

Charities SORP Committee Minutes

Date	18 March 2015	
Venue	CIPFA Offices, 77 Mansell Street, London,	
Joint Chair	Nigel Davies	<i>Charities Commission in England and Wales</i>
Members Present	Sarah Anderson Caron Bradshaw Richard Bray Michael Brougham Tom Connaughton Pat Dennigan Kenneth McDowell Sheila Nordon Carol Rudge Joe Saxton Jenny Simpson Darren Spivey Mark Spofforth	<i>Deloitte LLP CFG Cancer Research UK ACIE The Rehab Group Focus Ireland Chiene & Tate ICTR Grant Thornton nfpSynergy Wylie & Bissett LLP Royal National Lifeboat Institution Spofforths Chartered Accountants</i>
In attendance	Mei Ashelford Claire Stuart David McConnell Alison Scott Anne Davis Pesh Framjee	<i>FRC OSCR Charity Commission Northern Ireland CIPFA, Secretary to the SORP Committee CIPFA, Secretary to the SORP Committee Crowe Clark Whitehill, Technical Advisor to CIPFA Secretariat</i>
Apologies	Laura Anderson Mark Hill Geoff Hunt Noel Hyndman Simon Ling Una Ní Dhubhghaill	<i>OSCR Sainsbury Family Charitable Trusts Wolfson Foundation Queen's University, Belfast National Association of Almshouses Charity Regulatory Authority</i>

Action

- 1 Welcome, Apologies for absence and declarations of interest**
 - 1.1 Nigel Davies welcomed members to the meeting.
 - 1.2 Apologies for absence were received from Laura Anderson, Mark Hill, Geoff Hunt, Simon Ling and Una Ní Dhubhghaill.
 - 1.3 Nigel Davies asked if there were any declarations of interest to be made. No declarations of interest were noted by members.

2 Approval of the minutes

The minutes of the meeting on 6 February 2015 were considered and approved, subject to some minor amendments.

3 Matters arising

3.1 Nigel Davies provided an update to the Committee on matters arising not dealt with elsewhere in the agenda for the meeting. The update was as follows:

- The SORP microsite has been updated with the agenda, minutes and some papers of the SORP Committee meetings on 11 December 2014 and 6 February 2015 which may be helpful to others. The analysis of the SORP microsite is as follows: 30,180 views of the home page, 20,485 downloads of a full SORP, 4,243 customised SORP (FRS 102) downloads and 3,466 customised SORP (FRSSE) downloads.
- Nigel Davis thanked CFG for hosting a briefing for new Committee members on 5th March 2015 and thanked Committee members for their contribution at that meeting. The suggestions raised at this meeting regarding the future of the SORPS and possible areas for consultation will be included in the discussion document for the next SORP Committee meeting.

3.2 Alison Scott provided the Committee with an update on other matters arising. CIPFA Secretariat has looked at the possibility of creating a twitter account for SORP developments and to help to promote the forthcoming consultations in the summer. The proposal is to 'pilot' twitter account to ensure that there is enough content from SORP Committee members to keep the twitter feed populated. Committee member are asked to send possible tweets to send out on behalf of the SORP Committee to Alison Scott by 17 April 2014. This will be discussed further at the next SORP Committee meeting.

**All
AS/AD**

3.3 Sheila Nordon provided an update to the Committee regarding development in company law in Ireland. The Companies Act 2014 has come into law on 23 December 2014, with a commencement date likely to be June 2015. The Act sets out in one place the provisions relating to the keeping of accounting records, the preparation of financial statements and the audit of financial statements.

4 CAPE Committee update

4.1 Nigel Davies provided a verbal update on FRC's Committee on Accounting for Public-benefit Entities (CAPE)'s meeting on 24 February 2015.

4.2 At the CAPE meeting the following areas were discussed:

- Draft Update Bulletin 1: Amendments to Charities SORP (FRS 102), to take into account the proposed changes outlined in FRC's FRED 59;
- Invitation to Comment for Draft Update Bulletin 1; and
- Direction of travel of the charities SORP for small entities going forward.

