

# Charities SORP Committee Minutes

Date	13 October 2016	
Venue	CIPFA Offices, 77 Mansell Street, E1 8AN	
Joint Chair	Laura Anderson Nigel Davies	<i>OSCR Charity Commission in England and Wales</i>
Members Present	Sarah Anderson Michael Brougham Richard Bray Tom Connaughton Pat Dennigan Mark Hill Noel Hyndman Simon Ling Sheila Nordon Carol Rudge Joe Saxton Jenny Simpson Darren Spivey	<i>Deloitte LLP ACIE Cancer Research UK The Rehab Group Focus Ireland Regeneris Limited Queen's University Belfast National Association of Almshouses ICTR Grant Thornton nfpSynergy Wylie + Bissett LLP Royal National Lifeboat Institution</i>
In attendance	Mei Ashelford John Tracey Tom Malone Alison Scott Easton Bilsborough	<i>FRC Charity Commission Northern Ireland Charity Regulatory Authority CIPFA, Secretariat to the SORP Committee CIPFA, Secretariat to the SORP Committee</i>
Apologies	Caron Bradshaw Pesh Framjee  Kenneth McDowell Mark Spofforth	<i>CFG Crowe Clark Whitehill, Technical Advisor to CIPFA Secretariat Saffery Champness Spofforths Chartered Accountants</i>

## Action

### 1 Welcome, apologies for absences and declarations of interest

- 1.1 Laura Anderson welcomed members to the meeting. The committee welcomed two new observers: John Tracey from CCNI and Tom Malone from CRA. John replaces Fiona Muldoon whilst on maternity leave.
- 1.2 Apologies for absences were received from Caron Bradshaw, Pesh Framjee, Kenneth McDowell and Mark Spofforth.
- 1.3 Nigel Davies informed the group of Geoff Hunt's decision to stand down from the committee. The committee noted their thanks for his contribution over the past two years.
- 1.4 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 of the meeting of 06 July 2016 (Paper 1)**

2.1 The draft minutes of the previous committee meeting were approved.

## **3 Members' matters arising and members' verbal update on their SORP consultation events**

3.1 The members of the committee gave details of events and other promotional activities which their own organisations were running and others that they had been involved in or were aware of.

3.2 Nigel Davies once again reminded the committee that details of all events run in connection with the consultation can be publicised on the SORP microsite. Details of events as well as articles written promoting the consultation should be sent to Easton Bilsborough at CIPFA. These will be included in the report to the FRC to demonstrate that the committee proactively sought the views of stakeholder groups.

3.3 Laura Anderson encouraged members to continue their efforts to promote the consultation through their own organisations between now and the 11<sup>th</sup> of December. She thanked the committee for their involvement in encouraging participation and responses to the research exercise.

3.4 Many members noted that their attendance at events connected with the consultation had prompted a greater awareness around the practical issues of SORP (FRS 102) implementation.

3.5 Carol Rudge noted that a greater grasp of the current framework can be gained by looking at a set of SORP (FRS 102) accounts. She asked the committee if they were aware of any particular strong examples which could be signposted at these events. Jenny Simpson noted this was also raised at the recent ICAS event run in connection with the consultation. The committee agreed that 'real life' accounts are better at bringing the consultation to life, rather than the 'dummy' versions.

3.6 Richard Bray noted the '[Building Public Trust in Corporate Reporting Award for 'excellence in reporting'](#)' was recently won by RNLI for 2016. This award looks at the Annual Accounts and Reports of the top 100 UK Charities. It looks at technical accuracy of the accounts as well as the clarity and transparency of the reports. Darren Spivey would be happy to share details of the award with the rest of the committee. Shelia Norton was aware of a similar initiative in Ireland, 'The Published Accounts Awards', which was won by the charity 'Concern' in 2015.

3.7 Nigel Davies acknowledged that prizes are a useful way to encourage good practice and high standards in charity reporting. Carol Rudge noted that many such initiatives focus on the largest charities, however there are often good examples of innovative reporting by smaller charities. Nigel commented that the ICAEW Charities Online Financial Reporting and Accounts (COFRA) Awards did have categories which looked at smaller charities annual reporting, but the scheme is now no longer run.

## **4 Update from the FRC (Paper 2)**

4.1 Mei Ashford, Project Director of UK GAAP at the FRC, gave an overview of Paper 2 which gave an overview of the triennial review of UK accounting standards currently underway at the FRC.

4.2 She explained the approach being taken by the FRC in their first triennial review of UK accounting standards, which would focus primarily on FRS 102. 'Phase 1' of the review will focus on capturing implementation issues and changes which have been made to IFRS and IFRS for SMEs. In 'Phase 2' the review will focus on significant changes that have occurred in IFRS. It is currently proposed that amendments for the expected loss model in IFRS 9 and IFRS 16 will be

Cttee

considered, with a delayed effective date of 2022 – however, this is subject to consultation feedback. The process is trying to balance feedback from stakeholders which has indicated a need to keep the standards 'stable', but also the need for GAAP to be updated for recent changes in international standards. Mei noted that the initial feedback which is being currently requested will inform the direction of this review process.

