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Your Ref:

Our Ref:

Date: 24 May 2011

Dear Ms Fox,

Conceptual Framework Exposure Draft with particular reference to the reporting entity

The Charity Commission for England and Wales is established by law as the regulator and registrar of charities in England and Wales. Our aim is to provide the best possible regulation of these charities in order to increase charities' efficiency and effectiveness and public confidence and trust in them.

We welcome the opportunity to respond to the consultation on the conceptual framework for general purpose financial reporting by public sector entities: role, authority and scope; objectives and users; qualitative characteristics; and reporting entity. Although the focus of the IPSASB is on the development of standards for government and government related bodies in the public sector, the work of IPSASB can be a helpful source of reference when considering issues for other not-for-profit entities such as charities.

In the UK, the Statement of Recommended Practice (SORP) for charities, first issued in 1995, is the primary reference source for charities. It considers a number of features specific to charities and charitable funds including trust law, fund accounting, and the need for a high degree of accountability to donors, funders and the public on the stewardship of charities. A specific feature of charities is that funds are held on trust, not for private benefit, the benefit of the trustee or the charity as an entity but solely for the beneficiaries of the charity. Another key principle is that where funds are gifted with a restriction as to their use, this restriction is binding on the trustees.

It follows that trustees must act in the interests of the charity and its beneficiaries. Where trustees control more than one charitable fund, the general purpose financial statements show the unity of their trusteeship and the structure of the funds differentiating restricted from unrestricted funds. In the context of consolidated financial statements this is particularly important because the reality is a unity of trusteeship and not that of a single economic entity where all funds are available to the entity to generate a return or to repay its creditors. The concept of the single economic entity underpins commercial standards such as IFRS10, and its predecessors IAS27 and SIC-12.

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We therefore welcome the recognition that trusts are legally distinct (paragraph 4.5) and that to establish that benefits accrue to the public body there is a need to identify either a financial benefit or 'the ability to direct that other entity to work with the government (or other public sector body) to achieve its service delivery objectives' (paragraph 4.8). We therefore welcome the conclusion in paragraph 4.12 that where the public body as trustee cannot exercise its authority to increase its benefits or where it benefits but cannot direct that trust or entity, the trust or entity is not consolidated.

The conclusion IPSASB has reached accords with a reasoned interpretation about the intention that group accounts portray a single economic entity and is consistent with our understanding of trust law. For example our recent report on our public benefit assessments – *emerging findings for charity trustees from the Charity Commission's public benefit assessment work 2009-11* states (in section H5): 'The charity must be independent and must exist to carry out its charitable aims, and not for the purpose of implementing the policies of a government authority, or of carrying out the directions of a government authority'.

If I can be of any further assistance on matters of UK charity reporting and practice please do contact me.

Yours sincerely,



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