



The Healthcare Financial Management Association's comments on the Research Exercise on Charities SORP (FRS 102).

Consultation response, December 2016

Who we are

The Healthcare Financial Management Association (HFMA) is the voice of NHS finance directors and finance staff working in healthcare with over 12,000 members. For the past 60 years, it has provided independent and objective advice to its members and the wider healthcare community. We are a charitable organisation that promotes best practice and innovation in financial management and governance across the UK health economy through our local and national networks. We also analyse and respond to national policy and aim to exert influence in shaping the wider healthcare agenda. We have a particular interest in promoting the highest professional standards in financial management and governance and are keen to work with other organisations to promote approaches that really are 'fit for purpose' and effective.

Our comments

Thank you for giving the HFMA an opportunity to comment on the research exercise. The consultation paper has been considered by our Charitable Funds Special Interest Group which draws its membership from across a wide range of NHS charitable funds organisations. The document was also looked at in detail at two workshops held at our annual charitable funds conference on October 19th – the views expressed by delegates are incorporated into our comments.

Q.1 Do you agree that the new format of the SORP meets the needs of all those preparing accounts using the SORP, including smaller charities? If not, what improvements should be made and why?

Generally, we are happy with the SORP's format and approach. However, there are a number of issues that cause some concern and that we feel are worthy of review:

- **Comparators**

We understand the need for comparative information and recognise that without it users of the accounts would have an incomplete and potentially misleading picture. However, by allowing different presentational approaches there is both a lack of consistency between charities and scope for confusion amongst users/ readers of charity accounts.

For example, if a charity opts to include two separate SOFAs (one of the three options allowed for in the SORP), a reader could easily alight on the previous year's figures without realising that they are looking at the 'wrong' year. At the same time, including all the comparators alongside the 'current' year's figures, giving an eight column SOFA makes the analysis unwieldy and difficult to read. The third option (including the total funds on the face of the SOFA and comparatives for each class of fund in notes to the accounts) can also be difficult for the reader to follow.

We accept that all three presentational approaches are imperfect but would suggest that further thought be given to the issue with a view to encouraging a format that puts the interests and understanding of the readers of the accounts first.

Incidentally, in our *Example Trustee Annual Report and Accounts* (which follows the SORP and was issued in January 2016), we decided to include the comparatives for each fund in note 2 to the accounts whilst making clear that the approach chosen is up to each charity.

- **Legacies**

The SORP makes clear that charities must explain in notes to the accounts the policies adopted for the recognition of each material item of income – which includes any material legacy income. However, there is no requirement to identify separately such amounts on the face of the accounts. As things stand, practitioners are unsure about whether or not a ‘sub line’ for legacies could be included under donations. This is particularly important for those charities where legacy income can vary significantly year on year – unless it is shown separately it can distort the accounts and confuse the reader.

Emphasising trustees’ discretion is the approach we have taken in relation to the notes to the accounts in our *Example Trustee Annual Report and Accounts* where we make clear that they can decide to include additional narrative if they feel that this would be helpful to the reader of the accounts.

In our view, the SORP should go a step further and make clear that it sets out the ‘minimum data set’ but that if a charity wants to add additional information **on the face of the SOFA** to make the accounts more meaningful, it can do so.

- **Investment management costs**

Under the SORP, governance costs are no longer disclosed separately on the face of the SOFA and the costs of generating funds includes both fundraising costs and investment management fees. We are not convinced that this makes sense – in our view, costs relating to managing investments are different in nature to fundraising and should be disclosed separately.

Q.2 Is more assistance required to help smaller charities? If so, please explain what is needed and why.

In our view, it would be helpful if smaller charities followed a consistent approach. However, we recognise that the SORP is not suitable for those using receipts and payments. In the NHS the Charity Commission’s templates are followed and we are not aware of any problems or concerns.

Q3. Is the use of the terms ‘must’, ‘should’ and ‘may’ successful in distinguishing between those requirements that have to be followed to comply with the relevant accounting standard and the SORP from those recommendations which are good practice and those that simply offer advice on how a particular disclosure or other requirement might be met? If not, what alternative format should be adopted and why?

In our view, the use of these terms is extremely helpful and should be retained.

Q.4 Given the requirements for financial reporting that are now explained in FRS 102, is the retention of a SORP still necessary in the charity sector? Please give reasons for your answer.

We strongly believe that the SORP should be retained as it provides an easy to use, one stop source of guidance that practitioners value and feel comfortable with.

Q.5 Do you have any suggestions as to the changes needed to address issues on implementation or in meeting the SORPs requirements? If so, please explain what are they are and where possible please give examples.

