Tier 3 NFP Consultation Submission

Susan Moyle

Accountant specialising in Charity Accounting at Tier 3

September 2022

Service Performance Reporting

1. Do you agree with the proposed amendments relating to service performance reporting?
   Yes
   The current guidance, and the use of 'outputs' and 'outcomes', has led some entities to include all outputs and outcomes, even through many may not be related to the main aims of the organisation, and may also be difficult to reliably quantify.
   The move to 'significant activities and achievements' and 'appropriate and meaningful measures' will allow for clearer focus on the core work of the organisation.

Asset Valuation

2. Do you agree with the proposal to include requirements for the revaluation of property, plant and equipment within the Tier 3 (NFP) Standard rather than require an entity to opt-up?
   Yes
   As long as clear guidance is provided to Tier 3 NFPs this will clarify how these entities should record revaluations, as many staff and volunteers doing Tier 3 accounts do not have formal accounting training.

3. Do you agree with the proposal to require revaluation movements on property, plant and equipment to be recognised directly in accumulated funds through a revaluation reserve?
   Unsure
   This could require really clear guidance for accounting staff, management and governance boards of Tier 3 NFPs, as it is likely an area outside their expertise. It will require clear notes to the accounts to explain to report readers that this revaluation reserve is not cash in bank, but part of the value of fixed assets that cannot be readily liquidated for use within the organisation.

4. Do you agree with the proposal that investment property should be accounted for in the same manner as property, plant and equipment?
   Yes
   This will present a clearer picture of the total assets of the organisation for report readers, and make the reports more easily comparable between entities. How fixed assets are recorded should be consistent across all NFPs.

5. Do you agree with the proposal to allow publicly traded financial investments to be measured at market value?
   Unsure

On the one hand this will present a truer reflection of the value of these investments at balance date, rather than the historical cost/price of purchasing the investments.
However, market volatility may mean that this varies greatly from year to year, which may 'muddy' the underlying position of the organisation.
It would need to be clearly stated that the investment value is only as at balance date, and may not reflect the current value at the time of reading the reports.

6. Do you agree with the proposal to require changes in the market value of investments to be recognised as revenue or expenses in the statement of financial performance?
   No
   This proposal would potentially see some entities appear to be in a sound financial position when they are not, and vice versa.
   It would be better to utilise a revaluation reserve process, unless the investments are likely to be realised as cash assets (for example through sale of shares) in the 12 months following balance date.

Required categories for presenting revenue and expenses

7. Do you agree with the proposals to amend the required revenue and expense categories?
   Yes
   The current categories are very limited and provide little information for readers, who are often lay-people and have limited understanding of the notes to the reports.
   This expansion of categories is clear and should not require preparers of reports to do any work extra to what they are currently doing in constructing the notes.

Revenue recognition

8. Do you agree with the proposals to amend the revenue recognition requirements for grant, donation, bequest and pledge funding?
   No
   This may reduce audit workload, but it is a sharp change from the established method of revenue recognition in NFPs. There are a number of potential issues with the proposal to move from a 'use or return' to a 'documented expectations over use' methodology.
   a. Many funders will still require a 'use or return' methodology, meaning that there will be potential differences in recognition at balance date between what the standard requires and what funders require. For example, following the inability of many entities to run programmes during the Covid-19 lockdowns, some funders required a return of the funds given, rather than allowing for an extension on the funding term, or a change of purpose.
   b. How will auditors measure the appropriate use of a grant/contract funding if it is not matched against actual spend?
   c. In the case of many Central and Local Government contracts, the contract funding may not be fully applied against expenses in the contract period.
      However, this allows for a 'bridge' in funding for a programme until further funding can be secured. In most cases Central and Local Government contract funding has a delayed payment, so 'ringfencing' funding remaining from a previous period is vital for the work to be able to continue smoothly. This is often vital to an organisation to be able to offer permanent employment to its workers, rather than just contracting staff on a month-to-

month basis, with no continuity and security of employment, or full engagement with the programme of work that is being funded.
If the ‘leftover’ funding from one period is recognised as revenue in that period then it will likely be used for overheads or in other programmes, which was not the intension of the funders. This could lead to relationship issues, especially if a funder requires an audit in a future period, as is allowed for in Central Government contract terms.

Accumulated funds

9. Do you agree with the proposals to require an entity to provide enhanced note disclosure that explains the purpose for which accumulated funds are held?
   Yes
   This will provide more robust information for report users, and will also require management and boards to examine their accumulated funds policies, many of which will not have been reviewed regularly.

10. Do you agree with the proposals to remove the requirements related to restricted reserves?
    Unsure
    This might make the preparation of the reports less onerous for report preparers. However, historical reasons for the ‘ringfencing’ of these funds might be lost over time and it might then appear that an organisation has a large amount of reserves without a clearly defined purpose. Reserved may also then be utilised for a purpose other than was originally intended. Most people in the NFP sector (either in employed or volunteer roles) know of a building fund that was collected by hard work over many years being spent on other purposes, and the organisation then experiencing accommodation difficulties, or an inability to maintain their buildings.

Opting up

11. Do you agree with the proposed accounting for items of other comprehensive revenue and expense?
    Unsure

12. Do you have any comments on the new Appendix C?
    This appears helpful to relevant entities and provides clearer guidance in this area.

Other proposed amendments

13. Do you agree with the proposed amendments to Section 3 Entity Information?
    Yes, with a proviso that any cross-referenced annual reports or other documents will need to be available to the auditor in the same way that the current entity information section is. It should also be in an accessible format for report readers, and be required to be uploaded to Charities Services with the other reports.

14. Do you agree with the proposed amendments to the statement of cash flows?
    Yes

This will bring the categories in line with the other reports, and have more meaning to readers of the reports.

15. Do you agree with the proposed amendments to the definition of cash?
    Yes
    This alignment with the Tier 2 definition will allow for more comparability between the reports of larger Tier 3 entities and Tier 2 entities. There is no real rationale to exclude TDs with a term of 3 months or less in the definition of Cash.

Effective Date

16. Do you agree with the proposed effective date of 1 April 2024, with early adoption permitted?
    Yes
    This should allow for dissemination of the changes and training/webinars to address any uncertainty among report preparers.
    When the new reporting requirements were brought in there was quite a steep learning curve for many, and some still are not filing in the correct format. It would be recommended that adequate budget is secured for upskilling these entities who are still struggling in particular (though the majority will be Tier 4, rather than Tier 3).

Other

17. Do you have any other comments on the proposals to amend the reporting requirements for Tier 3 (NFP) entities?
    For any changes, it will be important to use plain language explanations and clear examples of the changes. Many staff and volunteers in charge of Tier 3 accounting processes do not have formal accounting training, or are new to non-profit accounting.