4.3 The key points for the Committee to note from the CAPE meeting are as follows:

- CAPE approved the Draft Update Bulletin 1 for consultation, subject to a couple of minor wording amendments.
- CAPE supported the direction of travel for the charities SORP for small entities. The proposal on true and fair by the SORP making body was supported by CAPE; this is a vital ingredient for providing guidance to CIPFA on drafting the charities SORP for smaller entities i.e. the replacement for the SORP (FRSSE). FRED 59 1.A14. sets out the minimum requirements for small entities and the requirements of FRS 102 which are discretionary for smaller entities. However, it goes further and strongly encourages the preparer to consider any additional disclosures that may be required for the accounts to give a 'true and fair' view. The preparer is then referred to relevant sections of FRS 102. FRED 59 also specifically highlights a number of disclosures that must be considered. If the disclosures required by FRS 102 are normally necessary for the accounts to give a 'true and fair', then it logically follows that a preparer will have to disclose for any item in the accounts everything that is required under FRS102.
- The FRC announced at the New UK GAAP launch event that it plans to carry out the first three year review of FRS 102 in 2016/17 with a view to having a revised FRS 102 being effective in 2018. It is therefore anticipated that a full review of the Charities SORP framework would be required in 2017/18 and any changes to FRS102 reflected appropriately.
- The SORP-making body asked for CAPE's view on any particular matters they wish the SORP-making body to consider at the time of the next review of the SORPs. Suggestions included: executive pay disclosures, impact and performance measurement and implementation issues relating to SORPS 2015.

4.4 Following on from Nigel Davies update, the Committee discussed whether it would be better to provide guidance on disclosure requirements to ensure that the statutory accounts provide a true and fair view or whether this matter was best left to the judgement of professionals. The key items discussed were:

- Issuing guidance on disclosures will help to ensure consistency in the sector.
- While all disclosures outlined in FRS 102 may not be necessary for small entities to provide a true and fair view, from a pragmatic perspective, given the timescales driven by the FRC and the EU, the SORP Committee does not have enough time to debate this area. For example, there are some disclosures that the SORP Committee believe should be mandatory for the statutory accounts to give a true and fair view e.g. going concern disclosures. These disclosures are strongly encouraged by FRED 59 for smaller entities but not required by FRED 59.
- Having similar disclosure requirements for SORP (FRS 102) and SORP FRS 102 for small entities may facilitate the process of developing one SORP in the future.

4.5 In light of the above discussion, the Committee concluded that the approach being taken for the development of the Charities SORP for small entities was a suitable and pragmatic approach.

5 Charities SORP (FRS 102 – for small entities)

- 5.1 Alison Scott introduced this agenda item by referring to papers 2 and 2.1. A draft Charities SORP for small entities was circulated to the Committee based on FRS 102 and the requirements in FRED 59.
- 5.2 The draft was developed on the basis that:
- if FRS 102 was being followed, the disclosure requirements relating to this standard must be required by the SORP in order for the statutory accounts to give a true and fair view, even though they were not necessarily required by company law or in FRED 59;
 - the format and lines contained in the Statement of Financial Activities (SOFA) and the Balance Sheet, will remain as a SORP requirement, even though this is an additional to the requirements under FRED 59.
- 5.3 Given that the recognition and measurement requirements and most of the disclosure requirements with a few minor exceptions will be either identical or comparable for SORP (FRS 102) and SORP (FRS 102 for small entities), the Committee enquired whether it would be possible for smaller entities to adopt SORP (FRS 102) without the cashflow.
- 5.4 Mei Ashelford responded that this was not possible because section 1A if inserted into the FRS 102 standard has to be adopted in its entirety by charities. If, after consultation by the SORP-making body, the sector chose to disapply the small entities regime in FRED 59, the sector would have to adopt SORP (FRS102) which includes the cashflow statement.
- 5.5 The Committee suggested that as part of the Invitation to Comment, there should be a question regarding whether charities support the proposed solution to the SORP (FRSSE) replacement i.e. SORP (FRS 102) for small entities or whether they would prefer to adopt SORP (FRS 102), have the one SORP and disapply the small entities regime. The SORP Committee and the SOPRP making-body were of the view that, moving from 2016 to a single SORP and disapplying the small entities option is the preferred option. This would unify the reporting framework and provide to donors and users of the accounts a common presentation of financial information.
- 5.6 The Committee also discussed whether early adoption of the SORP (FRS 102 for small entities) would be permitted. Mei Ashelford, confirmed that the FRC permitted early adoption of FRED 59. Nigel Davies suggested that this may not be possible in the UK jurisdictions because the regulations would have to be updated and timings for doing this are uncertain at the moment.
- 5.7 Nigel Davies asked the Committee to send comments on this draft to Anne Davis by Friday 20 March 2015. **All**
- 5.8 Given that the CAPE meeting to consider the draft SORP FRS 102 for small entities will be on 28 April, the Invitation to Comment and the revised draft SORP FRS 102 for small entities would be circulated to the Committee for feedback by email in due course.

