

Research exercise on Charities SORP (FRS 102)

I and a group of likeminded colleagues working in the Charity Sector welcome the opportunity to comment on the Research exercise being undertaken on charities SORP (FRS 102) published by CIPFA/the Charity Commission and OSCAR on 4th May 2016.

Introduction

Over the last few months a number of finance professionals working in similar positions have met together, corresponded and talked on the telephone to canvass views on the new SORP and its application to their respective charities. Most of those who have been involved in the consultation are preparers of accounts but many also are trustees, auditors or examiners.

We have looked at the consultation questions in detail but in view of the fact that the firms, CFG, ICAEW and many others are likely to provide detailed responses we have limited ourselves to responding to Section 3.5.

Recommended amendment to format of the SOFA

In preparing accounts we are of the view that showing a true and fair view is paramount in the presentation of financial statements.

We do not believe that showing unrealised investment gains or losses in arriving at **Net income/expenditure** is correct for the following reasons:

- It is not prudent as unrealised gains or losses on investments should not be confused with operational performance
- The above treatment is not helpful to a reader of accounts who does not have substantial charity finance knowledge.

Many readers of accounts are potential donors, funders or indeed just interested members of the public who want to understand the financial performance of the charity.

We believe that this treatment will lead to:

- Inconsistency in reporting year on year
- May lead to criticism of the charity trustees for their choice of investments if markets take a downturn.

Both of these we believe to be an unintended consequence of reflecting such gains or losses “above the line” if we use terminology which is familiar to all accountants.

A specific example to amplify the point

One of our members has just produced the first set of accounts under the Charities SORP (FRS 102). It is an educational charity with net assets of £20m and a surplus of £1m from its educational operations before investment gains; when investment gains are added the Charity will show “Net income” of £2m for the year ended 31st July 2016. However, the gains in 2015-16 could all be wiped out by a drop in the Stock Market due to “Brexit” or indeed any other market

correction. If this Charity maintains the same level of operational income of say £1M in 2016-17 but then suffers unrealised losses of £1M (i.e. the gains of the previous year) then it would record £Nil as its **Net Income/expenditure**.

Furthermore, we have examples from charities seeking either grant funding or funding from individuals where the chimera of unrealised gains appearing as actual income has led to perceptions of exaggerated actual (cash) income and significantly eroded the case for support.

Recommendation

It is the strongly held view of this consultative group that investment gains and losses should be reflected "below the line" as they were in previous versions of the SORP. This would avoid the unintended consequences reflected in the examples cited above and make the operational performance of a charity much clearer to readers and users of accounts.

We appreciate that only a small percentage of charities tend to have investment portfolios consisting of stocks and shares, property or both. However, investments have a significant importance to the sector being its "equity" and not subject to the vagaries of government funding or the short term emotion of donors.

Conclusion

We hope this is a helpful and constructive observation and recommendation.

If you would like further clarification or discussion please call myself on 020 8516 7263 or email astanley@sdmail.org.uk

AD Stanley FCA DChA

Andrew David Stanley FCA DChA

on behalf of the Consultees.

9th December 2016

Capacities in which the consultees are responding

The majority of those involved in this consultation are:

- Employed by a Charity or a Body involved with or Representing the Charity Sector
- Voluntary Treasurers
- Trustees.

Most have multiple roles and responsibilities.

Those who have specifically been involved in the drafting of this response are as follows:

Denise Fellows-Chief Executive Officer of the Honorary Treasurers Forum and her Trustee Board

Michael Blithell-Finance Director of the United Westminster Schools

Andrew Stanley College Accountant – St Dunstan’s Educational Foundation

Others who have been consulted:

- The Independent Schools Bursars Association (*)
- The Charity Finance Group (*)
- One of the top ten firms of Chartered Accountants with a significant portfolio of Charity Clients (*)
- One of the largest Investment banks managing large portfolios of charity monies
- The Bursars/Finance Directors of ten Independent Schools both day and boarding in London and the South East of England with combined annual income of circa £200m

() These bodies are believed to be making their own responses and to be responding similarly in relation to the treatment of investment gains.*