SORP Committee

Minutes of the SORP Committee Meeting of 7 February 2011
(Approved at the March 2011 SORP Committee Meeting)

Contact: Nigel Davies, Secretary to the SORP Committee
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Present:

Laura Anderson, Joint Chair of the SORP Committee
John Graham
Pesh Framjee
Keith Hickey
Noel Hyndman
Frances McCandless, Chief Executive, Charity Commission Northern Ireland (observer member)
Ray Jones
Carol Rudge
Kate Sayer
Paul Spokes

In attendance:

Nigel Davies, Secretary to the SORP Committee
Joanna Spencer, Accounting Standards Board

Apologies:

Debra Allcock-Tyler
Tidi Diyan
Peter Gotham
Chris Harris
Tris Lumley
Lynne Robb
Catriona Scrimgeour
Sam Younger, Joint Chair of the SORP Committee

Item 1: Opening remarks and declarations of interest

1.1 Laura Anderson opened the meeting as Joint Chair and on behalf of the Committee and thanked Carol Rudge and Grant Thornton for hosting the meeting at their Euston Offices.

1.2 The Secretary advised that Laura Anderson and Sam Younger had recently been confirmed by the Accounting Standards Board (ASB) as joint chairs of the SORP Committee.

Item 2: Approval of the minutes and matters arising

2.1 The minutes of the meeting of the 17 December 2010 were considered and were approved with two corrections. In paragraph 5.3 the word ‘bodes’ should be replaced by the word 'bodies' and in paragraph 6.5 the phrase 'address the TAR to the needs of funders was misplaced' should be changed to 'address the TAR solely to the needs of funders was misplaced'.

2.2 The Secretary advised that data on the number of SORP 2005 copies sold has yet to be obtained from the Publishing House.

Items 3: Experience of the protocol for developing SORP modules

3.1 The Secretary advised that the first draft module circulated under the protocol was that on Fund Accounting. He had had 10 comments and suggestions from 8 members of the Committee and thought the process had gone well. The comments and action taken were currently being reviewed by the Secretariat.

3.2 Committee members noted that consensus may not be possible on all issues and so it would be helpful to see the final text of each draft module. There may be also be occasions when further debate is needed on a particular point.

3.3 The Committee concluded that:

Members were encouraged to circulate their comments on each draft module to all members on the Committee to enable comment on proposed amendments.
The Secretariat should circulate the final draft text once they have reviewed all the comments received.
The joint chairs may decide that particular points should be referred to the Committee for discussion.

Items 4 Update on the ASB proposals and plans for the future of UK GAAP

4.1 Joanna Spencer updated the Committee on progress in the development of the Public Benefit Entity Standard (PBE Standard). The remaining issues to be considered by the ASB's Board are:

Resources received from non-exchange transactions, including the treatment of legacies and gifts;
Accounting for liabilities, including multi-year funding obligations;
Impairment of assets based on service potential including consideration of depreciated replacement cost.

4.2 She outlined the accounting treatments proposed in the Public Benefit Entity Standard regarding recognising liabilities and the recognition of incoming resources from donated goods. The particular points at issue being: does a condition that a grant is only paid if future funding is available prevent its accrual and should donated goods to be sold through shops be recognised on receipt and valued as stock? After a discussion, the SORP Committee identified that that these accounting treatments would be of considerable concern and interest to the sector. The Committee would respond to the draft proposals once they are issued for consultation.

4.3 She also noted that the New Zealand Accounting Standards Board had recently issued a consultation proposal to treat concessionary loans differently from the UK. She noted that their proposal was to treat the difference between the commercial rate and the concessionary rate as an expense and show the interest income made up to that of a commercial return. This would effectively impute a cost to the business in awarding a concessionary loan.

Item 5: Annual Report Module

5.1 Ray Jones introduced the discussion on the annual report module. He advised the Committee of the changes to the draft since the December meeting and sought views about whether the revised draft fully reflected the comments made.

5.2 The Committee discussed the linking of the Trustees' Annual Report narrative to the financial statements. The existing linking of activities was considered sufficient. It was a noted that trustees could disclose for any activity additional information if they wished. For example information about particular elements or programmes undertaken could be provided.

5.3 The Committee considered the redrafted reserves section which invites trustees to go through several steps to identify their reserves. They welcomed the new bullet point approach but the point about restricted funds should be clarified by substituting the reference 'all purposes' for 'general purposes'. Also where the actual reserves held differ from the plan the trustees should be asked about the steps they are going to take to address the issue. Disclosure of the actual level of reserves expressed both in money and other terms, as appropriate, is very important. This should be done in the context of whether the charity was a 'going concern'.

5.4 The focus on explaining risk rather than a simple statement was agreed. This way of reporting risk is more in line with the reporting already expected of medium and large companies.

