

**Submission: Tier 4 (NFP) Standard Exposure Draft
30 September 2022**

Thank you for the opportunity to comment on the exposure draft. The points I raise below are primarily from the perspective of having been the treasurer for a particular incorporated society for quite some years now, but I would think the points might also relate to at least some other organisations within Tier 4.

I also write from the perspective of having in the past been an auditor, a tax consultant/inspector, and having completed my PhD – brought about via lecturing/tutoring at university - across the disciplines of accountancy, economics, and philosophy (professional ethics).

Overall, I have found the changes suggested, excellent, and the manner in which the proposed changes have been communicated to NFPs, outstanding. Thank you for the care put into this, and for the encouraging, discussive tone created. No easy task.

I begin with answering the specific questions asked by the XRB, then raise some additional points, for you to consider/reject as you see fit.

SPECIFIC CONSULTATION QUESTIONS ASKED BY THE XRB:

1. Do you agree with the proposed simplifications to the Tier 4 (NFP) Standard? YES
2. Do you agree with the proposal to reduce reporting requirements for small Tier 4 NFP entities? NO
The draft changes to Tier 4 overall are now simplified to the point of not being onerous for Tier 4s of any size (except for points I raise further below, which would relate to those of all sizes).
3. Are there any proposed reporting concessions for small Tier 4 NFP entities you do not support? YES

If the NFP were 'small' it would, highly likely, be able to answer all questions asked of the other Tier 4 NFP entities without much difficulty, putting a 'N/A', or suchlike, for those that relate to more complex situations, which are not applicable to it. The proposed general changes give enough leeway for the small Tier 4's to not be overly burdened by the questions asked e.g.

- In the Statement of Service Performance (no. 41): 'quantify to the extent practicable'
- In the Significant assets section (no. 70/71): 'should include, if easily available'

In relation to significant assets, per the point I raise below regarding internal controls, it would seem important for all NFPs, of whatever size, to keep records of assets owned, and your guideline that costings being included 'if easily available' means costing procedures need not be at all onerous.

Per no. 84, if the entity HAS received significant grants/donations whereby the expectations have not been met, the entity ought to be able to answer the questions asked in that section. Similarly for no. 93, events after the financial year.

Per no. 95, additional notes, again the small Tier 4 can put 'N/A' or similar if that is most appropriate – the wording of the question being sufficiently non-technical so as not to cause concern/confusion.

4. Are there any other reporting concessions for small Tier 4 NFP entities that should be considered? NO (not that I can think of)

5. Do you agree with the proposed amendments to the service performance reporting requirements? YES

6. Do you agree with the proposals to amend the required case received and cash paid categories? THEY ARE IN MY VIEW MUCH IMPROVED. THE AREAS I HAVE CONCERNS ABOUT ARE AS FOLLOWS:

Cash received from operating activities

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- Grants received
- Funding from service delivery grants/contracts

The use of the term 'grants' in each of these can be problematic. The example given in the glossary of 'counselling service hours' is perhaps clearer than some other real-life situations might be. Some grants are received based on a more general outline of proposed services to be delivered e.g. 'youth activities' where what is delivered will be determined to a large extent by what opportunities arise and what the youth prefer, without more specific quantification being attached to the grant – which of the two categories would that fit into?

The term 'contract', in the second of the two terms, perhaps muddies the waters a bit too. Per p. 8 of the consultation document, it seems it is still referring to 'grants', but which 'are, in substance, a contract ...'

Two suggestions then:

Either change the wording to something like

- Grants general
- Grants for which there is a contract to deliver specified goods or services.

Or do not separate the two types of grants, concentrating instead on information being required about expectations not being fulfilled in the 'Grants or donations received with expectations over use' notes.

...

