



## **Consultation Response: *Research exercise on Charities SORP (FRS102)*<sup>1</sup>**

These responses are submitted by the **British Universities Finance Directors Group**. The British Universities Finance Directors Group (BUFDG) is the representative body for higher education finance staff in the United Kingdom.

Our members are the Directors of Finance and Chief Financial Officers of almost all UK higher education institutions.

Universities are autonomous bodies established by Royal Charter, Act of Parliament or other instrument and have charitable status.

The Financial Reporting Group of BUFDG acts as the Further and Higher Education SORP (FEHE SORP) working party which developed SORP 2015, interpreting FRS102 for the sector.

BUFDG's response to the consultation is focused on questions where it wishes to express its views. Not all consultation questions are therefore addressed.

### **General comment**

In reviewing the SORP BUFDG strongly believes that SORPs structure, format and accessibility of all SORPs are fundamentally important as this promotes high quality, impactful and understandable financial reporting.

In updating the SORP it is always tempting to add in new requirements and disclosures but additionality can significantly detract from understandability and impact and conversely reducing disclosures can significantly enhance the impact and understandability of financial statements. We would strongly encourage the SORP Board to set a high hurdle for adding in additional requirements and consider operating a *one in/one out* policy to act as a discipline to ensure that the understandability of charity sector financial reporting is not diluted.

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

BUFDG strongly believe there is a need for the Charities SORP to interpret FRS102 and to promote consistent reporting across all charities. Charities are a distinct sector from the point of view of regulation and oversight, legal structure and accountability to a diffuse set of stake holders which require a consistent approach to financial reporting along with supplemental interpretation of FRS102 to ensure reporting in the sector is meaningful.

The Consultation document has been a useful prompt for the FEHE SORP to begin to consider its own plans to update the FEHE SORP, not least of which is the rationale and need for a separate FEHE SORP from the Charities SORP. BUFDG strongly believe that universities represent a distinct class of charities that merit their own SORP. Universities have a common structure of funding streams, operate a mixed economy of general educational and research activity that is publicly and non-publicly funded and undertakes

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<sup>1</sup> <http://www.charitySORP.org/media/642814/charities-sorp-consultation-paperv4.pdf>

both primary and non-primary purpose activity, all of which requires reporting consistency to aid understandability and comparability of financial reporting in the sector. While most universities operate fundraising and endowment activities to various degrees, much of which is restricted in nature, even in the largest institutions these are generally a minority part of total entity activity. The majority of activity/funds within universities is unrestricted in nature. The sector is subject to a range of different regulators across all UK jurisdictions, all of whom deploy formal financial monitoring and regulatory mechanisms, including the issuance of annual Accounts Directions. The role of the regulator is significantly enhanced by the reporting consistency promoted by the FEHE SORP.

**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?**

The FEHE Sector has experienced similar issues about 'capital' and revenue' reporting, interfering in the understanding of underlying performance, although the FEHE SORP permits the accrual model to be adopted for government grants as permitted by FRS102.

There are other sources of material lumpy accounting impacting on the understanding of recurrent surpluses, such as changes to provisions for liabilities under multi-employer pension scheme deficit recovery plans, changes to the market value of investments, new donations and endowments, changes to fair value of financial instruments. While many of these may not be relevant to charities, care needs to be given to stipulating a separate column within the SoFA for a single source.

**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, or if you do not support any of these suggested themes, please give your reasons as to why not?**

The numerous ideas listed do read like a long list of potential additional items being added into the SORP which could significantly reduce the understandability and readability of financial statements. Financial statements are in danger of becoming increasingly impenetrable to lay readers and this then carries the risk of undermining their critical accountability and stewardship role.

BUFDG would urge the SORP Board to avoid simply adding more and more disclosure requirements into the SORP.

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