We have no comments other than those mentioned in relation to question 1.

Q.6 Do you agree that there needs to be a third tier of reporting by only the largest charities and if so at what level of income should that reporting requirement apply?

Although a few delegates at our conference felt that there may be an argument for requiring additional disclosures from the very largest charities, our consensus view is that things are fine as they are in terms of mandated reporting requirements. The general view from practitioners across NHS charities of all sizes is that the existing reporting requirements are not overly onerous and anything in addition for the few largest charities would not achieve a great deal.

Q.7 If you agree that there should be a third tier of largest charities, what items in the existing SORP that apply to larger charities should be restricted to just these largest charities?

N/A.

Q.8 Do you agree with one or more of the four suggested areas for review of the trustees' annual report recommended by the SORP Committee? If so, which ones do you support and if you do not support any of these suggestions, please give your reasons as to why not?

You will see from our *Example Trustee Annual Report and Accounts* that NHS charities already follow a key facts approach and all four areas that are suggested for review are covered.

Q.9 Do you agree with either of the two suggested areas for the review of the accounts recommended by the SORP Committee? If so, which ones do you support and if you do not support any of these suggestions, please give your reasons as to why not?

We agree with both suggested areas for review and would make the following comments:

- **Support and fundraising costs**

In our view, there is a fine line between support and fundraising costs that can be particularly difficult to draw for smaller charities and those that have multi-functional teams where, for example, a fundraiser may also carry out administrative/ co-ordinating activities. Although we would not favour a prescriptive approach as to what is / is not included under both headings, we can see that without additional guidance comparability may be harmed.

- **Revenue/ capital**

Although this is not an issue for NHS charities we can see that the issue is worthy of review given the distorting effects that asset sales and purchases can have on the accounts.

Q.10 Do you agree with one or more of the six themes for review of the SORP suggested by the charity regulators? If so, which themes do you support, and if you do not support any of these suggested themes, please give your reasons as to why not?

We are happy with all six themes and would make the following comments on each:

- **Making a difference for the public benefit**

Our *Example Trustee Annual Report and Accounts* recognises the importance of demonstrating that public benefit is achieved and sets out the minimum that we would expect an NHS charity to include. We are less clear about how we could effectively involve beneficiaries in service design but would be interested in exploring the possibilities further, particularly if greater openness and enhanced accountability could be the end result.

- **Risk management**

We agree that this is an area that could be looked into in more detail but are concerned that any new requirements should not be too onerous for smaller charities. We would also point out that as far as NHS charities are concerned, the linked NHS organisation's internal financial controls, systems and processes provide sound support and assurance.

- **Going concern**

We can see that this theme is of relevance to some larger charities, particularly if they have pension liabilities and is therefore worthy of review. However, as NHS charities are effectively grant makers, they are not directly affected: if funds run out, grants stop.

- **Enhanced analysis of expenditure**

In our view, there is no need for further prescribed disclosures. However, as mentioned in relation to question 1, we would welcome a recognition in the SORP that a charity can disclose more on the face of the accounts if it feels it aids understanding. We would also like to see greater clarity over support/ fundraising costs (see question 9).

- **Disclosure of who funds a charity**

We can understand why this theme has been identified and appreciate that readers of the accounts have an interest in who are the funders. However, we would be extremely concerned if any requirement to disclose details compromised the ability of donors to remain anonymous if they so wish. This could have a serious impact on the finances of charities and the willingness of individuals to make donations and would run counter to generally accepted practice across the voluntary sector.

- **Disclosure of key facts**

This approach is already followed by NHS charities.

Q.11 If you do support one or more of the suggested themes, which, if any, of the specific issues identified within each theme do you agree needs attention in the next SORP? Alternatively, if you support none of these suggested issues, please identify the issues that need to be addressed and explain your reasons why?

Please see our comments above.

Q.12 Are there any items in the report or accounts which could be removed. If so, what are they and what are your reasons for removing them?

We have nothing further to add to our earlier comments.

Q.13 Are there any items in the report or accounts which could be changed to improve the information provided to the user? If so, which items would you change, what would the change be, and how would it improve the information to users of the report and accounts?

Please see our comments in relation to question 1 relating to comparators, legacies and investment management costs.

Q.14 Are there any items you would like to add in to the report or accounts? If so, what are these items and how would their inclusion help the user of the report and accounts?

Please see our comments in relation to question 1 relating to legacies.

Q.15 Are there any disclosures in the notes to the accounts that you believe can simply be removed altogether? If so please state the disclosure, the relevant SORP paragraph(s) and give your reasons as to why this disclosure is not useful to the user of the report and accounts?

We have nothing further to add to our earlier comments.

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