

Mr Hans Hoogervorst
Chairman
International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH



2nd Floor, One Drummond Gate
London, SW1V 2QQ

t: 0300 0652002

Date: 09 November 2015

Dear Mr Hoogervoost,

IASB Trustees' Review of Structure and Effectiveness 2015

The Charity Commission and the Office of the Scottish Charity Regulator act together as the joint SORP-making body for UK charities and our response to the consultation by the Trustees of the International Financial Reporting Standards (IFRS) Foundation (the Foundation) on the review of structure and effectiveness is made in that capacity.

We previously responded to the 2011 IASB Agenda consultation when we encouraged the retention in the IASB's existing work plan for the conceptual framework of Phase G application of the framework to not-for profit entities. We would encourage the IASB to consider again taking forward accounting standards for not-for-profit organisations. Since the primary objective of the Foundation is the development of a single set of high quality, globally accepted standards for for-profit entities, we restrict our responses to questions 1, 6 and 9. Our response to the specific consultation questions is attached as an annex to this letter.

If the charities SORP Committee could be of particular assistance to the IASB in developing accounting standards for private not-for profit organisations do please contact us via the Charity Commission's London office. For further information about the UK-Ireland Charities SORP please refer to the website: www.charitySORP.org

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Nigel Davies', written in a cursive style.

Nigel Davies
Joint Chair of Charities SORP Committee
Head of Accountancy Services
Charity Commission

A handwritten signature in black ink, appearing to read 'Laura Anderson', written in a cursive style.

Laura Anderson
Joint Chair of Charities SORP Committee
Head of Enforcement
Office of the Scottish Charity Regulator

Q1. Considering the consequences referred to above, what are your views on whether the IASB should extend its remit beyond the current focus of the organisation to develop Standards; in particular for entities in the private, not-for-profit sector?

We welcome the Trustees' active consideration of initiating a work programme, following the *Strategy Review* report, to develop standards for other purposes and other entities. In the case of our sector, private not-for-profits, this sector has been overlooked by most accounting standard setters; the emphasis has been on for-profit accounting (IFRS) and government accounting (IPSAS). Our sector has a number of unique issues not addressed by either sets of standards.

In response to the UK Consultative Committee of Accountancy Bodies (CCAB) issued a report *International financial reporting for the not-for-profit sector (2014)*, the Charity Commission in collaboration with the Association of Chartered Certified Accountants have developed a guide for not-for-profits using the IFRS for SMEs. This guide covers in summary form the unique narrative reporting and accounting issues affecting our sector. The *Companion guide for not-for-profits to the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs)* published by ACCA in October 2015 is only a voluntary and illustrative in its application and so it is no substitute to a suite of internationally recognised standards: <http://www.accaglobal.com/gb/en/technical-activities/technical-resources-search/2015/october/companion-guide-nfp-ifrs-sme.html>

Its production offers one perspective based on the UK experience on how the IFRS for SMEs might be adapted for use by our sector. A suite of international accounting standards for private not-for-profits would assist a number of international charities which have donor relationships outside of the UK and operate widely outside of the UK. Such charities may desire an international reporting framework that is accepted in all of the jurisdictions in which they operate. We therefore strongly support extending the scope of the Foundation's mandate to encompass not-for-profit bodies.

Q6. What are your views on what the Foundation is doing to encourage the consistent application of IFRS? Considering resourcing and other limitations, do you think that there is anything more that the Foundation could and should be doing in this area?

As a UK SORP-making body we recognise many of the challenges identified by the Trustees in ensuring that accounting standards are correctly applied. In our context, even though Statements of Recommended Practice (SORP)s have been in place since 1988 setting out the form and content of narrative reporting, the financial statements and the notes, many practitioners still struggle to apply this framework effectively. Indeed the UK framework only became generally accepted accounting practice once it was underpinned by charity law and regulations covering charity reporting and accounting.

In our view, a number of factors affect our sector:

- The high level of unpaid volunteers working with smaller charities who have a very variable level of knowledge and skill in generally accepted accounting practice;
- until recently the absence of specific UK-Irish accounting standards for private not-for-profit entities (termed public benefit entities in UK-Irish GAAP);
- professional bodies not actively reviewing the quality of the work of their members in practice; and
- associated with this, a lack of sufficient recognition within the wider accountancy profession of the unique specialism of private not-for-profit entities.

The steps taken by our jurisdictions that improved the situation have been:

- The involvement of the charity regulators in the SORP-making body since 1995.
- The legal underpinning of the SORPs by legal regulations governing as to the form and content of charity annual reports and financial statements.
- Promotion of the SORPs by the charity regulators.
- The provision of worked model examples, accounting templates and information sheets by the SORP-making body to assist practitioners.
- Collaborative work with the professional accountancy bodies and sector umbrella bodies to promote education and learning regarding the SORPs.
- Growing public awareness of charity accounting leading to public interest and scrutiny of charity annual reports and financial statements.

We would see this as an area where the Foundation might facilitate the work of accountants by providing high quality educational materials and through its collaboration with accountancy bodies, local Accountancy Standards Setting or regulatory bodies and sector specific regulators such as our own organisations.

Q9. What are your views on the current specification regarding the provision of an appropriate balance of professional backgrounds? Do you believe that any change is necessary and, if so, what would you suggest and why?

Should the mandate of IFRS extend to private not-for-profits it is essential, both for the legitimacy of the accounting standards produced and to ensure their quality and relevance, that a number of trustees are appointed with familiarity and understanding of our sector. Our experience is that the strict application of for-profit standards can lead to inappropriate outcomes for not-for-profits both in the presentation of the financial statements, and the disclosures required in the notes to the financial statements. An understanding of our sector would mitigate this risk.

It would also be important to engage with major international donors such as the World Bank to engage them with the process of developing accounting standards for private not-for-profit organisations.