

Charities SORP Committee Minutes

Date	26 May 2015	
Venue	Conference Call	
Joint Chair	Laura Anderson Nigel Davies	<i>OSCR Charities Commission in England and Wales</i>
Members Present	Sarah Anderson Caron Bradshaw Richard Bray Michael Brougham Tom Connaughton Mark Hill Geoff Hunt Noel Hyndman Kenneth McDowell Sheila Nordon Simon Ling Joe Saxton Jenny Simpson Darren Spivey Mark Spofforth	<i>Deloitte LLP CFG Cancer Research UK ACIE The Rehab Group Sainsbury Family Charitable Trusts Wolfson Foundation Queen's University, Belfast Chiene & Tate ICTR National Association of Almshouses nfpSynergy Wylie & Bissett LLP Royal National Lifeboat Institution Spofforths Chartered Accountants</i>
In attendance	Jenny Carter Alison Scott Anne Davis Pesh Framjee Una Ní Dhubhghaill	<i>FRC CIPFA, Secretary to the SORP Committee CIPFA, Secretary to the SORP Committee Crowe Clark Whitehill, Technical Advisor to CIPFA Secretariat Charity Regulatory Authority</i>
Apologies	Pat Dennigan Fiona Muldoon Carol Rudge	<i>Focus Ireland Charity Commission Northern Ireland Grant Thornton</i>

1 Welcome, Apologies for absence and declarations of interest

- 1.1 Laura Anderson welcomed members to the conference call.
- 1.2 Apologies for absence were received from Pat Dennigan, Fiona Muldoon and Carol Rudge.
- 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

- 2.1 The minutes of the meeting on 18 March 2015 were considered and approved.

3 To note: SORP-making body submission on FRC's FRED 59

- 3.1 Nigel Davies informed the Committee that the SORP-making body has submitted its response to FRC's consultation on 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.
- 3.2 The SORP-making body's response to FRC's FRED 59 consultation is available on the FRC's website.

4 To note: Invitation to Comment document and Draft Update Bulletin 1

- 4.1 Nigel Davies informed the Committee that the latest draft of the Invitation to Comment for Draft Update Bulletin 1 (papers 2.3) and Draft Bulletin 1 (papers 2.4) had been considered by FRC's Accounting Council on 14 May 2015 and had been approved for public consultation.
- 4.2 In response to a suggestion made by Sarah Anderson, Anne Davis informed the Committee that the wording in paragraph 1.9 in the Invitation to Comment for Draft Update Bulletin 1 relating to changes in the charity audit thresholds in England and Wales needed to be clarified. Anne Davis to action.

AD

- 4.3 Committee members were asked if they had any further feedback on these documents. There were no further comments.

- 4.4 Anne Davis will update the Invitation to Comment and circulate by e-mail the revised Invitation to Comment for Draft Update Bulletin 1 and Draft Bulletin 1 to the Committee for their information.

AS/AD

5 Feedback from CAPE meeting on 28 April 2015 on the Exposure Draft Charities SORP (Small Entities)

- 5.1 Nigel Davies introduced this agenda item by referring to papers 2.1 and 2.2. A Draft Charities SORP (Small Entities) was circulated to the Committee, based on FRS 102 and the requirements set out in section 1A within FRED 59, together with an Invitation to Comment for the Exposure Draft Charities

SORP (Small Entities).

- 5.2 Nigel informed the Committee these two papers were discussed at FRC's CAPE meeting on 28 April 2015. The key points debated by CAPE regarding these papers were similar to the points which had previously been discussed by the SORP Committee at their meetings and are summarised below:
- Whether to have a guide to accompany the Charities SORP (FRS 102) interpreting the small entities regime in FRED 59 section 1 A for charities that qualify as small entities;
 - concern over having two SORPS (one for FRS 102 users and one for small entities) which from a practical perspective are very similar in terms of recognition, measurement and presentation requirements.
 - the nature of the Statement of Cash Flows, whether this might be useful for small charities or whether an exemption should be available for small charities; and
 - debating whether there is a way to provide an exemption, for small charities, from the requirement to prepare a Statement of Cash Flows in SORP (FRS 102) so that there was no need to prepare a separate SORP for Small Entities.
- 5.3 At the CAPE meeting, FRC staff were of the view that it would not be possible to provide an option not to prepare a Statement of Cash Flows for small entities as defined in FRED 59, since the requirement to have a Statement of Cash Flows was part of full FRS 102 and the proposed exemption for small entities was only included in section 1A of FRED 59.
- 5.4 CAPE recognised that the practical effect of having a separate Exposure Draft Charities SORP (Small Entities) did not offer much of a simplification for small entities, given the way the SORP making-body and the SORP Committee had interpreted the requirement for financial statements to be prepared to give a 'true and fair' view. However, CAPE advised the Exposure Draft Charities SORP (Small Entities) together with the Invitation to Comment should be issued with some changes, which included changes in the introduction of the Exposure Draft Charities SORP (Small Entities) and required some clarifications in the Invitation to Comment.

