

## **SORP Committee**

### **Minutes of the SORP Committee Meeting of 5 June 2013 (Approved at the 20 November 2013 SORP Committee Meeting)**

Contact: Nigel Davies, Secretary to the SORP Committee  
01823 345470  
[Nigel.davies@charitycommission.gsi.gov.uk](mailto:Nigel.davies@charitycommission.gsi.gov.uk)

Present:

Laura Anderson, Joint Chair of the SORP Committee  
Pesh Framjee  
Peter Gotham  
John Graham  
Keith Hickey  
Ray Jones  
Carol Rudge  
Kate Sayer  
Catriona Scrimgeour  
Paul Spokes  
Sam Younger, Joint Chair of the SORP Committee

In attendance:

Caron Bradshaw (observer member)  
Nigel Davies, Secretary to the SORP Committee  
Fiona Muldoon, Charity Commission Northern Ireland (observer member)  
Mei Ashelford, Financial Reporting Council (observer member)

Apologies:

Debra Allcock-Tyler  
Tidi Diyan  
Noel Hyndman  
Tris Lumley  
Lynne Robb

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

1.1 Laura Anderson opened the meeting and on behalf of the Committee she reported that the draft SORP had been cleared for consultation by the Financial Reporting Council's (FRC) Accounting Council and she thanked Nigel Davies and Ray Jones on behalf of the SORP Committee for the progress made in drafting and developing the next SORP.

1.2 She invited any declarations of interest to be made. No declarations of interest were noted. It was noted that Lynne Robb had resigned from the SORP Committee.

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

2.1 The minutes of the meeting of the 13 March 2013 were considered and approved subject to the substitution of the word 'entities' for 'companies' in the second sentence of minute 3.5.

2.2 Mei Ashelford was welcomed to the meeting. Mei was taking over as the FRC's observer at SORP Committee meetings from Joanna Spencer who was returning to the Australian Accounting Standards Board upon completion of her secondment to the FRC.

## **Item 3: Progress on the consultation draft Statement of Recommended Practice**

3.1 Ray Jones introduced this item. He noted that the final changes had been made to the draft SORP following a helpful and detailed review by Mei Ashelford. The text was now being set for the web and a version of the draft SORP with hyperlinks is being developed.

3.2 The first stage in the consultation would be the launch of PDF versions of the draft SORP and with an 'Invitation to Comment'. It was anticipated that the consultation would still be launched in the first week of July. Further developments would include publishing a more interactive version of the SORP with the capability of allowing the downloading of selected modules from a micro-site. As the consultation is taking place over the summer months, it would be a 4 month rather than the usual 3 month consultation period.

3.3 Ray Jones noted that one of the papers for the Committee was the schedule of changes recommended by Mei Ashelford on behalf of the FRC together with the response made by the SORP Secretariat. He noted that there were 6 matters left outstanding which would be picked up as part of the consultation exercise. He noted that whilst the CAPE and Accounting Council both commended the draft, there were a number of matters that they wished to see covered in the questions in the 'Invitation to Comment'.

3.4 The Committee expressed their thanks to Mei Ashelford for her detailed review of the text and valuable suggestions for changes and improvements.

## **Item 4: Future changes to GAAP and the implications for the SORP**

4.1 Ray Jones introduced this item. He noted that changes emanating from the European Commission in the form of a new Accounting Directive would impact on company reporting and in turn on the form and content of the Financial Reporting Standard for Smaller Entities (FRSSE).

4.2 The Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102) was derived from the International Financial Reporting Standard for Smaller and Medium-sized Enterprises. The IASB were reviewing this standard with the intention of issuing a revised standard in 2015. However the FRC had indicated that they were no immediate plans to review FRS 102. Mei Ashelford noted that the FRC were not anticipating revising FRS 102 until 3 years had elapsed and a review of FRS 102 would not necessarily mean changes to that standard.

4.3 Ray Jones noted that changes to small company and micro-company reporting framework were anticipated as a consequence of the new EC Accounting Directive. Although the Accounting Directive specifically notes that it does not apply to not-for-profit entities, the FRSSE does. Changes to accommodate the new Accounting Directive will change the FRSSE and so affect the SORP. Similarly, the implementation by the Department for Business Innovation and Skills (BIS) of simplified reporting for micro-entities will also affect the new SORP.

4.4 It was unfortunate that the implementation of these changes was not aligned with the effective date for FRS 102. It was anticipated that company law may be amended later this year to accommodate changes applying to micro-entities with further changes impacting on smaller companies being introduced at a later date. He also noted that the proposed threshold for micro-entities was not at present aligned with that of receipts and payments accounting by non-company charities. It was also noted that Charitable Incorporated Organisations can adopt receipts and payments accounting and so it would be anomalous if the smallest company charities might not similarly report under a simplified framework.

