

Association of Accounting Technicians response to the Withdrawal of the charities SORP (FRSSE) and proposals to widen the scope of charities SORP (FRS 102) consultation

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1. Introduction

- 1.1. The Association of Accounting Technicians (AAT) is pleased to have the opportunity to respond to the consultation paper on the withdrawal of the charities SORP (FRSSE) and proposals to widen the scope of charities SORP (FRS 102), released on 18 June 2015.
- 1.2. AAT is submitting this response on behalf of our membership and from the wider public benefit of achieving sound and effective administration of taxes.
- 1.3. AAT has added comment in order to add value or highlight aspects that need to be considered further.
- 1.4. AAT has focussed on the operational elements of the proposals and has provided opinion on the practicalities in implementing the measures outlined.
- 1.5. Furthermore, the comments reflect the potential impact that the proposed changes would have on SMEs and micro-entities, many of which employ AAT members or would be represented by our operationally skilled members in practice.
- 1.6. AAT has a primary purpose object to advance public education and promote the study of the practice, theory, and techniques of accountancy it therefore endeavours to ensure that any changes in the accountancy framework enhance and do not dilute in any way what it regards are fundamentals of good accounting practice and in the context of charities in particular good stewardship.
- 1.7. AAT also believe in having proportionate accountancy practices in line with best practice when it comes to any changes impacting small charities as they tend to have limited access to financial expertise within trustee bodies.
- 1.8. The accountancy professions response at this time to public criticism of the UK charity sector is critical. The sector is under the spotlight as a result of the recent financial crisis, austerity cuts and the more recent events and highly public criticism and public concern surrounding high profile charities and their trustees.

2. Executive summary

- 2.1. AAT supports the proposal to disapply the small charities regime so that there is one charities SORP once again (3.1, below).
- 2.2. AAT considers that the charity sector would benefit from a concise Reporting Standard that is not subject to change for at least 3 years after its implementation (3.4 below)
- 2.3. However, AAT is not in favour of the proposal that only charities above a certain threshold should prepare cash flow statements (3.5 – 3.10, below).
- 2.4. AAT is of the opinion that cash flow statements are a primary accounting statement and that the charity sector must provide evidence to the public and its other stakeholders that

not only can it manage its cash resources but that charity trustees have a ready measure of their management of those resources for which they are responsible for producing and monitoring.

3. AAT response to the consultation paper on the withdrawal of the charities SORP (FRSSE) and proposals to widen the scope of charities SORP (FRS 102)

Question 1. Given the underlying requirement for the accounts to give a true and fair view and the requirements of FRS 102 that result in all charities applying the same underlying recognition and measurement policies, do you agree with the SORP-making body disapplying the small entities regime proposed in FRED 59? This would have the result that all charities will have to apply the Charities SORP (FRS 102) for reporting periods beginning on or after 1 January 2016. Please give reasons for your response. If your answer is no what alternate approach would you recommend and why?

- 3.1. AAT supports this proposal and welcomes the opportunity to return to one Charities SORP (FRS 102) and acknowledges that the Charities SORP making body had a tough decision to make given that the direction of travel for small companies was not fixed at the time FRS 102 came out.
- 3.2. Having two Charities SORPs is, and if allowed to continue would continue to be, confusing for users and is of no real benefit.
- 3.3. AAT noted that late in the process of applying FRS 102 to charities it was also decided to opt for two SORPs, only for one of them to be possibly withdrawn.
- 3.4. AAT is of the emerging view that the time-starved charity sector finance professionals need a Financial Reporting Standard that is fit for purpose i.e. a concise Standard that is not subject to change for at least 3 years (say).

Question 2. Do you agree with the proposal to amend the Charities SORP (FRS 102) so that it requires only larger charities to prepare a Statement of Cash Flows? This would mean that charities with a gross income exceeding £500,000 (EURO500,000 in the Republic of Ireland) would have to prepare a Statement of Cash Flows. Please give reasons for your response

- 3.5. AAT does not believe that only large charities should prepare a Statement of Cash Flows (SCF). It believes all charities should produce an SCF as part of their annual reporting requirements under the SORP.
- 3.6. AAT considers that the measurement, reporting, and monitoring of cash is critical to the wellbeing of all charities, that their trustees should have an understanding of where their cash resources are derived, how they are applied and most importantly if sufficient cash is being generated to sustain the activities the trustees are intending to undertake to meet the charity's objects within at least the going concern time horizon. SCFs are a vital part of such a process.
- 3.7. The production of cash flow forecasts is also connected to the year-end presentation of an SCF and AAT also believes that a mandatory requirement under the Charities SORP (FRS 102) to produce an SCF would encourage trustees to adopt the practice of producing regular cash flow forecasts to better monitor and manage the sustainable development of their charity and would help them in discharging a critical aspect of a charity trustee's stewardship role.

Question 3. If the answer to question 2 was no, what alternative threshold would you propose for the presentation of a Statement of Cash Flows? Please state what threshold you would propose and give reasons for your response

- 3.8. Indeed charities with gross income of up to £500,000 per annum have the option of not applying the SORP in the presentation of their financial statements but can present a receipts and payments account instead (with details of assets and liabilities) as a simplified alternative.
- 3.9. Out of recognition of our comments made in 3.8 (above) AAT considers all charities not producing receipts and payments accounts should produce an SCF without regard to a threshold.
- 3.10. The monitoring and management of cash by charity trustees is a critical aspect of the stewardship of charities that trustees must undertake in their role. This is particularly the case for smaller charities as by definition they will have limited resources and so all resources are precious and need to be managed effectively.

4. Conclusion

- 4.1. AAT supports the alignment of charity accounting with the framework for accounting under FRS 102 and believe that having one Charities SORP (FRS 102) will aid users to apply best accounting practice consistently and proportionately (3.1, above).
- 4.2. AAT believes that the measurement, management, and monitoring of cash by charity trustees especially for small charities is critical to the sustainable development of those entities and that the production of the SCF greatly assists trustees to meet their stewardship obligations (3.6, above).
- 4.3. AAT also believes that making this mandatory will influence behaviours and the way in which cash flow management and cash flow forecasting is developed and adopted as the norm by the whole charity sector which will be to its benefit in the long run.
- 4.4. AAT has also considered the emerging public debate around the stewardship of charities in the UK and believe that making accounting for charities simpler and proportionate by having to apply one SORP and by adopting mandatory SCF production then this will be an appropriate response by the profession at this time to such concern (3.1 - 3.4, above).

5. About AAT

- 5.1. AAT is a professional accountancy body with over 49,300 full and fellow members and 76,400¹ student and affiliate members worldwide. Of the full and fellow members, there are over 4,100 Members in Practice who provide accountancy and taxation services to individuals, not-for-profit organisations and the full range of business types.
- 5.2. AAT is a registered charity whose objectives are to advance public education and promote the study of the practice, theory and techniques of accountancy and the prevention of crime and promotion of the sound administration of the law.

¹ Figures correct as at 30 June 2015

6. Further information

If you have any questions or would like to discuss any of the points in more detail then please contact AAT at:

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