6 Feedback from Accounting Council Meeting on 14 May 2015 on the Exposure Draft Charities SORP (Small Entities)

- 6.1 The Exposure Draft Charities SORP (Small Entities) and Invitation to Comment were discussed by FRC's Accounting Council on 14 May 2015. The feedback Nigel Davies received from the Accounting Council was as follows:
- the Accounting Council was also concerned about the need to have two SORPS, given that the Exposure Draft Charities SORP (Small Entities) would be so similar to the Charities (SORP) FRS 102 in recognition, measurement, disclosure requirements, and presentation of the financial statements.
 - the FRC staff had further considered whether the small entities exemption from the requirement to have a Statement of Cash Flows could be considered separately and therefore be available for small entities not choosing to apply section 1A in FRED 59. Subject to the outcome of the consultation exercise on FRED 59, FRC Staff and the Accounting Council had reached a tentative view that the exemption should be available to small entities otherwise applying full FRS 102. Therefore it is possible for a charity which meets the criteria for a small entity to both follow the SORP FRS 102 standard and not have

to prepare a Statement of Cash Flows.

- although this possibility had been previously raised at SORP Committee meetings, the separation of the option not to prepare a Statement of Cash Flows meant that a separate Charities SORP (Small Entities) was not needed if the goal is simply to permit the option not to prepare a Statement of Cash Flows. The Accounting Council encouraged the SORP Committee to consider issuing one SORP for all charities.

6.2 The Accounting Council approved the SORP consultation, with the caveat of two requirements regarding the consultation:

- in the consultation the SORP-making body should emphasise in its Invitation to Comment that if charities follow Charities SORP (FRS 102), the requirement to have a Statement of Cash Flows would be optional for eligible charities for reporting periods on or after 1 January 2016. If this approach is implemented, Draft Update Bulletin 1 will have to be updated in due course.
- if the SORP making-body and SORP Committee go ahead with the option of consulting on a Draft Charities SORP (Small Entities), that the Invitation to Comment emphasises that the Draft Charities SORP (Small Entities) is of little practical advantage because of the way the SORP making-body and the SORP Committee have construed the legal requirement for charities to prepare accounts that give a true and fair view. The Exposure Draft Charities SORP (Small Entities) would be virtually identical to the Charities (SORP) FRS 102 in recognition, measurement and presentation of the financial statements but with some differences in the wording of some disclosures in the notes to the accounts.

6.3 Laura Anderson asked the Committee for their feedback given the above changes in approach and steer from the Accounting Council. Overall, the Committee were strongly supportive of the simpler approach of having one SORP and the option for eligible charities not to be required to prepare a Statement of Cash Flows but to have the option of not preparing it. In addition, the Committee had the following comments:

- it is important for the SORP Committee to discuss whether the SORP making-body should still consult on the Draft Charities SORP (Small Entities);
- although there is now an option for eligible charities not to prepare a Statement of Cash Flows, the Committee was of the view that it is still important to have guidance on how to prepare Statements of Cash Flows for those small entities that would like to prepare them in the SORP;
- the Committee were also of the opinion that it and the SORP-making body need to discuss what will happen to the existing improvements or changes captured in the Draft Charities SORP (Small Entities).

6.4 Nigel Davies responded as follows to the above comments:

- regarding Statement of Cash Flows guidance, if the Committee and the SORP-making body decide not to consult on an Exposure Draft Charities SORP (Small Entities), it should be noted that the introduction in the existing module in SORP FRS 102 on Statement of Cash Flows would need to be amended via the Update Bulletin 1 to give eligible charities that meet the criteria the option not prepare a Statement of Cash Flows. Therefore, Statement of Cash Flows guidance would still be available for all charities in the SORP.

