

## **SORP Committee**

### **Minutes of the SORP Committee Meeting of 8 December 2011 (Approved at the March 2012 SORP Committee Meeting)**

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Present:

- Sam Younger, Joint Chair of the SORP Committee
- Debra Allcock-Tyler
- Tidi Diyan
- Peter Gotham
- Pesh Framjee
- Keith Hickey
- Noel Hyndman
- Ray Jones
- Carol Rudge

In attendance:

- Nigel Davies, Secretary to the SORP Committee
- Caron Bradshaw, Charity Finance Directors' Group (observer member)
- Jennifer McMahon, Monitoring & Compliance Manager, Charity Commission Northern Ireland (observer member)
- Joanna Spencer, Accounting Standards Board (observer member)

Apologies:

- Laura Anderson, Joint Chair of the SORP Committee
- John Graham
- Tris Lumley
- Lynne Robb
- Kate Sayer
- Catriona Scrimgeour
- Paul Spokes

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

1.1 Sam Younger opened the meeting by thanking Peter Gotham and MHA McIntyre Hudson for hosting the meeting. He then welcomed Jennifer McMahon to her first meeting as an observer member for CCNI.

1.2 He invited any declarations of interest to be declared. No declarations of interest were noted.

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

2.1 The minutes of the meeting of the 8 November 2011 were considered and were approved.

2.2 The Committee noted the submission made to the International Accounting Standards Board (IASB) on their agenda consultation.

2.3 Nigel Davies brought to the Committee's attention the Memorandum of Understanding between the IASB and the International Federation of Accountants (IFAC). In particular he noted clause 7 was very encouraging in noting the not-for-profit sector. It read: 'IFAC and IASB consider that the initiative in this Memorandum of Understanding will also be beneficial for the financial reporting standard of not-for-profit entities, which, while predominantly private sector entities, share some of the characteristics of public sector entities'.

## **Item 3 Update from the ASB**

3.1 Joanna Spencer advised that the Accounting Standards Board (ASB) had decided at their November Board meeting to defer the application date of new UK Generally Accepted Accounting Practice (new GAAP) until 1 January 2015.

3.2 The deferral would align the application date of the new GAAP with the implementation of IFRS 9 Financial Instruments by the IASB. This would avoid having to change new GAAP to align with IFRS9 once implemented. An exposure draft of IFRS 9 would be subject to a separate limited consultation exercise in the run up to the application date of the new framework. The consultation on the revised Financial Reporting Standard for Medium-sized Entities (FRSME) was still planned for early in 2012.

3.3 The ASB Board had also decided that three accounting treatments in the draft Financial Reporting Standard for Public-Benefit Entities (FRSPBE) should be made non-sector specific. These were: property held for social benefits, impairment of assets held for service potential, and funding commitments. This would leave as PBE specific, accounting for: concessionary loans, entity combinations and incoming resources from non-exchange transactions.

## **Item 4: Financial Reporting Council consultation**

4.1 Ray Jones introduced this item. He noted that Department of Business Innovation and Skills and the Financial Reporting Council (FRC) had issued a consultation paper proposing the discontinuation of a number of Boards, including the Accounting Standards Board (ASB) and their replacement with two Board Committees. These Committees would cover codes and standards and conduct. The work of the ASB would be subsumed into the Codes and Standards Committee.

4.2 The consultation document had a very heavy emphasis on capital markets throughout and did not provide much of an insight into how the work of the existing Boards would be integrated into the new arrangements. There was a lack of detail and

no mention was made of the SORP making process or public benefit entity (PBE) sector.

4.3 Currently the interface with the ASB is via its Committee for Accounting Public Benefit Entities (CAPE) which specialises in the PBE sector and oversees the charities, registered social landlord and higher and further education SORPs. It was unclear what, if any, arrangements would be made for the PBE SORPs in the new arrangements. A clear advantage of the new arrangement from a public interest perspective is that the FRC would be solely accountable for standards of financial reporting rather than seeing these responsibilities fragmented across the seven Boards. This would make for simpler public accountability but would the FRC Board have sufficient expertise to genuinely determine future standards across the auditing, accounting and actuarial fields?

4.4 In discussion the Committee were concerned that no reference was made to PBEs at all. There seemed a complete lack of awareness of the wider field of standard setting beyond the focus on capital markets. However given the direction of travel in the consultation document, the response would need to consider what was needed from the new arrangements to meet the needs of PBEs.

**4.5 The Committee, in advising the SORP making body, recommended that:**

- **The response at a high level noting the absence of consideration of PBEs and the importance of setting accounting standards in the public interest beyond that of listed companies and large private companies.**
- **Emphasises for context the diversity, size and importance of the PBE sector.**
- **Note the role the current Government intended PBEs to fulfil in the delivery of public services.**
- **The need for an Advisory Council or Panel specifically to maintain and oversee the PBE SORPs.**
- **The need for that Advisory Council or panel to have a depth of PBE experience.**
- **Ensure the Office of Civil Society is made aware of the consultation and is copied into the response.**
- **Engage with other interested bodies to create a coalition of responses in support of the FRC retaining a framework for standard setting for PBEs.**
- **The draft response is circulated to the Committee for members to have an opportunity to provide further views for consideration.**

## **Item 5: Charity law module**

5.1 Nigel Davies introduced this paper. He noted that with this module the Committee had completed its first review of the entire new draft SORP. The SORP text had been extended to the Republic of Ireland and Northern Ireland. In both jurisdictions the regulation of charities was evolving and so the module would need to be reviewed as developments unfold.

