

The Healthcare Financial Management Association's comments on Accounting and Reporting by Charities: Statement of Recommended Practice (SORP) Exposure Draft, November 2013.

Who we are

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.

The HFMA is pleased to submit the following comments on the exposure draft of the SORP – our response focuses on NHS charities and reflects the views of our Charitable Funds Special Interest Group and Accounting and Standards Committee. These groups draw their membership from across a wide range of organisations working in (and with) the NHS, including clinical commissioning groups, NHS trusts and foundation trusts, audit agencies, arm's length bodies and private sector firms.

Our comments on the questions posed in the invitation to comment

- 1. Do you agree that the modular format adopted in the Exposure Draft improves accessibility to issues and therefore better meets the needs of the preparers of charity accounts? If not, what alternative format should be adopted and why?**

In our view, the modular format works well and makes it both clearer as a document and easier for those using it to focus on those sections that are relevant to their circumstances. The modular structure will be particularly helpful to inexperienced preparers of charity accounts.

- 2. Do you agree that the Exposure Draft better meets the needs of smaller charities compared to the current SORP, if not, what are your suggestions for further improvement that will better help smaller charities?**

We feel that the modular format will be of real benefit to smaller charities as they will find it much easier to customise the SORP to meet their own needs.

- 3. Does the use of the terms 'must', 'should' and 'may' when making a recommendation or explaining requirements clearly distinguish 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?**

We welcome the use of the terms ‘must’, ‘should’ and ‘may’ as a way of clearly distinguishing between the relative status of different parts of the SORP.

4. Do you have any suggestions as to how we can improve the SORP micro-site and web navigation of the Exposure Draft?

In our view, the micro site works well as it is – we particularly like the fact that it allows you to customise the SORP by choosing those modules that suit your organisation’s circumstances and download (or view online) only those sections that are relevant. We also found it easy to navigate our way around.

5. Do you agree with the proposed structure and content of the trustees’ annual report? If not, what changes do you recommend and why?

Yes – we agree with the proposed structure and content of the trustees’ annual report.

6. Do you agree with the requirements and recommendations set out in the Exposure Draft for reporting a charity’s achievements and performance? If not, what changes do you recommend and why?

We are happy with the requirements and recommendations relating to reporting a charity’s achievements and performance.

7. Do you think there is any additional information which should always be included a trustees’ annual report that is not required in the Exposure Draft? Alternatively, is there any information currently required by the Exposure Draft that you think is unnecessary?

In our view, the Exposure Draft’s requirements in relation to trustees’ annual report disclosures are proportionate and appropriate – we have no further suggestions.

8. The format and headings of the SoFA have been simplified. Do you agree that these changes will assist preparers whilst still providing users of the accounts with relevant information about the income and activities of a charity? If not, please explain how the SoFA could better present information about a charity’s income and activities.

In our view, the simplifications proposed to the SoFA’s format and headings generally make sense. In particular, we agree that there is no need to disclose governance costs on the face of the SoFA so long as the information appears in a note. Two slight changes that we think would be worth making for the sake of clarity are to:

- Change the donations line to read ‘donations and legacies’ with details of the amounts in each category in the notes
- Separate out investments (when they are material) from ‘other income’.

We would also suggest that **where the cost of raising funds is material** it would help users of the accounts if three elements were shown either on the face of the SoFA or in the related notes, namely:

- Costs of generating donations and legacies
- Costs of non-charitable trading
- Investment management costs.

Where the cost of raising funds is **NOT** material, we agree that a single line entry is sufficient.

9. **The current SoFA adopts a columnar format for presenting income and expenditure from unrestricted and restricted funds. Do you agree that this columnar approach for reporting funds in the SoFA should be retained? If not, please explain why you prefer a single column presentation combining restricted and unrestricted funds.**

In our view, the columnar approach should be retained as we feel that it is important that the differentiation between unrestricted and restricted funds is shown on the face of the SoFA.

10. **Do you agree that the Exposure Draft of the SORP addresses those issues which are of particular relevance to charity accounting and reporting? If not, are there specific accounting or financial reporting issues faced by the charity sector or in the sphere of activity in which your charity operates that the SORP should address?**

Yes – we agree that the SORP covers the key issues and have no additional suggestions.

11. **The Exposure Draft proposes that grant making charities disclose in the notes to their accounts details of the name of institutions in receipt of material grants and the amount of such grants paid to them by the charity. Do you agree that this information should be given by way of note rather than in a separate publication that can be obtained from the charity on request as currently allowed by the existing SORP?**

In our view, disclosure of material grants by grant making charities is important and therefore should be included somewhere in the annual report and accounts. However, in the interests of cutting the clutter and presenting a single coherent document, we feel that this information is better suited to the grant making section of the annual report with a reference included indicating where in the accounts the grants are recorded.

12. **The SORP requires larger charities to disclose staff salaries paid in bands of £10,000 for employees earning over £60,000. Should larger charities also be required to also disclose the job title and remuneration of their highest paid employee?**

We agree that larger charities should make such disclosures but only where the relevant personnel are **directly** employed by the charity or where they are employed by a related party but work solely for the NHS charity.

Paragraph 9.30 of the exposure draft of the SORP would require NHS charities to make additional, new disclosures which would add to the administrative burden without enhancing clarity.

Most NHS charities do not directly employ any staff or even have any staff working full time on its behalf. Instead, the NHS charity pays a 'management cost' to the NHS body to compensate for the time spent by the NHS body's employees on the NHS charity. That recharge/cost may be based on the time spent by certain staff on charitable fund activities but may be an estimate.

Currently, that recharge is disclosed as such in the NHS charity's accounts as a related party transaction. In our view, as long as there is clear disclosure of the purpose of the management cost then additional staff cost disclosures would add little benefit to the reader of the accounts.