- the existing improvements or changes captured in the Draft Charities SORP (Small Entities) will be kept and considered in the future as part of the SORP review that will follow the FRC's triennial review of FRS 102.

7 Discussion: Invitation to Comment for Charities SORP (Small Entities) and proposed change of approach

- 7.1 The Committee discussed the new steer by the Accounting Council and possible implications for the Invitation to Comment for Charities SORP (Small Entities) consultation. The key points discussed were:
- if a small entity chooses to prepare a Statement of Cash Flows, the Committee were of the view that the small entity should prepare a Statement of Cash Flows following the guidance included in the current SORP FRS 102 to ensure consistency across the sector.
 - wording that could be associated with the option not to prepare a Statement of Cash Flows should be consistent with the terminology used by the SORP that is, must, should and may.
 - the Committee were of the view that there should be a positive steer in the SORP to prepare a Statement of Cash Flows.
- 7.2 Anne Davis then sought the Committee's views on whether the Committee would be supportive that a charity which met the small entity criteria included in company law i.e. one with a gross income of £10.2m, would not be required to prepare a Statement of Cash Flows.
- 7.3 The Committee discussed whether extending the option not to prepare a Statement of Cash Flows should apply to all charities that meet the small entities criteria. The Committee decided against this option for the following reasons:
- the increase in income criterion for small entities in company law from £6.5m to £10.2m is a significant one, which means that very large charities would provide less information than they do currently.
 - the preparation of the Statement of Cash Flows should be encouraged because it helps identify solvency issues going forward and is helpful information to users of the accounts.
 - charities that are following SORP (FRS 102) for 2015 reporting periods will have to prepare a Statement of Cash Flows, so they will be familiar with their preparation.
- 7.4 The Committee then discussed at what threshold a Statement of Cash Flows should be mandatory, if the threshold was not to be set on the basis of what constitutes a small entity as defined in company law and in FRED 59.
- 7.5 The Committee discussed whether 'larger charities' as defined in the draft Update Bulletin 1 could be an appropriate threshold for preparing Statement of Cash Flows or whether the Committee should consider introducing a separate threshold for the preparation of the Statement of Cash Flows. After consideration, the Committee was of the view that introducing an additional threshold for the preparation of a Statement of Cash Flows would bring additional complexity to the SORP and therefore, rejected this option.
- 7.3 Jenny Carter advised that having fewer thresholds was a valuable simplification i.e. using an existing threshold definition in the SORP for the

preparation of the Statement of Cash Flows.

8 Next steps for June 2015 consultation

- 8.1 Nigel Davies informed the Committee that based on the previous discussions and changes in approach, the Invitation to Comment for the Exposure Draft Charities SORP (Small Entities) would have to be significantly re-written.
- 8.2 In addition, the Committee needs to consider whether the SORP-making body should offer an alternative to the FRSSE as part of the Invitation to Comment in the consultation i.e. should the Exposure Draft Charities SORP (Small Entities) be part of the consultation or not. The key points considered were whether it would help charities and their advisers make a decision if the Exposure Draft Charities SORP (Small Entities) was issued as part of the consultation.
- 8.3 The Committee considered the matter and were of the view that no alternative should be offered given that there are no practical benefits regarding simplification in having a Charities SORP Small Entities. So, it was agreed that the Invitation to Comment should focus on the SORP making-body and SORP Committee's revised approach and solution to the replacement of the FRSSE. This would be instead of issuing an Exposure Draft Charities SORP (Small Entities) which the SORP-making body and Committee concurred would now bring no additional practical benefits. Indeed, since the recognition, measurement, and presentation requirements are identical to the Charities SORP (FRS 102) and the disclosure requirements so similar, continuing with two SORPs would be detrimental to the sector because of the complexity it brings.
- 8.4 The revised Invitation to Comment will be updated and will be circulated by e-mail to the Committee for their comments. **AS/AD**

9 FRC update – Triennial review of FRS 102

- 9.1 Jenny Carter provided a verbal update on the FRC's programme of work. The FRC have been focusing on finalising FRED 58, FRED 59 and FRED 60.
- 9.2 Regarding the triennial review of FRS 102, the timing of this review has yet to be determined. When it does happen, the FRC will be seeking comments from the SORP-making bodies.

10 Any other business and dates for next meetings

- 10.1 The next Committee meeting will be on **13 August, 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.
- 10.2 There was no other business and the meeting closed.