

Mr. Peter Godsall  
Accounting Standards Board  
5th Floor, Aldwych House  
71-79 Aldwych  
London WC2B4HN

29<sup>th</sup> January 2010

## **Response to ASB consultation document on the future of UK GAAP in the context of the public benefit entity sector**

Dear Mr. Godsall,

This response is being submitted on behalf of Irish Nonprofits Knowledge Exchange Ltd (“INKEx”)

INKEx (formerly Guidestar Ireland) has set out to build a transactional database of at minimum 8,500 Irish nonprofit (limited by guarantee) companies, derived initially from their regulatory filings to the Companies Registration Office (CRO) and augmented by listed companies online. INKEx’s reliance on company filings reflects the fact that, whereas a Charities Act has been enacted in Ireland (in 2009), its commencement awaits the creation of an institutional framework and other necessary precedents, meaning that in practice the sector in Ireland remains unregulated.

Pending the enactment of the reporting rules envisaged by the Charities Act, 2009, there is therefore no formal framework for reporting by Irish charities, NGOs and philanthropies, other than as prescribed by company law and accounting standards.

INKEx’s primary concern is that converged UK GAAP, with or without supplemental guidance, should provide an adequate framework for the provision of clarity and consistency in the financial reports of public benefit entities and, in particular, charities, non-governmental organisations and philanthropies.

### **Background information on reporting by Charities in the Republic of Ireland**

It has been estimated (in a study produced in 2004 by the Centre for Nonprofit Management in TCD) that there are some 24,000 “not for profit” organisations in Ireland, of which over 7,500 have received charitable exemption from tax from the Revenue Commissioners. For purposes of this submission, we are concerned primarily with this group. Of this cohort:

- Approximately 52% are incorporated under the Companies Acts, almost all as companies with limited liability and without share capital (“limited by guarantee”)
- Approximately 90% have income of less than €740,000
- Approximately 50% have income of less than €40,000

Because companies limited by guarantee are required to file unabridged audited financial statements with the CRO, the financial statements of incorporated charities are in the public domain. In general, financial statements of unincorporated charities are not readily available, but it is reasonable to assume that they are provided to stakeholders, including funders, as a matter of course or on request. It cannot be stated with any certainty,

however, that these are prepared according to the “true and fair value” conventions which are the norm in regulated sectors and industries.

We are not aware of any formal study or research into the methodologies used by Irish charities in the preparation of their financial statements. A review of the audited financial statements of a number of nonprofit companies (undertaken by us for the purpose of building our database of c.8,500 companies), allows us to make the following comments:

- The primary objectives of the directors are to prepare financial statements that are in accordance with applicable accounting standards and with Irish company law, and (sometimes) to provide narrative information on the entity’s objectives and activities.
- Some nonprofit companies go beyond basic requirements in order to provide meaningful information to stakeholders.
- A number of nonprofit companies follow SORP guidance in preparing their financial statements.
- Some others adopt elements of SORP guidance, for instance, by disclosing restricted funds, without following formats recommended by the SORP.
- There are charities which, without explicitly referring to the SORP, nonetheless produce high quality financial statements by means of the provision of relevant information in notes and appendices.
- Others, however, use formats and disclosures more appropriate to commercial corporate entities. While they may be in compliance with accounting standards and company law, these financial statements may fail to meet the information requirements of stakeholders. Some provide very limited disclosure of income sources or of expenditure on their charitable activities. For instance, there is a wide diversity in the presentation and reporting of sources of grant income and the conditions attaching thereto.
- There is also considerable variation in the extent and quality of narrative reporting.

#### INKEEx response

In order to achieve its objective of putting high quality information freely into the public domain, INKEEx wishes to encourage developments which would contribute to the improvement in the clarity and consistency of financial and narrative information produced by the charity and nonprofit sector. The diversity in reporting which is evident in the published financial statements from the sector emphasises the continuing need for guidance.

The size profile of the Irish charity sector provides further challenges. Many charities have limited financial expertise and are limited by their resources in the extent to which they can reimburse advisors. There is a need for clear and comprehensive guidance that is amenable and accessible to this cohort.

INKEEx is of the view that there is a continuing need for specific guidance on accounting for public benefit entities and, in particular, charities. INKEEx supports the proposal to develop a public benefit entity standard. Given the size of even the largest Irish charities, a standard based on the standard for SMEs (albeit augmented with advice to charities and other nonprofits) appears most appropriate to our circumstances.

Our responses to the relevant questions set out in the Consultation Paper are as follows:

Q11

We agree with the proposal to develop a public benefit entity standard.

Q12

We do not have a preference for a single standard over a supplementary text.

Q13

We agree that the issues listed are distinctive for the public benefit sector and should therefore be covered in a public benefit entity standard. We regard the following issues as being of particular relevance:

- Fund accounting – the disclosure of restricted funds and disclosure of the conditions attaching thereto
- Revenue from non-exchange transactions - in particular disclosure of grants, especially their sources, conditions attaching thereto and the basis for recognition
- Narrative reporting, which is particularly relevant in an Irish context, pending the introduction of defined statutory requirements for a Trustee Report, under the provisions of the Charities Act.

Q14

We anticipate that there will be a continuing need for supplementary guidance for the charity sector. We believe that a Board statement confirming the consistency of such guidance with UK GAAP is important in establishing the authority of the guidance.

Thank you for the opportunity of making this submission. We regard greater clarity and higher standards in financial and narrative reporting as central to the maintenance of public confidence in the work of organisations in this sector.

Kind regards,

Patricia Quinn  
CEO