

Consultation response – The Future of Financial Reporting

1 Introduction

We **fully endorse** the detailed consultation response made by OSCR and the Charity Commission for England & Wales as the joint SORP-making body. This supplementary response is made in our capacity as the regulator of all charities in Scotland, of which there are currently around 23,300 different organisations. As with our response to the Future of UK GAAP consultation, submitted in January 2010, we have limited our individual response to the points most relevant to the Scottish charity sector.

2 The PBE Standard

The proposals outlined in the consultation documents for a 3 tier regime are as expected, following on from the original proposals for the future of UK GAAP. In general terms, OSCR supports this approach and the development of a specific standard for Public Benefit Entities, as this will embed specific accounting treatments relevant for the PBE sector in accounting standards. We consider this to be a positive step forward for the charity sector, recognising its growing importance in modern society.

In general, we believe that the requirement for mandatory application of the PBE standard by those entities in Tier 2, but in contrast the stipulation that this is best practice (but not mandatory) by those in Tiers 1 and 3, is likely to be problematic. Given the demographic of the charity sector, where the greatest numbers are at the smaller (Tier 3) end of the scale, where the FRSSE but not the PBE standard will be mandatory, our view is many charities are likely to experience difficulties with understanding the accounting treatment of transactions that are specific to the charity sector but for which the FRSSE offers no treatment. There is the real possibility that Tier 1 and Tier 3 entities may adopt different accounting treatments which potentially damages consistency and public transparency.

3 The role of SORP's

In our response to the policy proposals on the Future of UK GAAP consultation, we strongly advocated the retention of a Charities SORP, fully recognising the importance of the 'one stop shop approach' upon which the charity sector depends so heavily. We welcome the ASB's intention to retain the Charities SORP and

confirm the ongoing and constructive work by the joint SORP-making body and the SORP Committee in developing the next SORP.

The new Charities SORP is being developed on the basis that it will primarily be used by charities in both Tiers 2 and 3. This will mean that charities in Tier 2 will essentially have both the FRSME and the PBE standard as mandatory; Tier 3 organisations will have the FRSSE as mandatory and the PBE Standard as best practice and entities in both tiers will also have the SORP. The possibility of different accounting treatments being adopted by Tier 3 entities is minimised in Scotland, as the SORP is written into secondary legislation for charities – meaning that those charities preparing accrued accounts are bound by statute to follow the methods and principles of the SORP. As the SORP is developed for Tier 3 entities using the principles and treatments outlined in the PBE Standard (where appropriate and not in contravention of the FRSSE provisions) this means that the possibility of Tier 3 entities adopting alternative accounting treatments is greatly reduced. This does however reinforce the importance of any updated Charities SORP being written into amended accounting regulations in the relevant jurisdictions. We have already made the Charity Law Team of the Scottish Government aware of this and the necessary changes that will have to be made for the new regime.

However, this issue is more pertinent for the 733 cross border charities that are currently registered with both OSCR and the Charity Commission for England & Wales, 60% of whom are companies. In England & Wales the situation with regards to the SORP is somewhat different and a disparity between the charity accounting regime in Scotland compared with that in England & Wales will be created if the FRSSE is not amended to allow the PBE standard to be applied to relevant transactions undertaken by charities. This is because the charity accounting regulations in England & Wales do not apply to charitable companies and therefore the SORP is not mandatory for charitable companies under those regulations. The application of SORP is currently only required as a result of the provisions of FRS18 which state that where there is an industry-specific SORP, this must be followed. However, as FRS18 will no longer be in place under the new regime, this will mean that there will be no compulsion for charitable companies in England & Wales to follow the SORP and consequently an increased risk of differing accounting treatments arising for the same transactions. It is our view that such a disparity would be undesirable from a UK perspective and therefore that the FRSSE should be amended to address this issue.

4 Implications of the proposals

4.1 External scrutiny

We note the impact assessment contained within the consultation documents in relation to reporting entities; however, we believe that there are likely to be even greater cost implications for charities under the new regime, given the complexity of the framework arrangements and the interplay between the relevant reporting tier,

the PBE standard and the SORP. In addition, we believe that there are likely to be cost implications for professional accountancy firms in respect of training and this may result in increased fees for charities. The complexities of the new regime may also have a detrimental impact on the availability of auditors and independent examiners serving the charity sector.

In Scotland, the accounting and external scrutiny regime for charities is comprehensive. This means that every charity, regardless of size or form must submit its annual accounts to OSCR and these must be subject to either audit or independent examination as appropriate. The changes to the accounting regime and the framework are likely to have a significant impact on the pool of individuals and organisations that are able or willing to undertake the audit or independent examination of a set of charity accounts. This is likely to increase the existing pressures and difficulties experienced in this area and may have a detrimental effect on compliance by charities with the statutory requirements for external scrutiny as they struggle to identify auditors or independent examiners or to pay the fees for the work required. We believe it is important to highlight this issue so that it can be included in the impact assessment and appropriate thought can be given to how this could be addressed.

5 Timescales

We note the current timetable for the proposed changes and the plan to implement the changes for accounting periods starting on or after 1 July 2013. This essentially allows a period of 18 months from the anticipated publication of the final FRSME. At this stage, this would appear to be a minimum amount of time that could feasibly be allowed before implementation, given the other areas of work that must be completed before the changeover can occur – i.e. the changes to the charity accounting framework in both Scotland and England & Wales and the development of the new Charities SORP including the relevant consultation period etc.

On the basis of the wide variety of organisations within the charity sector, we would advocate as long a lead-in time as possible before implementation to enable sufficient training on the new regime to be provided for the sector and sector advisers. This will be essential for any transition to be successful and supported by entities affected by the changes.

6 Closing comments

We are generally supportive of the consultation proposals outlined by the ASB, subject to the comments made here and in our response with the Charity Commission for England & Wales as the joint SORP-making body. We have restricted our comments here to those issues that we believe are most relevant to the Scottish charity sector and would welcome the opportunity to discuss our views with the ASB in greater detail, particularly as part of the joint SORP-making body.