

## **1. Introduction**

- 1.1. This paper provides members of the SORP Committee with an outline of the SORP-making process and the Accounting Standards Board's (ASB) Code of Practice (copy annexed to this paper) and highlights some of the practical and procedural issues which members of the Committee need to be aware.
- 1.2. The agenda item is set to allow new members to discuss and clarify issues arising from this briefing.

## **2. The SORP-making Process**

- 2.1. In the UK accounting standards are developed by the ASB. SORPs supplement and interpret these standards and other legal requirements in the light of the special factors prevailing or transactions undertaken in a particular industry or sector.
- 2.2. SORPs are issued not by the ASB but by industry or sectoral bodies recognised for the purpose by the ASB. The ASB's review role ensures that SORPs contain no fundamental points of principle that are unacceptable in the context of current accounting practice or to conflict with an accounting standard or the ASB's plans for future standards. In practice this means that SORPs cannot over-ride or ignore existing or planned standards but may interpret them to meet particular sector needs.
- 2.3. The Charity Commission (The Commission) and the Office of the Scottish Charities Regulator (OSCR) are now working together as the new joint-SORP-making body for UK Charities. To secure such recognition, SORP-making bodies are expected to meet criteria laid down by the ASB and to develop their SORP's proposals in conformity with the ASB's code of practice. Sector representation and consultation are key aspects of the process.

## **3. The Code of Practice**

- 3.1. Under the code of practice the SORP Committee and the Commission and OSCR, as the joint SORP-making body for charities in the UK, need to demonstrate:
  - The sector represented has special accounting or financial reporting problems that require the clarification of accounting standards or interpretation.
  - The body represents the whole or major part of the sector for the purposes of financial reporting within the relevant jurisdiction.

- The body shares the ASB's aim of advancing and maintaining standards of financial reporting in the public interest.
- Agreement to abide by the ASB's code of practice.

3.2. The code of practice also requires:

- A review of the SORP at least annually.
- Participation of representatives of the sector, independent outsiders on behalf of wider public interest and, where possible, users of financial statements, and have sufficient technical accounting support. In the case of the Charities SORP, this requirement is met through the appointment of a SORP Committee.
- Wide consultation on proposals, including a public consultation on any proposed changes through the publication of an exposure draft.

**4. How arrangements might work in practice**

- 4.1. Recognising the voluntary nature of the SORP Committee, the Commission and OSCR (the joint SORP-making body) will provide drafting services, although, with agreement of the Chair of the Committee, members will be encouraged to offer drafts or submit papers for consideration addressing areas where they have particular interest or expertise.
- 4.2. The joint-SORP making body will provide a Secretary to the Committee who will record minutes of the decisions made by the Committee. In addition, access to legal advice, as necessary, will be made available through access to legal staff of the joint SORP-making body.
- 4.3. The SORP-making body's recommendations are developed through an advisory group – the SORP Committee. It is the SORP Committee that develops recommendations, not the Joint SORP-making body, although clearly the joint SORP-making body, through its membership of the SORP Committee, has the opportunity to influence and highlight issues that are of concern.
- 4.4. The ASB's code of practice assumes that the SORP-making body should normally accept the recommendation of this working party. However, the SORP-making body may amend the recommendations provided the ASB are informed. It is likely that any such disagreement would be considered as part of the ASB's sign-off procedures. No such issues have arisen in the context of past SORP reviews.

4.5. Working in a spirit of openness is important to the SORP process, however, members of the Committee also need to be able to contribute freely in the confidence that their individual views and opinions leading to the Committee's consensus view will not be discussed or otherwise disclosed outside of meetings.

## **5. Key elements of any annual review**

5.1. The review process involves a number of key elements. The joint SORP- making body in conjunction with the SORP Committee should consider:

- The implications for the SORP of new and proposed accounting standards;
- Any evidence of widespread failure to follow any part of the guidance that has come to the attention of the SORP-making body; and
- Any developments in the sector that suggest further guidance on accounting matters is desirable.

## **6. What is the output of a review?**

6.1. The output of the review process can be:

- A revision to the SORP;
- An update bulletin dealing with particular issue(s), for example the bulletin issued in 2003 addressing FRS17;
- An information sheet, clarifying an issue addressed in the SORP, without amending the SORP's recommendations;
- A decision that no further action is required.

6.2. Irrespective of the outcome of a review, the SORP-making body should formally write to the ASB confirming that it continues to comply with the code of practice and whether it proposes to revise the SORP for which it is responsible.

## **7. What is the sign-off procedure?**

7.1. The sign-off process for a revision to the SORP or the release of a Bulletin is demanding. The stages, can be summarised as:

- Obtaining agreement within the SORP Committee of a consultation draft;

- Obtaining comment from the Committee on Accounting for Public-benefit Entities (CAPE) and its recommendation for release and ASB Board's agreement for the release of a consultation draft;
- A formal three month consultation period;
- Summarising consultation feedback and agreement within SORP Committee to consultation amendments;
- CAPE review and recommendation for franking and obtaining the necessary ASB Board's statement prior to publication.

7.2. An information sheet, simply clarifying recommendations contained within the existing SORP, can be addressed with greater ease. Text agreed by the SORP Committee would generally be provided to CAPE and in the absence of any matter of significance arising, publication can follow without formal consultation.

## **8. SORP, the law and regulations**

8.1. In England and Wales and also in Scotland the recommendations of the Charities SORP are given legal effect by regulations requiring that charities adopt the "methods and principles" of the SORP in the preparation of their accounts.

8.2. Therefore, any revision to the SORP, to have legal effect, should also be supported by an amendment to regulations. Obtaining ministerial support for new regulations recognising a new SORP is therefore a vital element of any SORP revision. Without supporting regulations, an undesirable, perhaps even an unmanageable, tension could be created between recommended practice and the requirements of the law.

8.3. The need for new regulations could be ameliorated by reference in regulations to the SORP and any subsequent revision thereof rather than to a particular SORP issued on a particular date. However, such an approach has been resisted by parliamentary draftsmen in the past on the basis of it being an inappropriate devolution of ministerial powers, in effect, preventing a minister considering the consequences of a new SORP. Amendment to regulations, of course, also involves a parallel consultation and laying of regulations before Parliament.

8.4. An Update Bulletin has been issued in the past without a corresponding amendment to regulations. The result of this approach is that the recommendations contained in the Update Bulletin, in the absence of regulations support it, operate simply as best practice. It should nevertheless to be recognised that a tension could arise if a

bulletin's recommendations were central to the "methods and principles" of the existing SORP.

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