

Charities SORP Committee Minutes

Date	6 February 2015	
Venue	COSLA Conference Centre, 19 Haymarket Yards, Edinburgh EH12 5BH	
Joint Chair	Nigel Davies Laura Anderson	<i>Charities Commission in England and Wales OSCR</i>
Members Present	Sarah Anderson Caron Bradshaw Richard Bray Michael Brougham Tom Connaughton Pat Dennigam Mark Hill Geoff Hunt Noel Hyndman Kenneth McDowell Sheila Nordon Simon Ling Carol Rudge Jenny Simpson Darren Spivey Mark Spofforth	<i>Deloitte LLP CFG Cancer Research UK ACIE The Rehab Group Focus Ireland Sainsbury Family Charitable Trusts Wolfson Foundation Queen's University, Belfast Chiene & Tate ICTR National Association of Almshouses Grant Thornton Wylie & Bissett LLP Royal National Lifeboat Institution Spofforths Chartered Accountants</i>
In attendance	Mei Ashelford David Robb Claire Stuart David McConnell Alison Scott Anne Davis	<i>FRC OSCR OSCR Charity Commission Northern Ireland CIPFA, Secretary to the SORP Committee CIPFA</i>
Apologies	Pesh Framjee Una Ní Dhubhghaill Joe Saxton	<i>Crowe Clark Whitehill, Technical Advisor to CIPFA Secretariat Charity Regulatory Authority nfpSynergy</i>

Action

- 1 Welcome, Apologies for absence and declarations of interest**
 - 1.1 Laura Anderson welcomed members to the meeting.
 - 1.2 Apologies for absence were received from Pesh Framjee, Una Ní Dhubhghaill and Joe Saxton.
 - 1.3 Laura Anderson 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 11 December 2014 were considered and approved.

3 Matters arising

Alison Scott provided the Committee with an update on matters arising not dealt with elsewhere in the agenda for the meeting. The update was as follows:

- Conference call facilities have been arranged and will be available for future SORP Committee meetings.
- CIPFA IT Department is looking into the possibility of a dedicated area of CIPFA's intranet or creating a CIPFA Yammer group but there are costs attached to this depending on how this is set up. CIPFA Secretariat will provide an update on this at the next meeting. **AS/AD**
- CIPFA Secretariat is also looking into the possibility of creating a twitter account for SORP developments and to help to promote consultations. It is possible to create a CIPFA twitter account but there is some concern about how we ensure that the account is used to its full potential and kept populated. This should be discussed further at the next meeting. **AS/AD**
- Nigel Davies to investigate whether the SORP microsite can have a link to the FRC website signposting users to changes in accounting standards by the FRC. **ND**

Sheila Nordon provided an updated 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 Update from FRC

4.1 Mei Ashelford, Project Director at the FRC, provided a verbal update on the developments to UK accounting standards at the FRC.

4.2 Mei reported that the FRC is hoping to issue for public consultation the following Exposure drafts within the next couple of weeks:

- 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*

4.3 There were no other updates from the FRC.

5 Draft Bulletin 1 – Charities SORP (FRS 102)

5.1 Alison Scott introduced this item by referring to paper 2 and Draft Update Bulletin 1 – Charities SORP (FRS 102). As outlined in the Bulletin, the

purpose of the Bulletin is to make amendments to the SORP (FRS 102) resulting from FRC's Exposure Draft: 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*.

- 5.2 Alison Scott brought to the Committee's attention an amendment to the Bulletin which was circulated by email prior to the meeting and also tabled at the meeting relating to Module 6: Donated goods, facilities and services, including volunteers. The paragraph in the SORP (FRS 102) which needs to be amended for FRED 59 is paragraph 6.12 not 6.19 as originally included in the draft bulletin circulated to the Committee as part of the agenda. Therefore, draft Bulletin 1 should include the following paragraph:

The cost of any stock of goods donated for distribution to beneficiaries is deemed to be the fair value of those gifts at the time of their receipt. If the goods held are to be distributed freely or for a nominal consideration, then the carrying amount should be subsequently adjusted to reflect the lower of cost adjusted for any loss of service potential and replacement cost.

Where replacement cost is the economic cost incurred were the charity to replace the service potential of the donated goods and/or services at its own expense.

- 5.3 The Committee considered and discussed the draft Bulletin and made the following recommendations to the joint SORP making-body:
- Module 10: Balance Sheet: some additional words need to be added in the SORP paragraph 10.23 to clarify that when the useful life of capitalised goodwill and other intangible assets cannot be estimated reliably it will be presumed to be no more than ten years in exceptional cases.
 - Module 12: Impairment of assets: the wording in the SORP paragraph 12.20 relating to the reversal of an impairment loss relating to goodwill needs to be clarified.
 - Module 24: Accounting for groups and the Preparation of Consolidated Accounts: the wording relating to the maximum economic life of goodwill and intangible assets needs to be clarified in paragraph 24.32, along the lines of the comment for Module 10, paragraph 10.23.

