated that the Exposure Draft of the PBE Standard will be published for consultation in the early part of 2011 so that it can be considered in the context of the existing consultation on the future of UK GAAP.

3.5 In discussion the Committee welcomed the pragmatic and thoughtful approach being taken by the ASB to the issues considered so far. The Committee was concerned that when the ASB consider the gift of items to charity shops that a practical approach is adopted to recognition.

3.6 The Committee noted the growth in the area of social investments that were not wholly focussed on maximising investment return but instead were focussed wholly or partly on furthering charitable objectives.

3.7 The Committee concluded that it was desirable that the charity sector engage fully with the debate on the future of UK GAAP and the PBE Standard. It was noted that articles had already been placed with Charity Finance, Third Sector magazine and in the CFDG newsletter.

3.8 The Committee concluded that:

The development of the PBE Standard for publication whilst the UK GAAP consultation was open was highly desirable.

Committee members would assist the SORP making body in raising awareness of the UK GAAP and impending PBE Standard consultations to encourage the sector to participate.

The Committee noted that the UK GAAP consultation would be an agenda item for the next meeting.

Items 4 Developing the new modular SORP

4.1 Nigel Davies introduced the proposed structure of the new modular SORP. The new modular SORP was designed to accommodate the proposed three tier structure for UK GAAP whereby charities, depending upon size and whether they issued publicly traded debt would report under: International Financial Reporting Standards (full IFRS), the proposed UK Financial Reporting Standard for Medium-sized Entities (FRSME) or the existing UK Financial Reporting Standard for Smaller Sized Entities (FRSSE).

4.2 He noted that two specific criticisms had been levied at the SORP in the UK Parliamentary debate during the passage of the Charities Act 2006 (England and Wales). These were that the SORP was a one size fits all solution unsuitable for smaller charities and of increasing complexity and length. The new modular SORP in electronic format was intended to address both of these concerns.

4.3 He noted that there were constraints on the SORP in terms of the complexity of the UK GAAP framework which was magnified by having to write the next SORP around three different reporting formats rather than a single UK framework that currently applies. The paper version of the SORP would make use of colour and better referencing but inevitably it would be longer than the current SORP therefore accessing the SORP electronically was very much to be encouraged. He noted that the printed SORP was a paid for publication and that this would be the case with the next SORP.

4.4 The Committee welcomed Charles Cooke and Morag Stewart to the meeting as the Information Technology experts for the SORP making body. Morag Stewart noted that they had agreed that the electronic version of the SORP (e-SORP) should be as simple as possible. Navigation could be facilitated by a flow chart. The flow chart format had worked well with the Scottish guidance on independent examination and was a proven and popular solution to accessing lengthy and complex guidance. She noted that the e-SORP would be hosted on the web for free downloading.

4.5 Charles Cooke noted that the Charity Commission had the in-house expertise to develop the simplified e-SORP proposed. The e-SORP's development would have to be considered alongside other priorities in the context of the Charity Commission's own Strategic review. Subject to approval it could be developed in a few weeks once all the modules were ready. Development could not proceed until the modules were available.

4.6 In discussion the Committee noted that the solution proposed needed to take account of the wide range of technical expertise and access to IT equipment and broadband within the sector. For example the Directory of Social Change had almost 4500 charity subscribers using dial up technology which limited their speed of access and their capability of accessing larger files.

4.7 The Committee noted that the SORP making body was developing a simplified solution to the e-SORP and that this would lack some of the features recommended by the SORP Committee working party. These additional features might be part of the value added solutions that a commercial publishing house could offer alongside the printed version of the SORP. These value added solutions might include e-versions of the SORP suitable for hand held devices and new generation mobile telephones.

4.8 The Committee concluded that:

The e-version proposed was an important development and should be as a simple and robust as possible and require the lowest possible level of user skills and familiarity with the web as practicable.

Access to the full SORP free of charge via the web should continue.

Committee members will e-mail the SORP Secretariat with issues that they would wish see raised in discussion with the commercial publishing house including their observations on access via hand held electronic devices.

The SORP Secretariat will advise the Committee of the take up of the printed editions of SORP 2005.

The SORP making body should proceed with the e-SORP as soon as is practicable to ensure it is ready in time for consultation to be undertaken, probably in early 2012.

Item 5: Partnership working

5.1 Ray Jones introduced the discussion on partnership working. He advised the Committee of two initiatives agreed in principle where a 'webinar' would be used in support of the consultation on the new SORP in 2012 and an agreement for a sector umbrella body to organise a subsequent SORP launch event. He noted the need to synchronise with ASB plans for implementing changes to UK GAAP in July 2013.

5.2 The Deputy chair confirmed that OSCR was also in discussion with three bodies in Scotland about arrangements to consult on and launch the new SORP.

5.3 The SORP making body anticipated involving the sector and professional bodies in advance of and throughout the consultation on the next SORP. It would be seeking their assistance with the launch of the SORP. It was noted that there were two strands to this work: the need to communicate effectively and the desire for a deeper conversation with the sector about the development of the new SORP.

5.4 The Committee recommended that:

The SORP making body continue with its plans to involve professional and sector bodies in the consultation on and launch of the next SORP. Within the resources available, the Committee supported discussion with sector and professional bodies on proposals and accounting treatments planned for the next SORP on a selective basis in advance of the public consultation.