- 4.3 Richard Bray enquired as to the rationale behind limiting the scope of amendments to FRS 102 to only two standards, and not looking at all changes and developments noted in paragraph 10 of the paper. He noted that IFRS 13 deals with a very important aspect of accounting which is likely to be of relevant to a range of sectors. Mei noted that in some cases the requirements of FRS 102 are sufficient in dealing with the changes caused as a result of these new international standards. **Ctte**
- 4.4 Richard Bray felt it may be worth the committee looking at these standards and assessing their impact on charities, if they were to be incorporated into UK GAAP and reflected in the SORP. This does not have to be a detailed assessment, but a brief overview of what they contain and the possible impact. This would be incorporated into the work plan for the coming year, in line with when FRC plan to consult on these standards.
- 4.5 Mei drew the committee's attention to the points for consideration in paragraph 14 of the paper. Nigel Davies noted that there should be discussion between the FRC, the committee chairs and the secretariat as to how these would be addressed in the work plan for the coming year. The dates for the possible amendments to FRS 102 would be fed into this plan. **EB/AS**
- 4.6 Nigel then gave a brief overview of the process which was involved in producing a new version of the SORP. He noted that as well as going out to consultation, the new framework would have to be formally approved by the FRC. He noted that the Charities SORP making body is not a standards setter. Prior to publication, the SORP would have to be approved by the UK GAAP Technical Advisory Group (TAG), Corporate Reporting Council, Codes & Standards Committee and the FRC Board.
- 4.7 It was agreed that having a clear 'route' for the development of the new SORP would be necessary. CIPFA would prepare a paper setting out the planned approach for drafting and reviewing the framework for the next meeting. **EB/AS**

## **5 Draft wording of Information Sheet (Papers 3 & 4)**

- 5.1 Nigel Davies and Easton Bilsborough talked the Committee through the draft wording for the Information Sheet (Papers 3 & 4). Easton explained how it sought to take into account the issues considered at the previous committee meeting, as well as those sent to him by the committee. Paper 3 contained the draft wording for the information sheet which would be issued. Paper 4 aimed to give a background to the issues presented and explain the rationale of the text which has included. It was not proposed that this paper should form part of the information sheet.
- 5.2 The committee considered the draft wording page by page, with the following amendments noted:

### Index of Topics

- 5.3 It was suggested that the index should remain linked to the different modules and particular sections of the SORP, but include the topic titles. This would ensure that it is accessible for charities, dependent on their circumstances.

Parent charity as a qualifying entity and exemption from parent only cash flow

- 5.4 It was agreed the text would be revised to ensure the recommendation is made clearer. The different legal requirements which are dependent on the charity's jurisdiction of regulation and operation should be summarised in a table.

Fundraising disclosures brought in by the Charities (Protection and Social Investment) Act 2016

- 5.5 It was suggested that the relevant legislation should be included within the text, and the link to the relevant Charity Commission guidance.
- 5.6 Nigel Davies would confirm the threshold for the disclosure contained within the provisions. This was confirmed as being contained within the Charity Commission guidance [CC15d](#) (Charity reporting and accounting: the essentials November 2016).

**ND**

Comparative figures for fund disclosures

- 5.7 Nigel Davies explained the need for comparative figures was based on the informal advice of the FRC and that of their advisory committee, the Technical Advisory Group. A number of committee members noted that strict compliance with paragraph 3.14 of section 3 of FRS 102 was resulting in excess disclosures in charity accounts which are of little benefit to users.
- 5.8 As this concern comes from stakeholder experiences of implementing FRS 102, it was agreed that should be fed into the FRC's current [invitation for comment](#). A reply on behalf of the joint SORP-making body would be drafted by CIPFA and circulated prior to the submission date of 31 October 2016.

**EB/AS**

Inclusion of governance costs within expenditure on raising funds

- 5.9 It was suggested that the text should use the category heading as used in the SoFA to ensure consistency with the SORP.

Aggregate disclosure of the total amount of donations received without conditions

- 5.10 It was agreed to sharpen the text to ensure paragraph 9.18 of the SORP is interpreted in the context of those transactions with trustees or other related parties only.

Higher paid staff bandings: treatment of part-time staff salaries

- 5.11 It was agreed to remove this topic from the information sheet, on the basis that it is currently being consulted on in the [research exercise](#) (Page 13 of consultation paper).