4.5 Mei Ashelford noted that the detail and timing of any changes to the FRSSE for the new Accounting Directive were contingent on the final approach taken to implementation by BIS. The effective date for these changes might be as early as 2015.

4.6 In discussion, the Committee noted that:

- the consultation exercise on the draft SORP included a reference to changes to the FRSSE;
- scope for the SORP to require a higher level of reporting by charities and so changes resulting from the new Accounting Directive need not necessarily be reflected in changes in charity accounting and reporting; and
- consideration should be given to allowing a simplified approach to reporting by those charities that are micro-entities once the changes resulting from implementing the Accounting Directive are known.

#### **Item 5: Consultation questions and proposals for a ‘soft launch’**

5.1 Nigel Davies introduced this item and papers 2 and 2.1. He reviewed the three issues that CAPE wished to see explored through consultation questions: a single column Statement of Financial Activities (SoFA), the distinction drawn in branch accounting between a subsidiary and a branch, and disclosure of grants by way of a separate publication. He also noted that the FRC’s Accounting Council wished the approach taken in the draft SORP to disclosures in the notes to be reconsidered.

5.2 The Accounting Council noted that the SORP should clearly differentiate between requirements of the accounting standards (FRSSE and FRS 102) and other requirements derived from charity law or otherwise. A further concern raised by the Accounting Council, was that the SORP currently paraphrases some of the disclosure requirements set out in the FRSSE and FRS 102 which may unintentionally change their meaning. Mei Ashelford suggested that if accounting standard disclosure requirements were to be retained in the SORP, the SORP Committee might consider reproducing them verbatim.

5.3 Nigel Davies noted that the proposed questions included those issues previously recommended for inclusion by the SORP Committee of: disclosure of grants by way of a separate publication, the classification of mixed motive investments, the change to the definition of a branch and requesting respondents to identify any specific issues the SORP needs to address. He advised that the suggestion concerning the distinction between operational and heritage assets had not been taken up as it was thought that the changes made to the module on accounting for heritage assets had dealt with this point.

5.4 He then took the Committee through the 20 proposed questions set out in paper 2.2. He noted that the questions would be put in context with explanations and background provided in the 'Invitation to Comment'.

5.5 The Committee debated the classification of mixed motive investments which the draft SORP proposes to treat as a separate class of financial investments rather than base classification on whether the purpose of investment is mainly to earn a financial return or mainly to further a charity's purposes. The Committee concluded that there will always be an aspect of a judgment wherever a boundary between financial investment and investment to further a charity's purposes is drawn.

5.6 The draft SORP mirrors the classification of investment provided in Charity Commission guidance (CC14). It was pointed out that using a preponderance approach may result in investments that were not made wholly for charitable purposes being written off as charitable expenditure if impaired. It is arguably inappropriate to try to allocate an impairment loss between a charitable loss and a financial loss. The key issue was not disclosure but how impairment losses might be recognised in the SoFA. It was however agreed that judgemental issues arose in the classification of investments and that this issue should be explored through consultation.

5.7 The Committee noted the Accounting Council's concern that the SORP currently paraphrases some of the disclosure requirements set out in the FRSSE and FRS 102 and the tension between cross referring to standards and having comprehensive disclosures set out in the SORP. Although the FRC may expect preparers to read the applicable standard in conjunction with the SORP, in practice given the level of skill and knowledge within a predominantly volunteer constituency which prepare and examine charity accounts particularly of smaller charities this was unrealistic. The vast majority of preparers look to the SORP to be comprehensive and cover what is required. This marked the charity SORP out from other SORPs which are written for a professional accountants employed by large organisations such as registered social landlords and universities.

5.8 The Committee noted that the approach to developing a comprehensive draft with more explanatory text and illustrations to assist preparers and a reasonably comprehensive repetition of the disclosures required by the FRSSE and FRS 102 had resulted in a much longer SORP. The modular approach and ease of navigation of the SORP mitigates the effect of the length as not all charities will need to read the whole SORP.

5.9 To ensure that readers remain engaged, the questions contained in the 'Invitation to Comment' are best grouped with those of wider interest at the start and the more technical questions that will have less relevance to preparers of accounts of smaller charities put at the end.