That the database of names and organisations from the SORP research conferences and roundtables be harnessed as a resource for the consultation exercise.

Resources permitting, Committee members were supportive of facilitating roundtables, e-bulletins and articles for the SORP making body.

The SORP making body should specifically include umbrella and professional bodies working with smaller charities, not subject to statutory audit. Also the perspective of non-accountants should be sought where appropriate.

Explicit provision should be made to ensure that Northern Ireland and the Republic of Ireland are covered by any initiatives.

The SORP making body should consider developing a communication strategy including a 'twitter campaign' for the consultation and subsequent launch.

Item 6: Annual Report Module

6.1 Ray Jones introduced this paper noting that the Trustees' Annual Report (TAR) is the key document explaining what the charity has achieved in its stewardship of charitable funds. He noted that the IPSOS MORI research undertaken for the Charity Commission in 2010 found that the public had high expectations of charities. The public continued to be concerned about salary and administrative costs.

6.2 He noted that the SORP had a key role in developing the TAR because neither the PBE Standard nor the FRSME would cover the form and contents of the TAR. The International Accounting Standards Board (IASB) has recently published its advisory recommendations on the management commentary. Also the ASB had some years ago made advisory recommendations on the Operating and Performance Review. These had been useful comparatives for reviewing the TAR. He advised that the conclusions of the SORP research following the UK wide roundtables had been a key reference point for the new module. He then outlined the main changes proposed following the SORP research which were highlighted in the draft text.

6.3 The new module had a revised structure with a portion of the governance information placed later in the order of contents. Although the research indicated many favoured having this on the web alone this would fragment reporting. It was

essential that all key reference information was accessible. The TAR was about the trustees giving an account.

6.4 The Committee welcomed the emphasis on the ordering of the TAR being at the discretion of the trustees. The TAR was the key link to the accounts which unlocked the financial information to the non-accountant and general reader. Achievements and performance information should be upfront. Donors, supporters, beneficiaries and the public all need to understand the charity's story. The accounts were highly technical documents due to accounting standards and so are not as accessible to non-accountants as the TAR. Whilst use and efficiency in using money is important, the TAR says what the charity actually did.

6.5 The Committee considered that the proposal to explicitly address the TAR solely to the needs of funders was misplaced. Also contract funding was establishing a different kind of funder accountability. By demonstrating how they had assisted the beneficiaries trustees could inform their funders. Donors give for many reasons but the cause is a central theme. Understanding the difference the charity made was therefore the key.

6.6 Where explaining their reserves policy trustees should set out why they hold reserves and provide an explanation of their requirement for reserves. However the phrase 'reserves target' might not be helpful. Funders had expressed a desire to learn more about a charity's financial sustainability although this concept was not very clearly described by them. However going concern is a key requirement of accruals accounting and commercial practice places an emphasis on going concern. Going concern was a well understood concept which could be linked to the discussion of the reserves policy.

6.7 A discussion of risk need not compromise a charity commercially or its relationship with funders. The financial statements provide an insight into the main areas of activity and funding. By explaining the key risks, trustees will be following practice already developed for medium and large companies. Risks are a feature of taking opportunities and a fuller discussion will give a greater insight into how trustees are managing their charity. It will help to show how trustees decide on priorities for using resources to address risk and to take advantage of opportunities.

6.8 Having discussed the draft text, the Committee considered the first of the additional suggested topics for inclusion. The Committee noted that impact reporting was very topical but not well defined. It was still early days and although there was considerable demand for guidance on impact reporting, a SORP requirement may not be helpful. Sector umbrella bodies may be better placed to develop good practice in this area first with a subsequent SORP then reinforcing best practice for the sector once it was well established.

6.9 The Committee concluded that:

The trustees should be free to decide the key audience for their TAR. What the charity said it would do, what it actually has done and what it plans to do for its beneficiaries is central to the TAR.

The re-ordering should be more radical with all trustee and governance information featured as the final section of the TAR requirements.

The ordering needs to highlight more clearly what is required of smaller charities not subject to audit.

References to reporting on a group basis, where required, were agreed.

A balanced approach to reporting should be encouraged by emphasising how trustees have learnt from their experience in the year and how that learning has shaped the charity's work going forward.

The emphasis on linking the TAR narrative to the financial statements is important to ensure that key financial data is explained.

Going concern is an important issue and a central feature of accruals accounting and this should be linked to the reserves policy.

Where material programme related investments are made, the trustees should explain their policy.

Reflecting developments in company law and commercial practice the risk statement should be modified to require an explanation of the key risks facing the charity and how these have been addressed.

The SORP Committee needed more time to consider the additional suggestions for inclusion in the TAR. It was agreed that the TAR module be developed further in the new house style and the Committee would complete the review of the draft module at the February meeting.

Item 7: Preliminary findings on the use of the FRSSE

7.1 Nigel Davies tabled the paper and noted that the research had been conducted on a statistically valid basis so that the results could be fairly extrapolated. He noted that the use of the FRSSE was greater than had previously been anticipated.

Item 8: Dates for Committee meetings

8.1 The next meeting will be on 7 February and is being hosted by Grant Thornton at their Euston office.

Item 9:

9.1 There being no other business the meeting closed.