

Mrs Jenny Carter
Financial Reporting Council
8th Floor
125 London Wall
London
EC2Y 5AS

23 April 2015

BY LETTER AND E-MAIL - ukfrs@frc.org.uk

Dear Mrs Carter

RESPONSE TO THE FRC'S PROPOSALS INCLUDED IN FRED 59

Thank you for the opportunity to comment on these proposals.

My firm provides services, amongst others, to a number of charities and several of these choose to have an audit.

My firm supports the majority of the proposals made by the FRC in this exposure draft. I do have certain concerns regarding the clarity of the wording used in the proposed amendments and approach taken to encourage entities to present additional disclosures in the financial statements in order for them to present a true and fair view.

I am attaching a response to Question 1 where I have provided a suggestion as to how the current guidance could be improved. Apart from this one point my firm supports FRED 59.

Should you wish to discuss any of these comments please do not hesitate to contact me.

Yours sincerely



Michael Jellicoe

Question 1

Do you agree that the proposed Section 1A Small Entities adequately reflects the new small companies regime set out in company law and that the disclosure requirements for small entities are clear? If not, why not and what alternative approach would you propose?

Clarity of Wording

The proposed guidance on the disclosure requirements for small entities appears ambiguous where it concerns what disclosures are required in order for the financial statements to show a true and fair view. In particular, there is a view (one which we do not share but nonetheless respect) that the combined effect of proposed paragraphs 1A.12/13 and paragraph 17 on page 46 of FRED 59 is in effect to suggest that by taking advantage of the disclosure exemptions in section 1A, a small entity may not be preparing a set of accounts that are true and fair and will therefore need to undertake significant additional work to ensure that those disclosures are sufficient to comply with the broader requirement of the full standard.

I am particularly concerned about this owing to the potential knock on impacts that such a view might have on the content of other essential guidance such as the charities SORP. It is possible that, given this guidance, the charities SORP committee could require those charities following section 1A to provide comparable levels of disclosure to charities following FRS102 (with the exception of the requirement to produce a statement of cash-flows). Indeed the outcome could be that the FRSSE Charities SORP, which effectively comes into effect for financial years starting during 2015, will be withdrawn without replacement once FRED 59 takes effect, leaving all charities to face the full rigour of FRS 102. As my client charities are small entities, this would impose a significant burden on them.

Those who we have consulted on the current proposed wording have tended to infer that, in ordinary circumstances, a small entity will:

- follow the disclosures in paragraph 1A.14;
- consider, and in reality usually include, the disclosures in paragraph 1A.15;
- consider whether additional disclosures are required as “encouraged” in 1A.13.

Whilst it is clear that the proposed amendments to the standard cannot say this (as to do so could counter not only the spirit but possibly also the letter of the directive), this seems to be a reasonable summary of what is intended. The committee may therefore consider additional wording to make its position on these issues less ambiguous.

Section 3.2 of FRED 58 on micro-entities specifies that financial statements prepared in accordance with the FRSME are presumed to give a true and fair view. While we appreciate that the legal framework for micro-entities is different, we would suggest that similar language be included in the proposed amendments. The following might be appropriate for inclusion:

“1A.16 Financial statements prepared in accordance with this Section 1A are normally presumed to give a true and fair view provided that the disclosures listed in 1A.14 are made and 1A.15 are considered.”