

FRED 59

Draft Amendments to FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*

Small entities and other minor amendments

# **response to exposure draft**

30 April 2015

CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. Our 14,000 members work throughout the public services, in national audit agencies, in major accountancy firms, and in other bodies where public money needs to be effectively and efficiently managed.

As the world's only professional accountancy body to specialise in public services, CIPFA's portfolio of qualifications are the foundation for a career in public finance. They include the benchmark professional qualification for public sector accountants as well as a postgraduate diploma for people already working in leadership positions. They are taught by our in-house CIPFA Education and Training Centre as well as other places of learning around the world.

We also champion high performance in public services, translating our experience and insight into clear advice and practical services. They include information and guidance, courses and conferences, property and asset management solutions, consultancy and interim people for a range of public sector clients.

Globally, CIPFA shows the way in public finance by standing up for sound public financial management and good governance. We work with donors, partner governments, accountancy bodies and the public sector around the world to advance public finance and support better public services.

Our ref: Responses/ 150430 SC0218

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April 2015

Dear Jenny

**FRED 59**

**Draft Amendments to FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland***

**Small entities and other minor amendments**

CIPFA is pleased to present its comments on this Exposure Draft.

**Background**

In addition to CIPFA's specific interest in the public sector and wider public benefit sector, we also have a general interest in financial reporting and related standards and guidance. Nevertheless, CIPFA responses to consultations tend to mostly focus on matters directly applicable to our core interests, or where it seems likely that developments in generic reporting or private sector company reporting will read across to reporting by public sector bodies, charities or other public benefit entities.

Our response to this consultation is unusual, in that it reflects a view reached while considering the effect of proposed changes on public benefit entities, but also having regard to matters which are mainly significant for small private sector companies which do not apply a SORP.

**General comment**

The current proposals are a logical response to the recent developments in European legislation and the corresponding developments in the company law frameworks in the United Kingdom and in the Republic of Ireland, including limitations on the extent to which accounting treatments for small entities can be specified. We also appreciate that the EU Directive has resulted in a further sub-division of UK GAAP, and that the FRC proposals help to maintain coherent reporting across the whole piece, and help manage issues for entities which transition between GAAP regimes in future.

Against this background, we support the proposal to harmonise the measurement and recognition principles for smaller entities with those of FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*. However current users of the existing Financial Reporting Standard for Smaller Entities may find the new approach to small entity reporting significantly more demanding.

Our principal comment on the exposure draft is that the proposed revised FRS 102 as interpreted for small entities using Section 1A is, in its current form, rather difficult to apply. We therefore suggest that additional guidance or other supplementary guidance

be provided to help small entity preparers to more easily navigate and consider the applicable requirements of FRS 102.

### **Responses to the Questions in the Invitation To Comment**

In line with our general comment, we have provided a detailed response to Question 1 in the Invitation To Comment. We have no observations to make on the other questions or other matters.

I hope this is a helpful contribution to the finalisation of this revision to UK GAAP. If you have any questions about this response, please contact Steven Cain (e: [steven.cain@cipfa.org](mailto:steven.cain@cipfa.org), t: +44(0)20 7543 5794).

Yours sincerely

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**Question 1.**

Do you agree with 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?

CIPFA agrees that Section 1A Small Entities adequately reflects the new small companies regime set out in company law. We also agree that the explicit disclosure requirements for small entities, as set out in paragraph 1A.14 are clear.

However, because these requirements may not be sufficient for a 'true and fair' view, in practice a preparer of accounts under the Small Entities regime must evaluate almost all sections of FRS 102. Except for the reduced requirements for financial statements and certain specified disclosures, the main difference between FRS 102 applied in full and FRS 102 for Small Entities is that under the former the default position is that each section is applicable unless found to be not material, whereas under the latter there are sections which are not required to be applied unless there is a material issue which warrants disclosure.

We can see that the proposed approach to the structuring of FRS 102 has advantages in terms of demonstrating that the standard is consistent with relevant company law, and that the benefit of this may be felt in future when either the accounting or legal requirements are amended. However, it does make it more difficult for users of the Small Companies regime to navigate the standard.

Given this, we would encourage the FRC to provide additional documentation which helps those implementing the Small Entities regime to navigate FRS 102 in a linear, topic based fashion. Such material could be provided either directly within FRS 102, or if this was felt to impede the readability of the standard for companies which are not small entities, in separate guidance, or in an augmented version of FRS 102.

Whatever approach to delivering additional guidance is taken, we would envisage that it would for each topic or each section within FRS 102 explain whether

- the full requirements of FRS 102 apply; or
- there is no legal requirement (although preparers may choose to provide similar information either voluntarily or because there are material issues which mean that additional disclosure is needed to provide a true and fair view); and also
- if there are any specified disclosures required by Section 1A.14

CIPFA is also concerned that the focus on company law in drawing up the small entity section within FRS102 leaves a gap in the financial standard as it applies to smaller public benefit entities and other organisations not subject to company law. CIPFA would ask that the FRC consider whether an alternative to section 1A would be more appropriate for public benefit entities not subject to company law.