Inclusion of Employers National Insurance Contributions (NIC) as part of employee benefits

- 5.12 The committee agreed with the text and the approach it recommended. Richard Bray noted that the same ambiguity could be considered to exist around the treatment of the Apprenticeship Levy, and whether this should be treated in the same way as Employers National Insurance Contributions. It was noted that as this is unable to be attributed to individual staff members to the same extent as Employers National Insurance, it should be excluded in calculating the aggregate figures under 9.32.

Treatment of property held by a subsidiary on consolidation

- 5.13 Nigel Davies was to revisit the source of this issue and circulate to the committee following the meeting. **ND**

Requirement for fair value reserve

- 5.14 It was agreed to remove this topic from the information sheet, on the basis that it does not offer any clarification on the requirement of paragraph 15.24 of the SORP.
- 5.15 The requirement for a charitable company reporting in the Republic of Ireland under the Companies Act 2014 to set up a fair value reserves for certain financial instruments was queried, as the SORP requirement refers to the 'UK only'.

Disclosure of the valuation of investment properties

- 5.16 It was agreed to remove this topic from the information sheet, on the basis that it does not offer any clarification on the requirement of paragraph 10.56 of the SORP.

Treatment of a realised gain from a cash flow hedge

- 5.17 The committee acknowledged this issue is relevant to a very small number of charities involved in hedging activities. The need for detailed guidance was questioned given that the vast majority of charities will never encounter hedge accounting.
- 5.18 It was noted that the suggested text indicates that all entries should be shown within 'Other Recognised Gains and Losses'. This is not in line with approach of section 12.23 of FRS 102. Where a realised gain does occur, this is shown both 'above' and 'below' the line in the Statement of comprehensive income and Income statement. The treatment for charities should be clarified for charities in the context of the SoFA.
- 5.19 It was suggested that the information sheet should include a worked example, using the example contained in FRS 102 as a starting point.

Treatment of losses on disposal of a tangible fixed assets

- 5.20 It was agreed to revise this topic using the approach specified in SORP 2005.

Disclosure of government grants

- 5.21 It was suggested that the SORP definition of government referring to local, national and international governments should be included in the text to ensure consistency with the framework.
- 5.22 Nigel Davies noted that the current list of websites covers Scotland, England and Wales. Committee members who were aware of any relevant lists of for Northern Ireland and the Republic of Ireland should send these to the secretariat. **Cttee**

Thresholds for charities reporting in the Republic of Ireland under the Charities Act 2009 and the Companies Act 2014

- 5.23 Sheila Norton suggested the statement on the exemption of charities limited by guarantee from audit is removed. In practice many of these entities will be required to be audited as result of being registered with the Revenue Commissioner and at the request of their funders.

**6 Background briefing on new leasing standard (Paper 5)**

- 6.1 Alison Scott presented the briefing paper on IFRS 16, the new leasing standard. It was welcomed by the committee as providing a useful overview of the new accounting treatment for leases, and the impact for charities and public benefit entities.
- 6.2 Darren Spivey noted there is no exemptions to use the value in use method for the subsequent measurement of leased assets, rather than the right-of-use method. This is relevant to those charities which may use this method to value all other assets held.
- 6.3 Richard Bray saw potential difficulties in all charities being required to apply this standard, if reflected in FRS 102. He felt that we should be calling for something of an allowance for Public Benefit Entities. He would welcome an exemption for smaller charities, who are unable to apply the Financial Reporting Standard applicable to the Micro-entities Regime, FRS 105.
- 6.4 Mei Ashford noted that any changes made to FRS 102 as part of the triennial review would be reviewed in line with the development of FRS 105. This is due to FRS 105 being based on FRS 102.

## **7 Any other business and dates for next meetings**

- 7.1 Laura Anderson asked the Committee if there was any other business they would like to raise. The following points were discussed and clarified:
- 7.2 Alison Scott gave the committee a brief update on recent developments regarding the International Forum of Accounting Standard Setters (IFASS) initiative in International Not for Profit Reporting. The IFASS working group have met several times since the group was formed in April 2016. At the recent IFASS meeting in September 2016 the group's plan to develop an online resource on current national NFP reporting frameworks was announced. This will allow standard setters to learn about best practice and identify common problem areas, as well as highlighting where differences exist. This could act as a step in attracting interest in developing some form of common guidance at some stage in the future.
- 7.3 The dates of the next meetings were confirmed to be:
- Wednesday, 14 December, CIPFA, 77 Mansell Street, London
  - Tuesday, 14 March 2017, CIPFA, 160 Dundee Street, Edinburgh
  - Tuesday, 2 May 2017, CIPFA, 77 Mansell Street, London
  - Thursday, 29 June 2017, CIPFA, 77 Mansell Street, London
  - Wednesday, 25 October 2017, CIPFA, 77 Mansell Street, London
  - Thursday, 7 December 2017, CIPFA, 77 Mansell Street, London
- 7.4 There was no other business and the meeting closed.