

SORP Committee

Minutes of the SORP Committee Meeting of 22 September 2009 (Approved at the December 2009 SORP Committee Meeting)

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Present:

Kirsty Gray, Deputy Chair of the SORP Committee
Debra Allcock Tyler
Tidi Diyan
Pesh Framjee
Peter Gotham
John Graham
Chris Harris
Noel Hyndman
Ray Jones
Tris Lumley
Carol Rudge
Kate Sayer

In attendance:

Nigel Davies, Secretary to the SORP Committee
Alan O'Connor, Accounting Standards Board
Ciaran Connolly, Queen's University, Belfast

Apologies:

Keith Hickey
Andrew Hind
Lynne Robb
Catriona Scrimgeour
Paul Spokes

Item 1: Opening remarks and declarations of interest

1.1 Kirsty Gray, the Deputy Chair welcomed Ciaran Connolly and advised the Committee that this would be her last meeting as Deputy Chair and member of SORP Committee. The Committee expressed their thanks to Kirsty for her contribution to the work of the Committee and gave her their good wishes for the future.

1.2 The Committee expressed their congratulations to Keith Hickey on his appointment as Director of Resources at RNIB.

1.3 No new declarations of interest were made in relation to items on the agenda.

Item 2: Approval of the minutes and matters arising

2.1 The minutes of the meeting of the 17 June 2009 were considered and approved with one amendment. The reference to the Public Management Magazine is replaced with a reference to the Public Money & Management Journal.

Items 3 and 4: Preliminary findings of the SORP research programme

3.1 Professor Hyndman introduced this item and recapped on the terms of reference and the nature of the feedback available for analysis from the April Forum and the subsequent programme of roundtable events. In particular the focus of the feedback was on the changes that could be made to the trustees' annual report, the accounts and notes, how smaller charities could be better helped, and whether the sector supported having a SORP or not.

3.2 He noted that although the briefing pack, presentations and questionnaire were standardised, the chairing of each event differed as did the size and format of the events. The researchers had looked therefore for the main themes in producing their report. Although significant efforts had been made to contact beneficiaries directly through contact with a number of charities, he noted that feedback had only been received from two groups of beneficiaries. Nevertheless, over 1000 people had taken part in the roundtable discussions with 685 questionnaires received.

3.3 Ciaran Connolly presented the detailed analysis of the feedback (including questionnaire results). He noted that:

- All roundtables agreed that the primary stakeholders were the funders and financial supporters. In terms of secondary stakeholders, preparers cited the public, auditors cited the regulators and funders cited beneficiaries as the most important secondary category of stakeholder.
- The focus of the annual report was seen as funders' needs but preparers considered the annual review was favoured by small funders and the public due primarily to the annual report narrative being cluttered with a lot of standing information.
- In roundtable discussions, preparers and auditors had focussed on the accounts and the more technical issues whereas academics and funders concentrated on governance, objectives and activities. Funders were the only stakeholder group to raise the issue of the accounts providing solvency and efficiency information. All stakeholder groups expressed a view that there was a need to demonstrate how performance and achievements corresponded with the accounts, although it was acknowledged that it could be difficult to do this well.
- There was unanimous support for the role of the SORP which was seen as greatly assisting the sector in developing its reporting practices and increasing public confidence in the sector. SORP was seen as essential but preparers and auditors were against changes and revisions happening too frequently.

3.4 There was no consensus as to what should be the definition of a small charity but the drafting of a future SORP should be from the perspective of small charities first with a clear distinction between requirements and good practice

recommendations. There was however no call for a completely separate framework for small charities.

3.5 All stakeholders endorsed the ‘telling the story’ approach taken by SORP 2005 with its emphasis on objectives, the activities undertaken, and achievements. A more balanced approach to the reporting of success and setbacks was however needed. Stewardship reporting remained as important as setting out future plans.

3.6 In relation to the accounts and notes, the main findings were:

- Although the format of the Statement of Financial Activities was supported, it was seen to be often rather cluttered with information and some of the category descriptions were seen as confusing. Suggestions included showing the expenditure first and then explaining how it was funded. Others still favoured adapting the Income and Expenditure account format.
- In debate, support was given to the matching approach to accounting for capital grants.
- Similarly, matching for both income and expenditure aspects of multi-year grants was widely supported.
- The analysis of unrestricted and restricted funds was seen as critical by all stakeholder groups in the accounts and on the face of the balance sheet.
- Support for the retention of designated funds as a balance sheet disclosure was expressed.

3.7 In the Committee’s discussions, the findings were welcomed and the emphasis on a future SORP recognising the needs of smaller charities better and distinguishing requirements from additional best practice suggestions was endorsed. Communicating why the SORP adopts particular accounting solutions was a challenge and the Committee discussed the possibilities for simplifying the accounts for smaller charities. The practical difficulties of engaging with beneficiaries on reporting issues were recognised and the role of funders as a proxy advocate for their interests was also discussed.

3.8 The Committee concluded that:

- **The findings of the report were extremely valuable in identifying the strengths of SORP and those areas where improvements could be made.**
- **The outcome should be shared with the sector. The Charity Commission and OSCR will publish the report as the joint SORP making body, acknowledging the role of Queen’s University, Belfast, in analysing and summarising the findings.**
- **The overwhelming support for SORP shows that a SORP or similar framework is essential to underpin confidence in charity reporting and accounting.**

Items 5 and 6: Technical sub groups’ conclusions and findings

5.1 Ray Jones introduced the paper and recapped on the PwC report on the public benefit SORPs and the specific areas that the ASB had requested that the Committee to review. The review was undertaken alongside the roundtables. The areas considered were:

- The appropriateness of the Statement of Financial Activities (SoFA).
- The accounting treatment for capital grants.
- The accounting treatment for designated funds.
- Accounting for charity combinations.
- Accounting for multi-year grants.
- The form and content of narrative reporting (the Trustees' Annual Report).

