

In our response to the Part 1 consultation, we set out our background and position in relation to this project and would refer you back to those.

It is worth highlighting some salient points which have a bearing on our response to Part 2.

We noted that whilst we had been happy to support the project as a Country Champion, we *'also recognized that, despite significant effort, there is less engagement in the UK currently.'* We considered that *'This may be as a result of a mature accounting standard and guidance environment coupled with the effects of a pandemic or it may be due the early days of the project and its concurrence with the updating of the SORP.'* Regardless of the cause, the challenges in respect of engagement have continued.

We noted that whilst *'the SORP does a very good job of applying the Financial Reporting Standards in the context of charitable activity it cannot escape from the fact that the standards were developed with private, for profit, enterprise in mind.'* It is notable that whilst the SORP is currently being reviewed, the fundamental principles on which it was drafted are unlikely to change. The use of accruals accounting, treatment of groups, funds accounting as examples are addressed fully in the SORP.

Here, Charities will need to continue follow the SORP and rather than re-invent the wheel, we believe the principles set out in the SORP and the detailed guidance provided by the Charity Commission provide a robust structure for NPO accounting. As a result, if we were to answer the detail of the consultation questions, we would reflect the current content of the SORP. We reiterate our agreement that starting with existing frameworks is the best approach.

We support the selection of the issues that are being consulted on.

In respect of issue 7, financial statement presentation:

- We support the approach as set out in Alternative 1 which allows discretion for reporting on a nature or function basis. Where charities have significant complexity (in reality probably related to size) the expenditure should be classified by function. The reason being that this links the expenditure directly to charity's activities in support of their charitable purpose.
- In line with the SORP, we support Alternative 3 in respect of fund accounting. Where under some jurisdictions it is important to report on a deferred income basis some flexibility in the standard will be required. Where a deferred income approach is used, a reconciliation to the funds approach should be included in the accounts. Flexibility to include additional grant specific disclosure which can be audited as part of the overall accounts should be included.

We note that there is some discussion in the UK accounting community over the use of prior year comparatives for funds as required by the SORP, with some doubt being expressed as to the usefulness of these comparatives in providing a true and fair view.

We will continue to work with our members to support their engagement with this project. We hope these comments are useful to the progress of the project and look forward to working further on IFR4NPO with you.

Charity Finance Group

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