- 5.4 The Committee was asked to provide any further comments to the Secretariat by Tuesday 10 February in order that the Bulletin can be updated and re-circulated prior to being sent to CAPE for approval on 24 February 2015.

All

- 5.5 Carol Rudge suggested that it would be helpful to Committee members to include the implications of what the Committee is being asked to consider in the covering paper of agenda items. The Secretariat will take this point on board.

AS/AD

6 Draft Bulletin 2 – Charities SORP (FRS 102 – for small entities)

- 6.1 Alison Scott introduced this item by referring to paper 3. At the December 2014 meeting, the SORP Committee considered a number of options for dealing with the withdrawal of the FRSSE whilst retaining the intention to provide users the SORP with an easy to follow guide to the requirements. Initially the Committee recommended that an Update Bulletin be developed to assist former FRSSE users to follow the Charities SORP (FRS 102) and to withdraw Charities SORP (FRSSE). The bulletin would identify those items for small entities that they do not have to provide/disclose when using the Charities SORP (FRS 102).
- 6.2 The paper 3 that was circulated to the Committee contained a disclosure table A (Annex A of paper 3) outlining the proposed disclosure changes to the SORP in terms of 'must' and 'may' as a result of the FRED 59. However, after having further discussions with the FRC and the joint SORP-making body regarding the disclosures required by FRED 59, it became apparent that drafting such an Update Bulletin would be more complicated than originally envisaged.
- 6.3 Nigel Davies added that the drafting would have to make a distinction between the "must" disclosure requirements (those requirements in law and accounting standards and FRED 59) and "must" requirements which are required by the SORP ("this SORP requires") and 'must' requirements necessary for preparing the accounts on a 'true and fair' basis under FRS 102. He noted that whilst FRED 59 would insert a special section for 'small entities', this comprises a combination of mandatory minimum disclosures that differ from the equivalent FRS 102 disclosures, some concessions as to disclosures not required supplemented by disclosures the FRC encourages preparers to make if the accounts are to be 'true and fair'. The SORP cannot override the requirements of the law, regulation and accounting standards and needs to clearly differentiate where it goes beyond the application of accounting standards. Nigel Davies then illustrated the complexity of drafting by focusing on disclosure requirements relating to commitments paragraph 7.44 in the SORP (FRS 102).
- 6.4 In light of the above discussion, the Committee were asked by Nigel Davies to reconsider whether the Bulletin approach was the best approach for dealing with the withdrawal of the FRSSE.
- 6.5 The Committee debated the matter and recommended that the Secretariat develop a new separate Charities SORP (FRS 102 smaller entities) that clearly deals with the requirements for smaller entities. Under the proposed definition by BIS, the Charities SORP (FRS 102 smaller entities) could apply to all but a very small percentage of charities preparing accrued accounts in the UK. The reasons for the following recommendation were:
- there were a number of significant concerns about how user-friendly a Bulletin might be for smaller entities, based on the drafting work done so far;
 - there would be a clear replacement 'book' for smaller entities;
 - preservation of the existing Charities SORP (FRS 102) as a stable option, subject to the mandatory changes required by FRED 59.
 - retaining a 'think small' approach by providing a simpler solution than having to read a SORP and bulletins together.
 - Provides a prototype for a single SORP solution once the FRC has undertaken its triennial review of FRS 102

6.6 Nigel Davies noted that an area of difficulty will be the application of 'true and fair'. Although FRED 59 sets out the minimum requirements for small entities and the requirements of FRS 102 which are discretionary for smaller entities, it goes further and expects 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 and FRED 59 also specifically highlights a number of disclosures that must be considered. Logically it follows that if the disclosures required by FRS 102 are normally necessary for the accounts to give a 'true and fair' view there is no effective simplification, other than not having to produce a Statement of Cash-flows. Given the complexity facing the preparer, the smaller entities option now seems to offer little practical advantage.

6.7 Given the above, the Committee discussed whether the joint SORP-making body should consult on whether smaller entities would like to adopt Charities SORP (FRS 102) rather than having the option of two SORPs, SORP (FRS 102) and SORP (FRS 102 for smaller entities). The Committee recommended that the consultation in mid-June to mid-September 2015 should include this option as one of the questions in the invitation to comment.

6.8 The Secretariat was asked to develop the draft Charities SORP (FRS 102 smaller entities) for discussion at the next meeting, with the intention to bring this draft to the CAPE meeting in April 2015. In light of the need to ensure that Charities are able to comply with the 'true and fair' requirement the secretariat was asked to draft the SORP for smaller entities retaining the current requirements of the FRS102 SORP by using the designation 'this SORP requires' instead of 'must' for those disclosures not required by FRED 59. At the next SORP Committee, the Committee will review these 'this SORP requires' disclosures to ensure that they are appropriate.

