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Dear Jenny,

Accounting Standards for Small Entities - Implementation of the EU Accounting Directive

The Charity Commission for England and Wales and the Office of the Scottish Charity Regulator are established by law as the regulators and registrars of charities in England and Wales and Scotland respectively. UK charities represent the larger part of the not-for-profit sector in the UK. The Charity Commission and the Office of the Scottish Charity Regulator also act together as the joint SORP-making body for UK charities and our response to the discussion paper is made in that capacity.

The Charities SORP is an interpretation of UK Generally Accepted Accounting Practice for charities and in developing the SORP framework for 2015, a charities SORP was expressly created to provide application guidance for those charities reporting under the Financial Reporting Statement for Smaller Entities (FRSSE). Research undertaken for the Charities SORP Committee found that approximately a third of charities eligible to use the FRSSE do so.

The Charity Commission for England and Wales and the Office of the Scottish Charity Regulator are pleased to submit a joint response to the consultation document: accounting standards for small entities. Our detailed responses to the questions posed in the consultation are set out in an annex to this letter. In the UK, charities must prepare their accounts on an accruals basis to give a 'true and fair' view or, if eligible, they may opt to prepare their accounts on a cash basis. UK charities are therefore not permitted to follow the framework for micro-entities and so we have not commented on this aspect of the consultation.

We support the proposal to harmonise the measurement and recognition principles for smaller entities with those of the new Generally Accepted Accounting Practice (new GAAP) as set out in the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102). We also agree that harmonisation will reduce training and education costs and should help in raising standards in accounting and financial reporting. It will also enable new GAAP to more easily keep in step with developments in International Financial Reporting Standards (IFRS).

Although charitable companies and other not-for-profit companies are scoped out of the Accounting Directive in accordance with point (g) of Article 50(2) of the Treaty on the Functioning of the European Union, the proposed withdrawal of the Financial Reporting Standard for Smaller Entities (FRSSE) will affect those UK charities currently reporting under the FRSSE. As previously noted, as the SORP-making body approved by the FRC, we prepared a SORP to provide application guidance for charities choosing to report under the FRSSE and this SORP will need to be withdrawn and replaced.

The FRSSE has historically been a cut down standard with fewer disclosure requirements than full UK-Irish GAAP. For example in the area of financial instruments the only requirement is the disclosure of the accounting policy. Given that FRS 102 does not fully replicate the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs), the framework for smaller entities under UK-Irish GAAP could similarly not fully replicate FRS 102. The FRC has an opportunity to not require certain disclosures and thereby simplify reporting for smaller entities as compared with medium and large entities. Almost 99% of registered charities could be eligible to follow the FRSSE were the income threshold raised to £10.2m. The sector would therefore be significantly affected by a simplified disclosure framework for smaller entities.

Although the requirement, if an item is material, to make the full disclosures required by FRS 102 is a valuable discipline that encourages higher quality financial reporting, we recommend that the FRC consider simplifying small entity reporting in the spirit of the existing FRSSE. The FRC might do this by keeping disclosures in matters not greatly covered by the existing FRSSE to a bare minimum. For example in the area of financial instruments by only requiring the disclosure of accounting policies (FRS 102 paragraph 11.40) and those items required by the EU Accounting Directive and specify that only medium and large entities make the other disclosures currently required by FRS 102.

Should you have any enquiries concerning this response please contact Nigel Davies.

Yours sincerely,

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