6 Update from the FRC

- 6.1 Mei Ashelford, Project Director at the FRC, provided a verbal update on the developments to UK accounting standards by the FRC.
- 6.2 The main focus of the FRC has been on issuing for public consultation the following exposure drafts:
- FRED 58: *The Financial Reporting Standard Applicable to Micro Entities*
 - FRED 59: Draft Amendments to FRS 102 *The Financial Reporting Standard applicable in the UK and the Republic of Ireland – small entities and other minor amendments*
 - FRED 60: Draft Amendments to FRS 100: *Application of Financial Reporting Requirements and FRS 101 Reduced Disclosure Framework*
- 6.3 The deadline for the consultation responses to the above is 30 April 2015.
- 6.4 Mei Ashelford informed the Committee that she will be going on maternity leave on 26 March 2015. Until maternity cover has been recruited, Jenny Carter, Director of UK Accounting Standards, at the FRC, will be the point of contact for this Committee.
- 6.5 Nigel Davies, on behalf of the Committee, thanked Mei Ashelford for her contribution and support and wished her all the best for the future.
- 6.6 Other than the above, there are no other developments from the FRC.

7 Consultation questions on the FRED 59

- 7.1 Nigel Davies, asked the Committee for feedback on the draft response by the SORP making-body to FRC's FRED 59: Draft Amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland – small entities and other minor amendments.
- 7.2 The Committee discussed the draft response. The key points from the discussion were :
- Overall, the Committee was supportive of the draft response and was of the view that the comments were appropriate and sensible.
 - Regarding the draft response to Q1 of the FRED 59 consultation on the proposed new small companies regime and disclosure requirements, the Committee supported the draft response to question 1. In the Committee's view, preparing financial statements that are true and fair involves a significant amount of complexity for a small entity, especially given that the concept of true and fair is a nebulous concept. In addition, the draft FRED 59 perhaps should also include some guidance about disclosures which may be required for stewardship as opposed to required disclosures to ensure that the accounts are true and fair. For example, disclosure relating to executive pay in charities may be important to demonstrate strong stewardship of the organisation rather than demonstrating that the financial statements are 'true and fair'.
 - The Committee also suggested the response to question 1 should make reference to the fact the development of international and national accounting standards continue to ignore the specific

accounting and disclosure needs of the not for profit sector, which results in having to develop sector specific Statements of Recommended Practice.

- The Committee discussed in detail the draft response to Q4 of FRED 59 which relates to the draft amendments being proposed by FRS 102 for compliance with company law. The two items discussed were the proposed amendments relating to inventories and merger accounting. The Committee was of the view that:
 - The proposed drafting amendments on inventories by the FRC were appropriate as drafted but would benefit from additional guidance on whether this accounting treatment needs to be implemented at the point of initial recognition.
 - There was strong support by the Committee that merger accounting should be permissible for charitable companies as well as other types of legal entities available to charities. The legal form adopted by the charity should not drive the accounting treatment required, especially if the nature of the transaction is a true merger.
- The Committee suggested that the response to question 5 regarding the impact assessment of the implementation of FRED 59 should refer to additional costs for preparers of accounts having to get advice to comply with this new small entity regime, in particular the mandatory requirements for the accounts to be 'true and fair'.

7.3 The Committee also discussed whether early adoption of FRED 59 and the revised SORP for Small Entities would be permitted. FRED 59 states that the standard will be effective for accounting periods beginning on or after 1 January 2016, with early adoption permitted in line with the effective date of changes in relevant legislation. In order for early transition to be permitted for charities, the various regulations in UK jurisdictions would have to be updated and the timings for updating these are not certain at this stage.