5.2 The retention of the SoFA as opposed to an Income and Expenditure Account (I&E account) with a Statement of Recognised Gains and Losses was discussed. The working group had concluded that a columnar SoFA distinguishing restricted and unrestricted funds should be retained. However for trading charities the option of producing an operational statement in addition to the SoFA should be explicitly given. The Committee noted that additional information can always be provided in accounts but reassurance on providing additional information might be needed. Also materiality could be more clearly underlined so that if restricted funds are immaterial, the SoFA contains only a single column for the year.

5.3 In considering capital grants, the working group had concluded that the practice of deferring capital grants over the related asset's life (SSAP4) was akin to a subsidy and if adopted would lead to inconsistent presentations between assets funded by public appeal and assets funded by grant. However if an I&E account approach were adopted then the issue should be revisited. In discussion, the Committee supported these conclusions but noted that for some trading charities SSAP 4 might provide a better fit in the context of their business models. Also the SoFA could be used flexibly to distinguish capital grants and to help identify operating results.

5.4 Concerning the retention of designated funds as a separate class of unrestricted funds on the balance sheet, the working group had noted that whilst very helpful, there was scope for inappropriate or misleading designations. On balance the retention of designated funds, perhaps more tightly defined, was supported by the Committee. In discussion, a range of views were expressed with concern about misuse being balanced by the benefits that well explained designations can bring.

5.5 The working group considering charity combinations supported the retention of both acquisition accounting, where a gain is reported, and merger accounting for combinations where the parties genuinely combined as equals. This view was endorsed by the Committee.

5.6 The working group considering the accounting for multi-year liabilities had concluded that although matching might appear a flexible solution, the SORP already allowed recognition based on performance where the grant was performance related. Indeed matching of expenditure to a future source of funding was illogical as the two were often unrelated. Matching based on the expenditure incurred by the recipient was a possibility based on the law of promissory estoppel but the practical considerations of getting feedback on expenditure incurred or committed might prove onerous. In discussion the Committee noted the fondness with which accountants held matching but FRS12 had changed the context. Perhaps a fuller description of the methods for assessing performance and the use of estimation techniques might assist the sector as might a fuller explanation of grant reviews and their impact on recognition.

5.7 The final issue considered was narrative reporting. The working group had concluded that narrative reporting was an essential aspect of charity reporting as the accounts on their own make little sense to the user without it. In discussion it was noted that getting the balance right between good reporting and avoiding what some perceive to be the burdensome of 'standing data' was a key issue. New developments in environmental and sustainability reporting were identified as an issue. Although the SORP roundtable findings indicated some concern by preparers about the level of governance information in annual reports, it was agreed that the requirements of funders was key to how much of this information needs to be retained. Also with the development of on-line reporting the SORP should support these more flexible e-formats as well as the paper version.

5.8 The Deputy Chair thanked all of those who took part in the working groups.

5.9 The Committee concluded that:

- **The Secretariat should draft a letter to ASB advising the outcome of the SORP Committee's deliberations whilst noting that these are provisional pending the receipt of the formal report on the SORP research programme from Queen's University.**

Item 7: Plans for a launch event

7.1 Nigel Davies introduced a paper setting out plans for a launch event to share the findings of the SORP research programme with the sector and to highlight the ASB consultation on the future of UK GAAP. The paper proposed a full day conference with a combination of speaker presentations and time for debate. Places would be offered free of charge and the event would be marketed by asking the assistance of those partners who worked with the Charity Commission and OSCR as part of the SORP research process. The centre piece of the day would be the launch of the report by Queen's University.

7.2 In discussion, the Committee considered the plan for the day to be too long and recommended a more concise agenda with a short day format and a more engaging title. Whilst the proposed balance between presentations and feedback should be retained, it needs to be remembered that the event's focus is the presentation of findings rather than a further discussion of the issues.

7.3 The Committee concluded that:

- **The Secretariat prepares a revised half day event programme and circulates these revised plans for comment.**
- **That following feedback on revisions to the initial plans that the Secretariat proceed with conference arrangements. OSCR will consider whether a further event in Scotland is warranted.**

Item 8: Matters arising

8.1 The Committee noted the extensive work undertaken to contact beneficiaries through contacts with 16 charities and the difficulty in practice of obtaining beneficiary feedback on charity reporting.

8.2 The letter sent to the ASB concerning the consultation on the future of UK GAAP was noted. Subsequent to this letter, ASB representatives had met with the Chair of the SORP Committee on 17 September to consider the letter and a helpful discussion had taken place. Ian Mackintosh, Chair of the ASB, had shared the ASB's early thinking and the reasoning behind their preferred option of a 'what's different' standard for public benefit entities. The ASB were keen to take part in the December research report launch event but emphasised that their proposals for the new IFRS framework to apply to accounts commencing on or after 1 January 2012 was an indicative date and if necessary a deferral of this date was possible.

8.3 The Committee noted that an Information Sheet for heritage assets was in preparation. **Action: Ray Jones to submit a draft Information Sheet to the November meeting.**

8.4 It was noted that the sector working group on expenses was meeting and consulting with the sector and its findings would be welcomed with interest.

Items 9: Dates of meetings in 2009

9.1 The final meeting for 2009 would be held on November 10 at the Grant Thornton Offices, Euston.

Items 10: Any other business

10.1 There being no other business the meeting closed.