



Providing Leadership and Support
within the Irish Charity Sector

ICTR Submission in response to the questions raised in the ASB Consultation Paper on The Future of UK and Irish GAAP

This submission has been prepared by the Charity Trustee Reporting Sub-Group of ICTR. Our response is confined to those questions on the ASB policy proposals which in our view will have a direct impact on the future shape of charity reporting in the Republic of Ireland.

Q1 Which definition of Public Accountability do you prefer: the Board's proposal (paragraph 2.3) or the current legal definitions (paragraph 2.5)? Please state the reasons for your preference. If you do not agree with either definition, please explain why not and what your proposed alternative would be?

ICTR would prefer the definition of Public Accountability proposed by the ASB (paragraph 2.3) rather than the current legal definition (paragraph 2.5) on the basis that the new definition would exclude charities. In Ireland the preferred legal structure adopted by more than 50% of charities is the Company limited by Guarantee, which is classed as a public company. If the legal definition was maintained this would mean that charities would be subject to the full EU adopted IFRS which is totally inappropriate. While we accept that charities must account to the public for their stewardship of charity assets and resources, we agree with the ASB that this is more appropriately achieved by the development of a separate Public Benefit Entity Standard that takes account of the particular nature of transactions in charities and the information needs of stakeholders in this sector. The vast majority of charities in Ireland are very small, locally based, organizations with limited resources (over 50% with annual incomes below €40k) and even those regional and national charities that could be characterized as medium to large would not be on a scale to require the complexity of full EU adopted IFRS disclosure. The definition adopted should be framed such that charities are not included in the proposed Tier 1 accounting regime for publicly accountable bodies but charities should be required to adopt the proposed Public Benefit Standard supported by additional guidance in the form of an ASB endorsed Charity SORP.



Providing Leadership and Support
within the Irish Charity Sector

Q2. Do you agree that all entities that are publicly accountable should be included in Tier 1? If not, why not?

While we accept that charities should be publicly accountable we agree with the ASB that this is more appropriately achieved by the development of a separate Public Benefit Entity Standard supported by additional guidance in the form of an ASB endorsed Charity SORP. See answer to Q1 above for the rationale. We assume that the proposed Public Benefit Entity Standard would be in Tier 2 i.e. that “*for profit*” companies would follow IFRS for SMEs and not for profit, public benefit organizations will follow the Public Benefit entity standard. Since FRSSE is not widely adopted in Ireland we would expect that transition to Tier 2 for charities under a PBE entity standard and for “*for profit*” organizations under the IFRS for SMEs would not prove problematic.

Question 11 – Do you agree with the Board’s proposal to develop a public benefit entity standard as part of its plans for the future of UK GAAP? If not, how should (converged) UK GAAP address public benefit entity issues?

ICTR is in full agreement with the Board’s proposal to develop a separate public benefit entity standard that takes full account of the differences between the information needs of stakeholders in “for profit” bodies and those with a stake in not for profit public benefit entities which includes organizations that meet the legal definition of charitable purpose and public benefit under the Irish Charities Act 2009.

It is our understanding following a recent information event in Dublin addressed by the Chairman of ASB, Ian MacKintosh that the definition of public benefit entity is meant to capture the broad “not for profit” sector, of which charities are a subset. The terminology used could prove confusing since “public benefit” is a key determinant for meeting the requirements of charitable status under charities legislation in all four jurisdictions. There may be merit in reconsidering the naming of the standard to avoid any confusion in this regard.



Providing Leadership and Support
within the Irish Charity Sector

Question 12 – If you do agree with the proposal to develop a public benefit entity standard, should the standard cover all the requirements for preparing true and fair view accounts or should it cover only those issues where IFRS or the IFRS for SMEs needs to be supplemented for the public benefit entity sector?

In our view there should be a “one stop shop” stand-alone accounting standard for public benefit entities (similar to the IFRS for SMEs) that is written in clear non-technical language and that is developed with significant input from both the sector in the Republic of Ireland and the Department of Community Rural and Gaeltacht Affairs which has overall responsibility for charities and the wider community and voluntary sector. It should recognise and set principles for both the annual report (narrative) and the accounts because of the vital role played by narrative reporting in meeting the need of charity stakeholders for accessible information that clearly demonstrates transparency and accountability. It should also recognize the need for a proportionate approach in relation to small charities.

In Ireland the vast majority of charities do not have the resources to employ professional accountants to prepare their accounts rather, they rely on general staff members or volunteers for this purpose. The preference of medium to large charities who are in a position to employ professional accountants is also for a stand-alone document setting out all the requirements for preparing true and fair view accounts similar to the model adopted in the IFRS for SMEs. In a context where charities in the Republic of Ireland will be grappling with both the additional requirements of the Charities Act 2009 under a new Charities Regulatory Authority to be set up in 2011 and adapting to new accounting standards at the same time it is imperative to avoid any unnecessary complexity such as having to consult the full IFRS documentation to see where exceptions for charities apply, which is the ASB’s preferred approach according to the consultation document.

ICTR believes that the charity sector and their regulatory bodies in each affected jurisdiction should be actively involved in the ASB’s development process for the proposed PBE standard to ensure that it meets the ASB ambition to *develop a high-quality, fit for purpose, financial reporting framework* as well as meeting the principles of “Better Regulation” that require regulation to be *proportionate, accountable, consistent, transparent and targeted*. (p. 8 ASB Consultation document). In this context the SORP committee in the UK has extensive experience on charity reporting that should be drawn on in drafting the PBE standard.