7.4 FRC' is requesting comments on FRED 59's consultation by 30 April 2015. Nigel Davies will re-circulate the revised draft response to the Committee in a couple of weeks, to give them an opportunity to provide further comments on the draft response to FRED 59 prior to submitting it to the FRC.

8 *Next steps for the consultation on the draft Charities SORP (FRS 102 – Smaller Entities)*

8.1 Nigel Davies introduced this item on the agenda. As discussed at the last meeting, the draft Charities SORP (FRS 102) for Small Entities will be consulted in the summer for a three month consultation period, together with draft Update Bulletin 1: Amendments to Charities SORP (FRS 102), and also a discussion document will invite views on the future development of the SORP. So, the consultation in the summer will be three-part consultation.

8.2 Nigel Davies and Laura Anderson will draft a discussion paper on the future development of the SORP for the next meeting.

ND/LA

9 Developing an iXBRL charity taxonomy based on the Charities SORP

- 9.1 Nigel Davies introduced these papers at the Committee. The Charity Commission and the FRC are jointly working on a project to develop an iXBRL UK Charity Taxonomy for FRS 102 and the Charities SORP (FRS 102). iXBRL tagging is used for company tax reporting and filing and facilitates the analysis of tagged information for research purposes. The proposal is charities will be able to use iXBRL to file accounts on a voluntary basis.
- 9.2 The Commission and the FRC invited members of the Committee to participate in this project. Committee members who are interested in participating in this project should email Kim Andrews or Nigel Davies.

All

10 Any other business

- 10.1 Richard Bray prepared a paper on the possible implications to charities of ICAEW's Tech 16/14BL 'Guidance on donations by a company to its parent charity'. The paper will be circulated after the meeting.
- 10.2 In terms of background, Richard Bray explained that ICAEW obtained Counsel's opinion on whether the gift aid payment by a subsidiary to its parent was a 'distribution' of profits under company law. Counsel's opinion which is included in ICAEW's Tech 16/14BL is that the payment was a distribution. This means that to be lawful under company law the gift aid payment could not be greater than the profits available for distribution. This would normally be the balance of the subsidiary's profit and loss account. Counsel's opinion on this matter has potential accounting implications for how the gift aid payment by the subsidiary to its charitable parent company should be accounted for.
- 10.3 Following the publication of ICAEW's Tech 16/14BL, there have been different accounting interpretations by some professional firms about the accounting implications of this Technical guidance. Some are arguing the following:
- Some have suggested that since the gift aid payment is a distribution by the trading subsidiary to its charitable parent, then it will need to be accounted for before the year end in the statutory accounts, like any other distribution.
 - If the above treatment is adopted, this will result in the trading subsidiary having to provide for a corporation tax liability in the statutory accounts, which will be seldom realised since the gift aid payment to which it relates will be made after the year end by the subsidiary.
 - From the parent charity's perspective, the income will only be recognised in their accounts when the gift aid payment is made by the subsidiary.
- 10.4 In light of the above interpretation, some professional firms have suggested that the guidance on gift aid in the SORP is incorrect.
- 10.5 The Committee discussed the issues highlighted in this paper and concluded that it would wait further guidance from ICAEW on the accounting treatment of gift aid payment for both the parent and the trading subsidiary

and that this matter should be considered again at the next meeting.

- 10.6 Anne Davis suggested that Invitation to Comment and Draft Bulletin 1 – Charities SORP (FRS 102) which were approved by CAPE will be circulated to the Committee for their information. **AS/AD**
- 10.8 The next Committee meeting will be on **26 May, 1.30-4.30 pm at CIPFA Offices, 77 Mansell Street, London E1 8AN**. A light lunch will be served at 1-1.30 pm. The following items were suggested for consideration at the next meeting: **AS/AD**
- Sheila Nordon kindly volunteered to prepare an update paper for the Committee on development in company law and regulations in Ireland to be discussed at a future meeting. **SN**
 - Discussion paper on the future review of the SORP by the Charity Commission and OSCR **ND/LA**

There was no other business and the meeting closed.