5.2 At the heart of the module were two tables. The first table set out the law as it governs charity reporting and accounting for the different forms of charity in each

jurisdiction covered by UK/ Irish GAAP. The second table set out the detail of the charity law framework as it applied to charity accounting and reporting.

5.3 In discussion, the Committee noted that the role of the SORP was perhaps still not fully understood by the sector. The SORP enabled trustees to fulfil their legal requirement to prepare true and fair accounts. This was something they are legally required to do irrespective of the existence of the SORP. The module could be improved by adding this additional context. Also where more specialised PBE SORPs were silent on an issue, then reference should be made to the charities SORP, for example dealing with fund accounting.

5.4 The Committee noted an overlap between this module and the trustee guide. There were elements of the trustee guide that fit better in the module.

**5.5 The Committee agreed that:**

- **The module should be broadened to explain the role of the SORP.**
- **The introduction to module should be expanded to put SORP in the context of it being application guidance for applying UK GAAP to charity accounting and reporting to enable charities to report on a true and fair basis.**
- **That users of more specialised PBE SORPs should refer to the charities SORP where their SORP was silent on charity accounting issues or treatments.**
- **Section 3 of the trustees' guide to the use of the SORP should be incorporated into the charity law module.**

**Item 6: Trustees' Guide to the use of the SORP**

6.1 Having considered the charity law module, the Committee agreed that there was a need for accompanying guidance available on the regulators' websites to provide trustees with an overview of the role of the SORP and how it should be used. In practice most charities relied on their staff or professional advisers to prepare the accounts. However trustees needed to make informed choices, for example whether to opt for receipts and payments accounting or not.

6.2 Also trustees would have to choose, when preparing accruals accounts, between the Financial Reporting Standard for Medium-sized Entities (FRSME) and the Financial Reporting Standard for Smaller Entities (FRSSE).

6.3 The Committee considered to what extent, if any, the guidance should encourage the trustees of eligible charities to opt for simpler receipts and payments accounts. Whilst the preparation of receipts and payments accounts is likely to be more readily understood by volunteers, in England and Wales, the cash basis of preparation resulted in no adjustment for debtors, creditors and provisions. Similarly the Statement of Assets and Liabilities was simplistic and often lacked key information on asset values.

6.4 It was agreed that the role of the SORP was to interpret UK GAAP for charities and so this debate on the merits or otherwise of cash accounting should not

be reflected in the SORP's guidance. Instead the minimum key information should be provided to ensure trustees are aware of the receipts and payments option.

6.5 The guide needs further development with the technical information about the SORP making process appearing later in the text..

**6.6 The Committee agreed that:**

- **The guidance is needed and should place an even greater emphasis on the role of charity accounts, the role of the SORP and the trustees' duty to prepare true and fair accounts.**
- **Advice on the FRSSE and FRSME options could usefully be added.**
- **The text needs to be less technical in style and written for people with no little knowledge of accounting so that it is accessible to all the trustees and not just the Treasurer.**

**Item 7: How to use the modular On-line SORP**

7.1 Nigel Davies introduced this paper. He noted that the intention was to provide users of the SORP with a structured pathway to accessing the relevant modules that they needed. The decisions which determined relevant modules were set out in the flow chart with the table providing an index of all SORP modules available. Depending upon the choices made in answering the question posed in the flow chart, the relevant modules would be selected and made available for downloading or printing off.

7.2 The Trustees' Annual Report is important and the guidance should provide information about how the requirements are met either through the SORP or guidance issued by the regulator.

7.3 The current legal position regarding charities using IFRS was noted. Charities seeking a transnational framework for accounting and reporting globally arguably only have IFRS to work with. However IFRS was not developed with charities in mind and many accounting issues specific to PBEs were not considered. The SORP could not apply to accounts prepared under IFRS because the SORP is part of UK GAAP and so at best the SORP might inform practice.

7.4 In the event company and charity law is changed to permit the preparation of the statutory accounts on an IFRS basis, the flow chart should be amended. However the Committee did not support amending company or charity law to allow the direct adoption of EU-adopted IFRS.

7.5 The Secretariat noted that some technical terms current used by the draft FRSME might confuse the users of the SORP as the terms were different to the accounting terms used in both charity and company law. If, as anticipated, the terminology current used in the draft FRSME is amended to ensure consistency with the Companies Act then the terminology used in the SORP modules would also be changed accordingly .

**7.6 The Committee recommended that:**

- **The flow-chart be retained as a visual presentation. It could be enhanced with additional text provided when the cursor ‘floats’ over a box on the flow chart.**
- **The flow chart could be amended to remind users of more specialised SORPs that SORP modules will still be relevant where a specialist SORP was silent on a charity accounting issue.**
- **The contents of the Trustees’ Annual Report should be signposted.**
- **The glossary of terms should be circulated once the drafting process is completed.**

**Item 8: Any other business**

8.1 CFDG are celebrating 25 years and planned to explore themes of financial capability and financial leadership and CFDG could usefully be advised of any initiatives known to members in this area.

8.2 There being no other business the meeting closed.