7 Next steps for the consultation on the draft Bulletins

7.1 Nigel Davies introduced this item. He noted that the drafting stages of Bulletin 1 and a new separate Charities SORP (FRS 102 for small entities) (previously known as Bulletin 2) and the subsequent approval by CAPE and the Financial Reporting Council.

7.2 As part of the consultation process, Nigel Davies stated that the joint SORP making-body would like to include questions in the consultation regarding the future development of the SORP.

7.3 The Committee debated the content, timing and whether there should be one or more consultations relating to Bulletin 1, Charities SORP (FRS 102 for small entities) and the future development of the SORP.

7.4 The Committee recommended to the joint SORP making-body that there should be one consultation covering Bulletin 1, the Charities SORP (FRS 102 for small entities) and the future development of the SORP since it was felt that this would encourage more engagement with the consultation and avoid consultation fatigue with possible respondents.

7.5 This being the case, Nigel Davies noted that the three-strand consultation is

likely to be mid-June to mid-September and the outcome of the consultations would be reviewed at a Charity SORP Committee meeting in autumn 2015.

8 Implications of raising the audit threshold for the Trustees' Annual Report

- 8.1 Anne Davis introduced this item by referring to paper 4. She noted that the Cabinet Office had consulted on raising the charity audit income threshold from an annual income in the reporting period of £500,000 to £1million of charities in England and Wales only, as charity law is devolved in Scotland and Northern Ireland. This would have implications to the additional disclosures required for larger charities in the Trustees' Annual Report. Larger charities in the SORPs are defined as those charities subject to a statutory audit under charity law (or where no charity threshold exists, those charities with a gross income of £500,000 (UK) or 500,000 Euros (Republic of Ireland) in the reporting period.)
- 8.2 There are no current plans to change the statutory audit threshold for charities in Scotland and Northern Ireland. Should this proposal by the Cabinet Office be implemented and the Trustees' Annual Report reporting requirements continued to be linked to the statutory threshold, then the reporting requirements in the Trustees Annual Report will be different for charities in England and Wales, Northern Ireland and Scotland.
- 8.3 The Committee considered the issue and agreed with the Secretariat's recommendation to de-link the definition of larger charities from the statutory audit threshold for the following reasons:
- it is important to keep the consistency in reporting framework and keep it as simple as possible. Having different disclosure requirements in the Trustees' Annual Report for larger charities across the UK, may cause confusion to preparers, advisers and users of the accounts and reports, particularly charities operating across the UK.
 - The recommendation preserves the existing level of accountability for larger charities in the UK to provide additional information in the Trustees' Annual Report.
 - De-linking the definition of larger charities from the statutory audit threshold definition, will make the SORPS more future proof from any further changes in audit thresholds.
- 8.4 The Committee recommended that the Secretariat update Bulletin 1 to take into account the revised definition of larger charities for the SORPs in order that FRC's Committee on Accounting for Public-benefit Entities (CAPE) can consider the matter at their meeting on 24 February 2015. **AS/AD**
- 8.5 Mark Spofforth commented that the Cabinet Office proposal still included an asset test as one of their options for the statutory audit thresholds. The feedback from the Lord Hodgson Charities Act Review 2006 suggested wide support for the removal of the asset test for the statutory audit threshold.

9 Agenda items for next meetings

- 9.1 Nigel Davies invited Committee members to suggest agenda items for

future meetings. To date the following agenda items relating to related party disclosures and SORP help-sheets have been suggested.

9.2 The Committee considered the matter and made the following suggestions for future agenda items:

- guidance on cashflow preparation;
- exploring the micro-entity framework and possible application to charities;
- Republic of Ireland regulation issues;
- conversion of charities which are companies (charitable companies) to charitable incorporated organisations;
- ICAEW's Tech 16/14BL 'Guidance on donations by a company to its parent charity', which provides clarification of the legal status of payments by trading subsidiaries of charities to the parent charity.

9.3 Nigel Davies thanked the Committee for their suggestions which will be considered at future meetings in due course. The Committee noted that members of the Committee are welcome to submit papers for consideration by the Committee at future meetings.

All

9.4 Richard Bray kindly volunteered to submit a paper on the possible implications to charities of ICAEW's Tech 16/14BL 'Guidance on donations by a company to its parent charity' to the next Committee meeting on 18 March 2015.

RB

10 Any other business

10.1 Nigel Davies thanked Committee members who have responded to CFG's invitation to attend a briefing for new Committee members on 5th March at their offices in London. Nigel encouraged those Committee members who have not responded to the invitation to do so as soon as possible.

10.2 The next Committee meeting will be on **18 March, 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.

10.3 Anne Davis apologised to the Committee for the late planning of this meeting which was partially due to working out how the future SORP Committee meetings will fit into the overall FRC/CAPE approval timetable.

10.4 Alison Scott informed the Committee that potential dates for future SORP Committee meetings will be circulated to the Committee within a week to canvas for their availability.

AS/AD

10.5 There was no other business and the meeting closed.