5.10 The Committee queried whether the question on a single column SoFA should be included as a consultation question, and if so, it should be clearly identified as being an issue raised by CAPE. The Committee had previously considered a single column approach and had rejected it because it is essential that a charity understand and report upon the different types of fund held. A single column approach would be a retrograde step as the clarity of stewardship reporting of charitable funds would be reduced by a single column 'profit and loss' style of reporting even if disclosures of restricted funds were made in notes to the accounts. The SORP research had clearly shown that all users want the information on restricted and unrestricted funds shown on the face of the SoFA.

5.11 The Committee had noted the potential impact of the new EC Accounting Directive and whilst the opportunity should be taken to inform and educate the sector about these developments, the way this is handled is best left to the SORP making body and SORP Committee rather than explored by way of a consultation question.

5.12 The change to the definition of branches was discussed. It was noted that accounting standards define special purpose entities to ensure their inclusion in the balance sheet when consolidated accounts are prepared. The definition used in SORP 2005 meant branches that are separately constituted appear on the charity's balance sheet and so achieve the aim of standards albeit in a different way. However, standards also define what constitutes a subsidiary and the SORP definitions must be consistent with those standards.

5.11 The Committee discussed the importance of transparency in charity reporting. The trustees' annual report is a key document and the consultation is an opportunity to consider whether the approach taken is supported. The issue of salaries paid to charity staff remains a topic of public interest and is a key element of the debate surrounding administration costs. Non-departmental public bodies in England and Wales which are charities are already required to make salary disclosures for senior staff. When the Committee previously discussed this issue, it was in the context of the public using administration costs and staff salaries as a proxy for impact reporting. A question is therefore needed to check that the approach taken to impact reporting is the right one.

5.12 The Committee noted that the SORP no longer explicitly commented on filing requirements with charity regulators. In the context of consolidated accounts, an entity SoFA and a statement of cash flows would be prepared but the filing requirements may differ by jurisdiction.

5.13 The Committee reflected on the new IFRS based terminology of FRS 102 which contrasted with the use of more traditional terms based on company law in the SORP. The SORP research had found that users of the SORP were against any unnecessary changes and the FRSSE uses exclusively Companies Act based terminology. The question about switching over exclusively to the language of IFRS was to be deferred until a future SORP.

**5.14 The Committee recommended that the proposed questions be amended to:**

- **seek views on the alternate approaches to the classification of mixed motive investments namely: treat as a financial investment, split in proportion to purpose, or classify based on the preponderance of purpose;**
- **include possible alternative approaches to disclosures in the accounts that might help ensure the FRC's post consultation clearance of the SORP;**
- **combine the question on the approach taken to disclosure with the question on cross referencing to standards as a means of shortening the SORP and use the consultation exercise as an opportunity to see if the SORP's current approach, which has led to a longer SORP, is one that has the support of the sector and practitioners;**
- **merge the questions on how well the SORP supports the FRSSE and FRS 102;**
- **ensure the questions requested by the FRC are clearly identified in the 'Invitation to Comment' with appropriate background given as to why they have been included;**
- **note in the question on disclosure of grants by way of a separate publication that SORP 2005 allows this option;**
- **amend the question on branches to draw attention to the possible impact of the change of definition on those charities operating internationally;**
- **cross reference the 'Invitation to Comment' to the SORP 2005 paragraphs where appropriate;**
- **remove the question on the new EC Accounting Directive and use the text of the consultation to flag up this issue;**
- **include a question that checks respondents are happy with the form, content and accessibility to the intended reader of the revised trustees' annual report;**
- **include a question as to whether charities should disclose the salary cost and job title of their most highly paid employee;**
- **include a question to ask whether respondents support the approach taken on impact reporting.**

## **Item 6: Agree dates for Committee meetings 2013-14**

6.1 Nigel Davies introduced this item. He proposed that the Committee meet twice in February 2014 to review the SORP Secretariat's analysis of the outcome of the consultation exercise and recommendations for change to the final text. The post consultation draft SORP will then be submitted to the FRC for their approval. This process will start in March 2014 with the text of the post consultation draft of the SORP being reviewed by the FRC's advisory Committee for Accounting for Public Benefit Entities Committee.

6.2 The joint Chairs recommended that the SORP Committee also meet in November to share their perspectives on the consultation exercise and the issues that they had identified from the events in which they had been involved. This discussion could then inform the analysis work to be undertaken subsequently by the SORP Secretariat.

**6.3 It was agreed that the SORP Committee would reconvene in November to discuss members' perspectives on issues that had been identified through consultation events attended and through feedback received from their own sector contacts. The Committee would then meet twice in early 2014 to review a summary of the consultation responses and complete the drafting process in time for the submission of the SORP to the FRC's advisory Committee for Accounting for Public Benefit Entities in March 2014.**

## **Item 7: Any other business**

7.1 There being no other business the meeting closed.