

## **Policy Proposal: The Future of UK GAAP**

This response is provided following discussions and feedback from the 70 students on London South Bank University's Charity Finance & Accountancy Courses, all of whom are involved on a daily basis in accounting and financial management at UK charities across the UK, including Scotland and Northern Ireland, whose charities are affected by UK GAAP but are under separate devolved regulation.

The responses and views have been consolidated by Nigel Scott, Course Director of the MSc in Charity Accounting & Financial Management and the CIPFA Certificate in Charity Finance & Accountancy.

### **Q11 Do you agree with the Board's proposal to develop a public benefit entity standard as part of its plans for the future of UK GAAP? If not, how should (converged) UK GAAP address public benefit issues?**

Since the introduction of SORP 2 in 1995 the compliance by charities with legal accounting regulations and accounting standards has improved significantly. The work led by the Charity Commission, as the Standard Setting body to provide a standard accounting framework for charity accounting has been welcomed across the sector, by practitioners, auditors and funders.

It is key to the future development of the charity sector that there remain one accounting approach adopted by all, within the legal framework. Across our consultation group strong support was expressed for a "one-stop" document which contained all the requirements to enable a charity to prepare and produce statutory accounts which comply with the legal requirements, either under the Companies Act 2006 or the Charities Act 1993.

### **Q12 If you do agree with the proposal to develop a public benefit entity standard, should the standard cover all the requirements for preparing true and fair view accounts or should it cover only those issues where IFRS or the IFRS for SMEs needs to be supplemented for the public benefit entity sector?**

The majority of charities are very small compared with companies. A different approach to these smaller bodies is required. Yet even the smallest body can be in receipt of public funds which require a measure of transparency and accountability to funders and to the public that is not provided by following the limited disclosure afforded by FRSSE.

It is also our experience as Course providers that the majority of the preparers of accounts in medium and small charities are qualified by experience and as such will not have had the opportunity to benefit from professional training in the IFRS for SMEs.

One current criticism of many charity accounts, particularly those prepared away from London, is that the auditors or examiners of those accounts do not understand the current SORP and so are unable to support proper reporting by those charities.

While it could be argued that applying the IFRS for SMEs to public benefit entities as well as companies would resolve at least the last of these points, the concept of publishing a series of separate documents covering specific points could lead to confusion and complexity, thence to inefficiency and a waste of public funds.

Our consultation found an almost unanimous desire for there to be a separate, complete standard for public benefit entities. This document would need to include those parts of IFRS for SMEs but, as done by the current SORP, interpret these to enable their application in a standard fashion across a diverse sector.

**Q13 Do you agree the issues listed in the above table are distinctive for the public benefit entity sector and should therefore be covered in a public benefit entity standard? What other issues might the proposed standard include?**

We agree that the table lists some areas where there may be distinctive issues for public benefit entities. We are surprised that the first two – Business combinations and Financial instruments – are listed at that level but understand that IFRS are trying to apply lessons learnt in US frauds and the recent banking problems and to apply them to every sector, regardless of their appropriateness.

Business acquisition accounting is inappropriate to the merger of public benefit entities and so we would support the view that there should be an alternative.

The issue of accounting for grants receivable and grants payable has been an issue for many years. The SORP's approach to liability recognition is not welcomed by all, however, it should be recognized that many small charities are the recipients of multi-year grants so any accounting requirement which might be based on the current rules for long-term accounting may be onerous and difficult to apply.

Many charities struggle with the narrative requirement to demonstrate impact through annual reporting, principally because their impacts are achieved over a much longer period than one or two financial years. The use of proxy measures has been encouraged, however, this often results in the reporting of outputs rather than outcomes, which are more relevant to impact. Nevertheless, this narrative reporting requirement is a key element and the author believes this should be extended to SMEs reporting under the IFRS as many of these operate in the same fields as public benefit entities.

We have not identified any other issues that would need consideration for the proposed standard. Small to medium charities tend to operate relatively simply and not to become involved in complex operations, however, we do recognize that larger charities may well need additional guidance in some areas.

**Q14 The Board accepts there may be a continuing need for guidance to supplement a public benefit entity standard in sectors such as charities, housing and education. Where this is the case, do you think the Board should provide a Statement confirming the guidance is consistent with UK GAAP, including the public benefit entity standard?**

The current SORP for Accounting and Reporting by Charities is given legal weight by the 2008 Charity Accounts Regulations. It has been a key part of the success of the SORP, though, that it is supported by the ASB and the retention of a Statement confirming that the guidance is consistent with UK GAAP is essential.

We see a particular need for this in small to medium regional charities who are audited or examined by small audit firms with limited experience in the field. It is likely they will wish to ensure, for insurance and professional reasons, that their work is done in accordance with UK GAAP and if a Standard was not to have that imprimatur, conflict and confusion between auditor and client could arise.

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