5.5 Reviewing the list of potential additional disclosures proposed by participants in the SORP research exercise in 2008-09, the Committee noted that their inclusion within the SORP would create a requirement. It was not desirable to increase the required level of disclosure unless this was justified as embedding existing good practice or introducing essential good practice to the sector. Given that trustees may provide additional information the inclusion of these extra items was not justified. The Committee also agreed that the additional requirements of the Companies Act business review for medium and large companies should not be required of all auditable charities.

5.6 Impact reporting remained a developing area and members shared their perspectives on the developments they had seen. All charities should identify what difference they have made through their work. Current reporting by the majority of charities still remained input and output focussed. Performance reporting by grant makers was discussed and it was noted that identifying their areas of grant making and what had happened as a result was feasible. After discussion the Committee agreed that in this area the SORP should reflect rather than lead practice as it is developed by the sector for outcome and impact.

5.7 The Committee recommended that:

The point about reserves and restricted funds should be clarified by substituting the reference ‘all purposes’ for ‘general purposes’ and trustees should disclose the amount held in reserves and any action taken to bringing reserves in line with their desired level.
The discussion of reserves should consider ‘going concern’ as it is broadly defined by the Financial Reporting Council.
Trustees should not be required to report on: beneficiary participation, environmental sustainability, complaints procedures, the extent of government funding of the charity or provide a biography of trustees.
The disclosure of trustee training and induction is only required of auditable charities. This requirement to be made clearer by making it a bullet point rather than part of the introductory sentence.

Item 6: Heritage Assets Module

6.1 Nigel Davies introduced this paper noting that the definition and disclosure requirements were mandatory in order to comply with the existing Financial Reporting Standard FRS30 Heritage Assets. FRS30 came into effect on 1 April 2010. The areas for review were the additional circumstances where SORP 2005 argued assets could be classed as heritage assets. SORP 2005 permits religious charities and ancient centres of learning to class some of their assets as heritage assets.

6.2 He invited the Committee to consider whether the specific section for religious charities and ancient centres of learning should be retained or extended. In discussion it was noted that it was the item or building and the practicalities of valuation and its link to history or culture that were key. Examples discussed were an old building or item which of itself may not have all these attributes because it has no historical significance and the ease of rebuilding using modern building methods.

6.3 It was also agreed that the definition in FRS30 is key. Operational assets should not be readily reclassified due to the SORP being too flexible. Examples discussed were a zoological garden or a rare breed charity, where the heritage asset is the collection of animals and not the operational assets of the buildings or visitors facilities. In the case of a rail preservation charity which is trading and running regular services, the trains constitute operational assets rather than heritage assets anticipated under FRS30.

6.4 The Committee concluded that:

References to religious and education charities as a special category should be removed. Instead these are examples of where the inability to value, the lack of a meaningful comparator in using depreciated replacement cost and the asset has cultural attributes all apply.
The module should be changed to reflect these criteria to enable an asset to fulfil the heritage definition where a charity’s purposes are not for preservation or conservation.

Item 7: Related Parties Module

7.1 Nigel Davies introduced this paper and noted that the issue of trustee expenses had been very topical. The Independent Expert Group on Expenses in its report encouraged greater disclosure. However it had agreed that the present SORP 2005 disclosures were sufficient. He drew attention to the additional disclosure requirements of the draft Financial Reporting Standard for Medium-sized Entities (FRSME). He also pointed to the dropping of a disclosure for auditable charities which analysed staffing costs by type of staff employed.

7.2 The Committee debated how far the SORP should actively encourage voluntary additional disclosure. The concern is that a mention in the SORP creates a pressure to disclose. However encouraging greater disclosure may help Finance Directors improve governance practices.

7.3 The draft module suggested the FRSME disclosure on the total cost of key management personnel should extend to include all senior staff as well as the trustees. The Committee noted that the FRSME definition of key management personnel referred to 'persons having authority and responsibility for planning, directing and controlling the activities of the entity'. This definition was reflective of the role of the trustees and so there should be no additional disclosure requirement.

7.4 The section on trustee expenses might usefully give examples of payments to third parties and the type of expenses incurred. Also the requirement to provide whole time equivalents across activities should be dropped as a breakdown of cost is shown in the Statement of Financial Activities.

7.5 The draft module proposed that all loans from trustees to the charity be disclosed whether interest bearing or not. The Committee considered that the disclosure of all loans was not appropriate. The terms of the loans mattered more. Also in a faith context the disclosure might discourage the making of interest free loans which very often were converted in whole or part into gifts.

7.6 The Committee concluded that:

> **The module should be amended to clarify that the FRSME requirement is already met by the existing disclosures but the total amount of trustee remuneration should be given.**
> **Interest free loans by trustees need not be disclosed.**
> **The draft text should be modified in accordance with the suggestions made and redrafted in plain English style as far as practicable.**

Item 8: Dates for Committee meetings

8.1 To provide additional time to review the modules and respond to developments in UK GAAP it was agreed that additional meetings be scheduled for July, September, October, November and December.

Item 9: Any other business

9.1 There being no other business the meeting closed.