

3 Lyne Grove
Crossford
Dunfermline
KY12 8YB

03 April 2018

Charities SORP
CIPFA
77 Mansell Street
London
E1 8AN

Sent electronically to: charities.sorp@cipfa.org

Dear Sirs

Invitation to comment – Draft Update Bulletin 2

I welcome the opportunity to respond to the above and enclose my response.

I am a voluntary charity independent examiner working mainly with smaller Scottish charities. My current involvement in the charity sector is as follows:

- Member of the Charities SORP Committee
- Member of the Samaritans Audit & Risk Committee
- Independent Examiner for 30 Scottish and 2 English charities
- Treasurer of 2 Scottish charities
- Secretary of the professional membership committee of the Association of Charity Independent Examiners and a regular speaker at their conferences.

If any aspect of my response is unclear, or if you require any other information, please let me know.

Yours sincerely

Michael Brougham

Michael Brougham MCIBS, FCIE

Invitation to comment – Draft Update Bulletin 2

The only matter on which I wish to comment is in the first part of Section 3, which seeks to clarify the requirement for the provision of comparative figures.

I fully understand the reason for inserting the proposed new paragraph 3.49 is to reflect that FRS102 (clause 3.14) requires comparative information to be provided for **all** amounts in the financial statements, including the Notes.

The first sentence of paragraph 4.2 should be removed, (a) as it is redundant following the insertion of the new paragraph 3.49, and (b) because it is not (and was not) correct. The FRS102 requirement is for the provision of comparatives for all amounts, not just those in the SoFA, as this sentence states.

The remainder of paragraph 4.2 is appropriate and should remain in place. However, the same principle should apply to the Balance Sheet if it is analysed by fund type (as per the last sentence of paragraph 10.9). A new paragraph (10.9A), similar to the remainder of paragraph 4.2 should therefore be inserted after paragraph 10.9.

This principle should also apply to a cash flow statement if it has been analysed by fund type (as per paragraph 14.7). However, as module 14 makes no references of any kind to the provision of comparative figures, it may not be essential.

The requirement in SORP 2005 to provide previous year comparatives for the line totals in the primary financial statements is appropriate to aid understanding, however having to provide comparatives for all the individual amounts, as above, adds no value to the user and is completely disproportionate.

There are several problems with the requirement for these additional comparative figures:

- The purpose of comparative figures is to aid understanding of the accounts, not to duplicate those for the previous year.
- The requirement adds significant additional length and complexity to the accounts which, in turn, will increase the time/cost of preparation and independent examination/audit.
- The requirement is contrary to the FRC's overriding object (as stated in FRS102) for high-quality and understandable reporting, proportionate to the needs of the user.
- If the comparatives are included on the face of the primary statements (e.g. SoFA, analysed Balance Sheet etc), the presentation becomes very cluttered with up to eight columns. If the comparatives are provided in the Notes, comparison is frustrated by the information being on completely separated pages.
- Many of the Notes are in tabular form which means the whole table needs to be repeated to show all the figures for the previous year. This approach clutters the Notes and makes differentiating between the figures for the current year and those for the previous year more difficult.
- In the unlikely event that the reader really wishes to perform a detailed comparison of the figures from one year to the next, it would be much easier to compare two separate documents (this year and last year) side-by-side, rather than clutter one document with two sets of figures.
- It is a disincentive to providing additional information which is not mandatory, but which may be of benefit to the user of the accounts, if it means that such additional information requires further

comparative figures. For example, there is no requirement to analyse a balance sheet by fund type, although it is good practice to do so, but this would then mean including a comparative balance sheet.

- Contrary to the FRC's view, (paragraph 107 on page 184 of the December 2017 amendments to FRS102), it is not logical for FRS102 to require comparative figures for amounts other than those required by FRS102. If the SORP requires disclosures beyond the requirements of FRS102, the need for any comparatives for those additional disclosures should be solely for the SORP making body to determine.
- I have seen very few sets of accounts that fully comply with this additional requirement. Indeed, the sample accounts on the SORP microsite, and the Charity Commission's template (CC17a), do not do so. Those that do comply are far from easy to follow.
- A further reason for non-compliance is that many sets of charity accounts are prepared using an accounts production package. If that application does not produce the required comparatives automatically (and some clearly do not), the accounts will not be compliant in this respect.

Conclusions

- This measure is not satisfactory and needs further consideration. The SORP making body needs to revisit this issue with the FRC and press strongly for a rethink.
- The FRC clearly wishes to adopt a "one size fits all" approach without fully understanding that the accounting needs of charities and their users are often very different from those of corporate entities, which are the FRC's principal focus.
- I am aware that this matter has already been raised with (and rejected by) the FRC, citing a low level of feedback. This will partly be due to the issue only affecting charities, but also because the requirement for "all comparatives" is not fully understood by many preparers of accounts, as it has not, until now, been included in the SORP.
- A small addition to paragraph 3.14 of FRS102 would solve the problem, as follows:

*Except when this FRS permits or requires otherwise, an entity shall present comparative information in respect of the preceding period for all amounts **required by this FRS**, presented in the current period's financial statements. An entity shall include comparative information for narrative and descriptive information when it is relevant to an understanding of the current period's financial statements.*