- Donations, koha, bequests and other fundraising
- Sale of goods or services (commercial activities)

If we had a special project and produced some material for sale (e.g. historic exhibition, with reprints of old photos for sale or if we had a market day and were donated goods to sell at it, would those situations fit into 'other fundraising' or 'Sale of goods or services (commercial activities)? That is, are commercial activities more along the lines of having goods/services for sale

on an ongoing basis, and if so, it would be helpful if the glossary could be more specific along those lines.

What is the reason for not encouraging the netting off of specific fundraising projects? Whilst in theory it might not seem difficult to keep the receipts/payments separate, there are practical problems in some circumstances, perhaps especially for the smaller fundraising projects. For example, in our situation, at some of our activities we may provide, and charge a small amount for a 'cuppa' with scones or suchlike. For the volunteers organising this, it is much more efficient for them to deduct what is owed to them for milk etc from takings, than to present a receipt for milk at our next monthly meeting to be reimbursed separately for that. It is at the meeting that the various revenues/costs are typically discussed. From an internal control perspective, we are trusting the volunteers to take care of all takings anyway, and so it does not increase the risk of overall incorrect recording of takings. Similarly for some aspects of a school fair, a baking stall for example.

7. Do you agree with the proposal to remove the Statement of Resources and Commitments and instead require note disclosure about any significant assets or liabilities? YES

8. Do you agree with the proposed effective date of 1 April 2024, with early adoption permitted? YES

9. Do you have any other comments on the proposed improvements to the Tier 4 (NFP) Standard? YES, as follows:

Related parties – is it possible to extend the definition to include 'friends' or other such broader term, that indicates less of a formal relationship than a family, but nonetheless gives an advantage because of the relationship? An example would be friends of a committee member having an advantage in terms of providing goods or services to the organisation, or unfairly benefitting in some other way from decisions made by the committee, because of that friendship. I am basing this example on real-world experience of a NFP.

The above comments relate to the proposed new Performance Report, what I would like now is to raise the matter of internal controls/

Internal Controls

Is it possible to start bringing 'internal controls' into the Tier 4 (and other?) NFP standards? Whilst it is more often than no too expensive to be audited/reviewed by external auditors, and typically the audit/review reports may not be that helpful given the nature of NFPs, it seems there is more than can be done by way of increasing awareness and adoption of internal controls.

My suggestion, at this stage (to be improved upon with further discussion), is as follows:

- A voluntary system
- A list of possible internal controls, some of which would apply to some NFPs and some to others.
- NFPs to annually 'tick' which internal controls they have adhered to during the year.

- NFPs to explain which they are aiming to adopt in the future.
- NFPs to explain why they do not adopt the others (which may be as simple as a 'not applicable' answer)
- NFPs might think of some additional internal controls which they have come up with, which are particularly applicable to their organisation, and which they could voluntarily add to the specified list.

The point/advantage of such a system is

- To raise the level of understanding of the concept of internal controls with NFPs and society in general.
- To strengthen the operation of NFPs, increasing transparency and accountability.
- To make it easier for committee members, general members, or non-members to raise issues of internal controls without the officers of the committee or other committee members feeling defensive or offended.
- The system would be flexible, with ongoing updates to the list of potential internal controls as circumstances within society change (e.g. banking operations).

Some simple examples include:

Payments authority - if one of the committee members is to be reimbursed/paid, is the payments authority spread sufficiently e.g. three people with the authority so the particular member is not an approver or signatory for that payment.

Insurance of physical assets – are the NFPs assets insured and if so for how much? Correspondingly, is a list of assets kept up to date (with costings as per the guidelines for 'significant assets') that would be useful for insurance purposes in cases of fire/flood/theft etc.

Insurance of assets has become somewhat of an issue over recent years for our NFP, and similar NFPs, in that the cost of insuring our buildings has become prohibitive, given the increase in valuation of land/buildings and their replacement costs. That accordingly places a considerable responsibility on the committee members when renewing the insurance each year. It is important for at least the NFP's membership to know of the situation and to what extent the current insurance covers replacement should a fire/flood or similar cause damage.

Kind regards

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