

By email only to: FRCConsultation@beis.gov.uk

Audit Reform and Regulation Team
Department for Business, Energy & Industrial Strategy
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Our ref: PD/STK/09-027

11 June 2019

Dear Sirs

Independent Review of the FRC – Initial consultation on the recommendations

The Scottish Charity Regulator (OSCR) is established under the Charities and Trustee Investment (Scotland) Act 2005 (the 2005 Act) as a Non-Ministerial Department forming part of the Scottish Administration. We are independent of Scottish Government and report directly to the Scottish Parliament every year.

We are the independent regulator and registrar for over 24,600 Scottish charities including community groups, religious charities, schools, universities, grant-giving charities and major care providers. Our work as Regulator ultimately supports public trust and confidence in charities.

Around 25% of charities in Scotland are required to prepare accrued accounts and as such are potentially affected by changes to UK accounting standards that are applicable to charities. OSCR is part of the Charities SORP-making body alongside the charity regulators in England and Wales and Northern Ireland at present with the Charities Regulator in the Republic of Ireland joining us in the near future.

Our response to this consultation endorses the response made by the Charities SORP-making body but we would take this opportunity to highlight a key matter that relates to several of the recommendations made.

OSCR welcomes the proposal for the new regulator to have a strategic objective that focuses on protecting the interests of users of financial information and the wider

Charities you can trust and that provide public benefit

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public interest by setting high standards and have a strong accountability framework. However, we have a growing concern about the extent to which the special characteristics of the charity sector are adequately taken account of as accounting standards develop.

We understand and very much support the desire for high quality financial reporting that is useful and relevant. However, the considerations around utility and relevance of annual reports and accounts are different for charities in comparison to commercial organisations that are profit-driven and have shareholders' interests at their core. The breadth of stakeholders that have an interest and make active use of charity annual reports and accounts is considerable and diverse, ranging from funders and donors to beneficiaries, supporters, volunteers and regulators. Clearly, the motivations of the relevant stakeholders for charities are very different compared to those for commercial organisations. The information needs are therefore also different with an equal focus placed on narrative reporting alongside the financial statements. Ultimately, all of these stakeholders require information that is meaningful, that takes account of the way in which charities function and which is uncluttered and straightforward.

We would also highlight the recently concluded **Governance Review of the Charities SORP-development process** that identifies similar issues. Two key conclusions are particularly relevant:

- charity financial reporting must pay more attention to the users of charity reports and accounts
- there is a need to offer greater simplification of financial reporting requirements for smaller charities, which comprise the vast majority of users of the SORP.

We would welcome exploration of how there may be a better appreciation and understanding of the charity sector within the various committees and ultimately the Board of the FRC, and in time a new regulator.

Yours sincerely,



Laura Anderson
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Joint-Chair of the Charities SORP Committee

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