



Guiding the development of the Charities SORP

HFMA response to the Charities SORP committee governance review

Who are we

The Healthcare Financial Management Association (HFMA) is the representative body for finance staff in healthcare. 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

Q.1 Please explain your role (or the charity or organisation on whose behalf you are responding) including your specific interest in or use of charity accounts.

This response has been prepared by the HFMA’s charitable funds special interest group (‘the SIG’).

Most NHS bodies have associated NHS charities ranging from the very large charities linked with internationally renowned teaching hospitals to much smaller charities linked with district hospitals and other NHS bodies delivering healthcare at a local level. According to the Association of NHS Charities there are 232 NHS charities in England and Wales which collectively hold assets worth over £2.9bn and generate more than £453m income per annum. The sector is smaller in Scotland and Northern Ireland. The majority of NHS charities prepare accruals accounts in accordance with the SORP.

The SIG’s members are finance staff working in the NHS who have an interest in NHS charities. Most of our members work with NHS charities that have an NHS body as a corporate trustee, but we also have members who work for independent charities appointed as lead charity under a memorandum

of understanding with an NHS body. Our members tend to be responsible for the financial management of NHS charities including preparation of their annual accounts.

Q.2 Who do you see as being the main users of charity reports and accounts? To whom are charities being accountable when they prepare their reports and accounts?

Our members consider the main users of NHS charities' annual reports and accounts to be:

- board members of NHS bodies that are corporate trustee to the NHS body
- trustees of independent NHS charities
- individuals working for NHS bodies who act as fund advisers
- donors, including grant making bodies and corporate donors, as well as individuals
- fundraising organisations when engaging with donors
- beneficiaries
- suppliers of goods and services to the charitable sector
- bodies such as government departments with health responsibilities, other regulators such as NHS Improvement, NHS England and auditors.

Q.3 What do you see as being the main purpose of the Charities SORP? Do you feel it is effective at meeting that purpose? If not, what changes would you suggest to the processes of developing the SORP to improve its effectiveness for those who prepare and use charity accounts?

The SORP is the primary source of guidance for anyone involved in the preparation of a charity's annual report and accounts. Even for those preparing receipts and payments accounts, the SORP provides guidance on the required contents of the trustees' annual report.

In terms of the accounting guidance, the approach of supplementing rather than repeating the requirements of FRS 102 is effective. In practical terms, we suggest that the SORP should be republished in its entirety to reflect the amendments made by the Update Bulletins – this would make it easier to ensure that the appropriate version of the SORP is being used. Other than that, we have no suggestions to the way that the SORP is developed and updated.

Q.4 Do you agree that having an advisory SORP Committee is the best way of ensuring stakeholder engagement with the development of the SORP? If not, what alternative arrangements would you recommend and why?

Given the wide range and vast numbers of stakeholders in the charity sector, a committee is the only practical way to engage at a detailed level with stakeholders. In our response to question 6, we have raised the possibility that the committee should be supplemented by several special interest sub-committees. This would allow for a wider engagement with stakeholders who have a particular interest.

Having said that, any committee is only going to represent a very few stakeholders. It is therefore important that the draft SORP is issued for consultation. We would also welcome the opportunity to submit suggested amendments at the start of the revision process. However, the charity sector is, in the most part, run by volunteers who are already giving up their time to the charity itself. We are aware that responding to consultations is time-consuming and can be daunting, so consultation responses may not provide a representative view.

We suggest that consideration is given to how a wider number and range of stakeholders can be engaged with on a practical level. It may be that workshops could be run for sub-sectors of charities where they can discuss issues that are pertinent to them to be fed back to the committee. Many sub-sectors will have organisations such as ours or the Association of NHS Charities which could act as co-ordinators for these events. This may encourage those who are involved in the sector on a purely

voluntary basis and who may not have formal qualifications or confidence to engage with the process otherwise.

Q.5 Do you consider that the composition of the current SORP Committee is appropriate both:

(a) to provide the necessary expertise in charity accounting and

(b) to reflect the range of stakeholders who use charity accounts and reports?

If not, what changes are necessary to the membership of the Committee and why? For example if you feel more representation is needed from beneficiaries or from donors, or from particular types or sizes of charities, please give details.

There is a difficult balance between putting together a committee of a workable size made up of individuals who can give the work the resource it needs and ensuring that a wide range of expertise and experience is represented.

It is noticeable that there are more auditors/ independent examiners than preparer/ practitioners but perhaps this reflects the fact that auditors/ independent examiners work with a number of charities.

