

IFA REPRESENTATION 10/23



Smarter regulation non-financial reporting review

The Institute of Financial Accountants welcomes the opportunity to comment on [the call for evidence](#) published on 8 June 2023.

We would be happy to discuss any aspect of our response and to take part in any further consultations in this area.

Established in 1916, the Institute of Financial Accountants (IFA) is an internationally recognised professional accountancy membership body. Our members work within micro and small to medium-sized enterprises or in micro and small to medium-sized accounting practices advising micro and SME clients. We are part of the Institute of Public Accountants (IPA) of Australia Group, the world's largest SME-focused accountancy group, with more than 49,000 members and students in 100 countries.

The IFA is a full member of the International Federation of Accountants (IFAC), the global accounting standard-setter. We are recognised by HM Treasury to supervise our members for the purposes of compliance with the Money Laundering Regulations, and by the Financial Services Authority in the Isle of Man.

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General comments on the call for evidence

1. The IFA is focused on SMEs and small-to-medium practices (SMPs), with most of our members working in practices or businesses trending towards or under the micro-entity threshold outlined in The Small Companies (Micro-Entities' Accounts) Regulations 2013¹ (with supporting guidance in FRS 105² and the Companies House accounts guidance).³ I.e., 2 out of 3 of: annual turnover no greater than £632,000, balance sheet no greater than £316,000, average number of employees no greater than 10.
2. Nearly 75% of IFA members in practice work in practices with no more than 10 employees. Approximately 85% of IFA members in practice work in practices with annual turnover under the micro-entity threshold. Nearly 50% of IFA members in industry work in organisations with no more than 10 employees, and approximately 70% of members in industry work in organisations with no more than 50 employees. Approximately 40% of IFA members in industry work in organisations with annual turnover under the micro-entity threshold, and approximately 75% of members in industry work in organisations with annual turnover under the small business threshold (£10.2m).
3. As a professional accountancy body focused on SMEs and SMPs, our response to this call for evidence is therefore a proportional one, focused on the question of the relevance and application of non-financial reporting requirements to small and micro-entities. As a general point, the IFA would argue in favour of a proportional approach to any changes to non-financial reporting requirements, considering the financial and administrative cost of said requirements to micro-entities in particular.
4. Despite this reservation concerning proportionality, the IFA believes it is important for small businesses (including small accountancy practices) to be aligned with the underlying currents in non-financial reporting. Sustainability (encompassing IFRS S1 and S2, and efforts to control and counter “greenwashing”), equality and diversity, and modern slavery represent ethical issues and public interests which all organisations and individuals should be appropriately incentivised to address. The IFA takes its obligation to work in the public interest seriously, something reflected in our bye-laws and regulations.⁴
5. The IFA believe that the UK public should be able to trust and support businesses of all sizes. However, in practice it is necessary that the cost/benefit ratio of any reporting requirement should be considered, from the perspective of the organisations under the requirement as well as the perspective of the enforcing body or bodies. This is especially important when new standards are being considered for implementation, where the precise administrative and financial burden of meeting a new requirement remains unclear (for example, IFRS S1 and S2). We would therefore argue in favour of thorough stakeholder engagement and research before extending any non-financial reporting requirements currently reserved for medium and larger entities to small and micro-entities.
6. With specific attention to the micro-entity threshold established 2013,⁵ and the small business threshold outlined in the Companies Act 2006 (as of 2015),⁶ the IFA proposes that due consideration is given to revising these thresholds upwards in recognition of current and historic inflation. The Bank of England inflation calculator⁷ suggests that £632,000 in 2013 is worth over £842,000 today; and that £10.2m in 2015 is worth almost £13.4m today.

Contact details

Should you wish to discuss this response further, please contact Matt Barton, IFA Technical Manager, at mattb@ifa.org.uk.

¹ [The Small Companies \(Micro-Entities' Accounts\) Regulations 2013 \(legislation.gov.uk\)](https://www.legislation.gov.uk)

² [01 FRS 105 1..123 \(frc.org.uk\)](https://www.frc.org.uk)

³ [Filing your Companies House accounts - GOV.UK \(www.gov.uk\)](https://www.gov.uk)

⁴ [Acting in the public interest \(ifa.org.uk\)](https://www.ifa.org.uk)

⁵ [The Small Companies \(Micro-Entities' Accounts\) Regulations 2013 \(legislation.gov.uk\)](https://www.legislation.gov.uk) 4.4.4

⁶ [Companies Act 2006 \(legislation.gov.uk\)](https://www.legislation.gov.uk) 382.3

⁷ [Inflation calculator | Bank of England](https://www.bankofengland.co.uk)