We therefore suggest that **for NHS charities**, staff employed by a related party should be excluded from this disclosure unless they are employed solely to work for the benefit of the charity.

13. The Accounting Council has suggested that a clearer distinction is desirable between those disclosures required by accounting standards and those resulting charity law or from the higher level of accountability expected of charities.

Which one of the following options do you consider to be the best way of achieving this distinction?

- a. Remove the disclosures related to accounting standards altogether and simply substitute with cross references to the relevant standard.**
- b. Provide a brief summary to explain what disclosures are required by accounting standards along with cross references to the particular standard.**
- c. Retain the current approach of the Exposure Draft but separately identify in each module those disclosures that are required by charity law or for the public accountability.**
- d. Move the disclosures required by accounting standards into a separate appendix and refer in the module to the appendix and/ or accounting standards as necessary.**

In our view, it is essential that the SORP acts as a single source of reference for all charities. As a result, we believe that the approach adopted in the Exposure Draft should be used. We therefore favour option c.

14. Do you agree that charities should not be able to adopt the reduced disclosure framework provided by FRS 102? If not, please explain why you think charities should be able to take advantage of this framework?

The reduced disclosure framework allowed by FRS 102 applies to the individual financial statements of subsidiaries and parents which are consolidated in the ultimate parent's group accounts. Unlike charities, such accounts are of interest to a relatively narrow range of users and are not subject to the same public interest considerations. As a result, we do not think that charities should be able to apply the reduced disclosure framework.

15. Do you agree that the next SORP should support both charities that prepare their accounts using FRS 102 and also those that are eligible and choose to use the FRSSSE? If not, please explain why.

In our view, the new SORP should support all charities that prepare accrual accounts.

16. Do you agree that the Exposure Draft successfully supports the use of the FRSSSE and FRS 102? If not what changes would you suggest and why?

Yes, we agree that the SORP supports the use of both the FRSSSE and FRS 102. In our opinion it would be worth emphasising that this is the case – perhaps by highlighting in bold the relevant paragraphs in the introductory sections to the modules.

17. Do you agree that investments held both to produce an investment return and also for the contribution the funding makes to a charity's purposes (mixed motive investments) should be classed as a component of financial investments and separately disclosed on the balance sheet or in the notes to the accounts when material? If not, what alternate approach to classification do you recommend and why?

We agree that mixed motive investments should be separately disclosed in the balance sheet or notes when they are material. However, in our view, their classification as financial or social investments should be a matter for the trustees to assess on a case by case basis, rather than being mandated by the SORP. In practice, this means that the classification will depend on what trustees consider to be the dominant objective for each investment.

18. Do you agree that an impairment loss arising on a mixed motive investment should be analysed as an investment loss in a charity's SoFA? If not, how else might the loss be analysed in a charity's SoFA and why?

In line with our comments in response to question 17, we believe that the classification of mixed motive investments should be determined by the trustees based on the main purpose of the investment. This means that:

- Impairments on investments deemed to be primarily financial should be recognised as an investment loss
- Impairments on investments deemed to be primarily social should be recorded as charitable expenditure.

19. Are there any circumstances in which a separate corporate body can be regarded as a branch and included in a charity own individual entity accounts? If so, how would you distinguish a separate corporate body that is a branch from one which is a subsidiary and included in a parent charity's group accounts?

We have no comments to make on this issue.

20. The Exposure Draft requires a charity's share of any surplus or deficit in an associate or jointly controlled entity to be shown as a single line in a parent charity's consolidated SoFA. Do you agree with this accounting treatment? If not, should the charity's share of income and expenditure be shown separately so that the user of the accounts can better understand the scale of the charitable activities carried out by the associate or joint venture?

Yes, we agree with this proposal as we feel that this provides the reader with sufficient information.

21. Do you agree that income from government grants should be recognised on the same basis as other grants and donations? If not, why should government grants be recognised on a different basis?

Yes, we agree that grant income should be recognised on a consistent basis, irrespective of its source.

22. Do you have any comments on any other accounting principles or treatment within the Exposure Draft? If making a comment, please state:

- the name of the module(s) and the paragraph number(s);
- your suggestion for change(s) to be made; and
- the reason(s) why change is needed.

The only area where we would suggest that further clarity is needed is in relation to social/mixed motive investments – in paragraph 21.5 such investments are designated as financial investments but in paragraphs 21.22 to 21.24 the suggestion is that the two types of investment are mutually exclusive.

23. Do you agree with the simplifications made to the current SORP's recommendations and if not why do you consider a particular requirement should be retained?

We agree with the proposed simplifications.

24. Do you have any suggestions for further simplifications to the Exposure Draft and if so what are they and what do you believe are the benefits of the additional simplification(s) you propose?

We have no further suggestions.

25. In responding to the FRC's report 'Cutting Clutter' would you recommend that the joint SORP-making body:

- a. cease publishing any illustrative examples of trustees' annual reports and accounts; or**
- b. publish only two illustrative example of trustees' annual reports and accounts, one for a charity adopting the FRSSE and a second for a charity adopting FRS 102; or**
- c. publish a series of examples for different types and sizes of charity?**

In our view, illustrative examples of trustees' annual reports and accounts are valued highly by preparers of charity accounts (particularly those who are new to the sector) and it would be a shame if they were no longer available. However, we recognise that – as with any model documents/ examples – there can be a tendency to use them as a template that is copied across wholesale, rather than being adapted to suit local circumstances. As well as emphasising that they are purely illustrative, we wonder whether there may be scope for indicating (perhaps by colour coding) those sections that are mandatory for all charities and those that will only apply in certain circumstances.

So long as these provisos are introduced, our preference is option C.