We suggest that consideration should be given to how the views of beneficiaries and donors are sought and fed into the SORP development process. Beneficiaries of charities are probably less interested in their financial governance than donors as long as the charitable work is not threatened by poor governance. As charity accounts reflect how donations have been used, we suggest that the inclusion of representatives of donors who have the necessary background to understand the constraints of FRS 102 and charity law would bring a fresh perspective to committee.

Q.6 Do you consider that the work of the SORP Committee is overly technical in its approach?

If so, what changes should be made? (In your answer you may wish to reflect on how the work of the SORP Committee could be made less technical, whilst still ensuring the SORP reflects the requirements of general purpose accounting standards and the requirements of charity law.)

As the SORP is a document which is intended to reflect how accounting standards should be applied to the charity sector as well as providing guidance on the requirements of charity law it is difficult to see how the work of the committee could be made less technical.

However, the SORP is clearly a document in several parts:

- module one on the trustees' annual report
- modules two to fourteen which cover accounting requirements applicable to most charities preparing accruals accounts
- modules fifteen to nineteen which cover the accounting requirements which may be applicable to some charities preparing accruals.

Some of the members of the existing committee will not have expertise in all of these areas – it may be more appropriate to support the work of the main committee with specialised sub-committees which look at specific modules. This is particularly the case for module one which does not cover accounting guidance at all and may be of more interest to donors and beneficiaries.

Q.7 Do you have any comments on the balance of the membership of the SORP Committee?

No.

Q.8 Do you have any suggestions as to how the SORP making body might improve the consultation process – either at the research stage or at the exposure draft stage?

See our response to question 4.

Q.9 Can you suggest any particular organisations (in particular, those that may not have taken part in past SORP consultations) that you consider it would be useful for the SORP-making body to consult?

See our response to question 4.

Q.10 Do you think that the balance given to various groups during consultations concerning the development of the SORP should change? For example, do you consider that more or less weight should be given to any of the following groups:

- (a) beneficiaries
- (b) the donating public
- (c) representatives of smaller funders
- (d) representatives of larger funders
- (e) representatives of smaller charities
- (f) representatives of larger charities
- (g) the accountancy profession
- (h) commentators on the sector and journalists
- (i) any other categories you consider relevant?

See our response to question 4.

Q.11 If you felt in Q10 that more weight should be given to one or more groups listed, what are your suggestions as to how these views can be obtained?

We do not think that any more weight should be given to any group of stakeholders – however, we do think that a wide variety of methods of engaging with the development of the SORP will be beneficial. This should include face to face engagement at a local level, surveys, targeted contact with individuals or representatives of groups of charities as well as the formal, written consultation.

Q.12 Do you have any other suggestions for improvements that can be made to the consultation process in the development of the Charities SORP?

No.

Q.13 Do you think that the SORP development process should cover all forms of financial reporting by charities – both those required by charity law (or company law) and other financial communications issued by charities – for example in a non-statutory annual review, summary financial reports, or visual summaries of a charity's finances?

It would be useful if the SORP development process considered wider financial reporting requirements. However, we do not think that they should be included in the SORP itself. The SORP

is complex and long enough – and already covers requirements which are applicable to some charities but not others. However, guidance on wider financial reporting requirements would be welcome if provided in supporting documentation linked to the SORP website like the information sheets and helpsheets. We do not have a view as to whether it is prepared by the SORP development committee or not, as long as any additional guidance is complementary to the SORP. This guidance may be better developed by sub-committees or working groups made up of experts in that particular area.

We would also suggest that the SORP website is not the easiest of sites to navigate and should also be reviewed by the committee.

Q.14 If you agreed that the SORP Committee should issue guidance on non-statutory financial reporting by charities, what form do you feel such guidance should take, bearing in mind that (without a change in the law) it would not be mandatory?

As above, this guidance should be in the form of information sheets and linked to the SORP website.

Q.15 If you considered that the SORP process should cover all forms of financial reporting by charities, what changes to the SORP Committee and SORP consultation process would you recommend and why?

As we have set out in our response to question 13, we suggest that the SORP committee would take a commissioning/ reviewing role in any additional guidance, but the guidance would be developed by sub-committees.

Q.16 Do you have any other comments on how the SORP is developed, the SORP-making body, the advisory SORP Committee or the SORP consultation process?

No.

Contact

If you would like to discuss any of our comments in more detail please contact Debbie Paterson, policy and technical manager, debbie.paterson@hfma.org.uk