Question 13 – Do you agree the issues listed in the above table are distinctive for the public benefit entity sector and should therefore be covered in a public benefit entity standard? What



Providing Leadership and Support
within the Irish Charity Sector

other issues might the proposed standard include?

ICTR believes that the list seems comprehensive. Liaison with the UK Charity SORP Committee is recommended on this issue since they have the most experience of dealing with the distinctive features of charity reporting.

Question 14 – The Board accepts there may be a continuing need for guidance to supplement a public benefit entity standard in sectors such as charities, housing and education. Where this is the case, do you think the Board should provide a Statement confirming the guidance is consistent with UK GAAP, including the public benefit entity standard?

Given the profile of the charities sector in the Republic of Ireland outlined in response to questions above, ICTR expects that there will be a need for continuing guidance to supplement a public benefit standard for charities in the form of a Charities SORP. If this proves to be the case then the experience in Ireland would strongly confirm the need for ASB endorsement of the SORP. The Charities SORP is currently voluntary in Ireland and take-up has been very low with the result that there is a great variation in terms of the quality and range of information provided in charity accounts. To ensure consistent reporting by charities the ASB should endorse any new Charity SORP.



Providing Leadership and Support
within the Irish Charity Sector

Question 15 – If you are an entity whose basis of preparing financial statements will change under these proposals, what are the likely effects of applying those new requirements? Please indicate both benefits and costs and other effects as appropriate. If you are a user of financial statements (such as an investor or creditor) what positive and negative effects do you anticipate from the implementation of the proposals set out in this paper?

All charities will be required to meet the charity reporting standards set out in the Charities Act 2009 to be further developed through Ministerial regulation and phased in over the coming two to three years. ICTR will also be required to meet these standards. We are already expecting to have to change to meet new reporting requirements so provided there is consistency between the two regimes we don't anticipate the ASB requirements causing an additional burden for charities, in fact it could have the potential to remove some of the complexity included in the Charities Act where different regimes apply for incorporated charities which are subject to Company Law and unincorporated charities.

The Charities Act 2009 applies to all charities operating in the Republic of Ireland including those incorporated and subject to Company Law. All charities (regardless of legal structure) are required to provide an annual report in respect of its activities in that financial year, the form and content of that report to be determined by the Minister through regulation. It has already been flagged that this report will include both narrative and financial information (e.g. details of fundraising activity). The type of annual report and annual statement of accounts required under the Act depends on the legal status of the charity. Companies will continue to send their annual return and attached financial statements to the Companies Registration Office which will then furnish a copy to the new Charities Regulatory Authority (CRA), whereas non-incorporated charities will be required to furnish financial information directly to the CRA including those incorporated charities that have an exemption under Company law from filing annual accounts.

If the ASB consultation process results in the development of a separate stand-alone Public Benefit Standard which would then be required under both Company and Charity Law in order for the accounts to give a "true and fair view" this would eliminate the need for separate regulations for different legal forms of charities. A stand-alone, accessible PBE standard that recognized the need for a proportionate regime for small charities, supplemented by additional sector specific guidance in the form of a Charity SORP would provide a much more efficient and effective solution for all the relevant stakeholders.



Providing Leadership and Support
within the Irish Charity Sector

The Irish Minister with responsibility for charities speaking at the information event on the ASB proposals in Dublin on 12th January indicated that in framing the regulations he would have regard to the outcome of the ASB proposal re a PBE standard.

“It wouldn’t be unreasonable to assume that the financial reporting arrangements to be introduced by the ASB for public benefit entities in due course following its public consultation process will inform the financial reporting regime to be introduced under the Charities Act, hence its relevance in this jurisdiction.” (Minister John Curran TD, Dept. Community, Rural and Gaeltacht Affairs – 12th Jan. 2010, Dublin Castle)

The timescale for the ASB happens to coincide with the Minister’s plans re commencement of the financial reporting provisions of the Charities Act so the ideal outcome would be an ASB public benefit standard with additional guidance provided by an ASB approved Charity SORP that became the accepted standard for both charity companies and unincorporated charities alike.

Question 16 – What are your views on the proposed adoption dates?

The timescale set out in the ASB consultation document seems a bit ambitious but it was indicated by Ian MacKintosh at the Dublin information event that this will likely be extended by 12 months to January 2013 which seems more realistic.

As indicated above the fact that the ASB timescale happens to coincide with the timetable outlined by the Minister for commencement of the narrative and financial reporting requirements under the Charities Act 2009 is positive from our point of view. An ASB PBE standard has the potential to eliminate the need for separate regulations for different legal forms of charity in Ireland which, if it comes to pass, would provide a much more efficient and effective solution for all the relevant stakeholders.

On behalf of ICTR
Sheila Nordon
Executive Director



Providing Leadership and Support
within the Irish Charity Sector

ICTR

ICTR is a leadership organization working on behalf of charities to enhance the conditions for a vibrant and independent charity sector in Ireland. In particular the organization is focused on creating a policy climate in which philanthropy can thrive. ICTR promotes the implementation of policies to optimize the financial value of donations (by charity friendly tax reform) and underpin public and donor confidence in charities.

Contact Details:

Sheila Nordon
Executive Director
ICTR
10 Grattan Crescent
Inchicore
Dublin 8
Ireland

Phone: +353 1 400 2100

Email: ictr@ictr.ie

Web: www.ictr.ie

A list of the membership of ICTR can be viewed at [ICTR Membership List 2010](#)