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IPSASB consultation on a conceptual framework for public sector reporting

The Charity Commission is established by law as the regulator and registrar for charities in England and Wales. The Office of the Scottish Charity Regulator is the independent regulator and registrar of Scottish charities. Together we form the joint SORP¹-making body for UK charities. This response to your consultation is made in our capacity as the joint SORP-making body and reflects the views of our SORP Committee.

Broadly we welcome the conceptual framework as it should provide a sound underpinning for the review and development of International Public Sector Accounting Standards. The remit of the Charity SORP deals exclusively with the reporting and accounting framework for charities and so we do not consider it appropriate to comment on all aspects of the conceptual framework.

However, the boundary between government and non-governmental public benefit entities does concern us and a number of proposals in the consultation we believe should be challenged or strengthened to respect the nature and independence of charities in the UK.

Government and charities in the UK interface in a number of ways, mostly:

- through grant funding and contractual funding,
- by appointing trustees to some charities,
- where permitted by statute, acting as the corporate trustee managing a charity's affairs in furtherance of its charitable trusts.

It is generally accepted that where these arrangements exist they will not bring charities within the boundary of government.

¹ The Statement of Recommended Practice (SORP) is an authoritative interpretation of UK Generally Accepted Accounting Practice developed for charities and is issued with the approval of the Accounting Standards Board

While both government and charities operate for the public benefit, accounting standards currently in place or in development, whether UK Generally Accepted Accounting Practice, IASB or IPSASB, have to date respected the unique nature of a charity and the responsibilities on the trustees to manage the charity solely in the charity's interests to exclusively further the charity's charitable objectives and aims.

We make three key points:

- To respect the legal and operational independence of charities, however governed, from government, 'trusts' (charities governed by way of royal charter, unincorporated trusts or associations, charitable companies or other forms of charity) cannot be included within the boundary of government (as proposed by paragraph 1.8). To do so would imply that government directs charities for its own purposes whereas trustees are bound by charity law to act exclusively in the charity's interest and for the beneficiaries of the charity.
- In defining control, the IASB has replaced the term 'benefits' (refer to ED10 Consolidated Financial Statements) with the framework of whether the reporting entity 'can use its power to affect the returns'. In the invitation to comment the IASB explains that 'returns makes more explicit that a reporting entity may obtain positive or negative returns'.

We therefore recommend that the benefit criterion (paragraph 5.35) be changed to: "can benefit from the activities of the other entities, and is exposed to the returns from those entities, including financial benefits or burdens that can arise as a result of the operations or actions of those entities; and it can use its power to increase, maintain, or protect the amount of those returns that may arise as a result of the operations or actions of those entities."

This replaces a simple 'benefit' criterion with the more coherent criterion of 'benefit and financial burden/ loss'.

- We suggest that the following statement be added: "while the trustees of a charity have the ability to direct the financing and operating policies of the charity, only the beneficiaries may benefit from the activities of the charity. A trustee whose relationship with a charity does not extend beyond the normal responsibilities of a trustee would not be considered to control the charity."

We should be happy to discuss these matters further and provide evidence to support the view that charities as independent bodies should not be considered within the boundaries of government.

We recognise that the accounting framework for charities in some countries is established as a part of a broader public sector accounting framework. If the International Federation of Accountants, via IPSASB or separately, plan to develop international accounting standards for non-governmental public benefit entities please do liaise with us, as the SORP Committee would wish to share its expertise and perspectives in support of such an initiative.

If it would be helpful, we would be happy to discuss our response and the issues we have identified with you.

Yours sincerely



Andrew Hind

Kirsty Gray

Chair of Charities SORP Committee

Deputy Chair of Charities SORP Committee