Charity Finance Group
IFR4NPO Guidance
Part 1: General NPO Financial Reporting Issues
Consultation Response
August 2021

Introduction and Background

Charity Finance Group (CFG) is a UK based membership charity providing infrastructure support to charities, finance professionals and the wider sector. We have an advanced programme of training and support as well as a mature policy function which engages with all matters relating to charity finance, (including accounting standards and guidance.

CFG is a convener of the SORP (Statement of Recommended Practice) Professional, Technical and Audit engagement strand, member of the Large Charity engagement strand and our CEO sits on the SORP committee. In addition, CFG is instrumental in engaging with matters as diverse as tax and pensions to banking and risk.

The fore-runner to this project was initiated by CFG when we convened a group of cross accountancy bodies, the regulators and the International standards developers to debate the challenges presented to the not for profit sector by the absence of an accounting standard designed with non-profit organisations, rather than private enterprise in mind.

We have been happy to support this project as a Country Champion but have also recognized that, despite significant effort, there is less engagement in the UK currently. This may be as a result of a mature accounting standard and guidance environment coupled with the effects of a pandemic or it may be due the early days of the project and its concurrence with the updating of the SORP. However, we will continue to promote, engage with and respond to the consultation and hope to be able to gather more input for the more detailed Part 2 of the consultation.

We have chosen not to submit a detailed reply to the first stage of the consultation but instead are providing comments through this letter. Whilst we are able to assume a high level of knowledge of the UK regime it is worth reflecting on some of the challenges that we have identified as a result of CFG's engagement with the domestic SORP.

General Matters for Comment

It is firstly worth reflecting that the characteristics of and the principles based approach to defining what a Not for Profit Organisation (NPO) is are welcome and would potentially span a number of legal entities in addition to charity (e.g. social housing, education and social enterprise to name a few).

Whilst CFG has some experience with mutual, cooperatives, social enterprise, universities and social housing providers this response draws on our greater knowledge - that of charity finance. The vast majority of charities in the UK are small or micro (with c 90% with an income below £500k). Conversely, the concentration of income in the sector lies with a much smaller proportion of organisations. Charities over £250k income (and Incorporated

Charities) account on an accruals basis and apply the Statement of Recommended Practice (SORP). Smaller organisations therefore have a choice of approach. Whilst it is understandable that there is desire to provide a simple method of accounting to the smallest of organisations, who will often operate without skilled financial support, in the form of Receipts & Payments (R&P) accounting, this project offers an opportunity to rethink the purpose of the current regime and whether change is necessary.

If the purpose of accounting is to be accountable to stakeholders or to afford better techniques of stewardship and impact for those delivering social change, the role of cash accounting becomes less credible or fit for purpose. CFG therefore welcomes exploration of this at a global level within this project and recognition of the barriers to adopting accrual accounting that might exist within more mature reporting regimes; barriers such as education, skills of systems. Whilst it is always assumed that there are costs associated in moving away from a cash accounting basis and elements of cash accounting that can be useful for donors, this is an assumption that appears to have been accepted without much recent testing. With the advent of better and greater technology it is worth re-exploring whether the assumption that cash accounting is more onerous stands up to scrutiny - particularly with the potential development of a specific NPO standard and guidance. Training and education will always play a central part and therefore the need for professionalism in the sector, globally in each locality must be recognised and embraced.

Turning to the absence of a sector specific standard; whilst the SORP does a very good job of applying the Financial Reporting Standards in the context of charitable activity it cannot escape from the fact that the standards were developed with private, for profit, enterprise in mind. Thus, time and again issues arise which demonstrate that non-profit reporting is being squeezed into a less than appropriate mechanism, frequently arguably drawing out information which may not represent the most important financial and other data in the context of charities.

Furthermore, some accounting elements produce some-what perverse results which warp the presentation of charity accounts and which then require further explanation or disclosure to make sense to the users of accounts. These include a wide range of stakeholders including all those named in the consultation document. The only additional stakeholder group identified, which may be captured by ‘resource providers’, is staff and volunteers, who are an essential part of the sector’s delivery.

It is worth recognizing that stakeholders may wear many hats - a services user may also be a volunteer or a trustee - and their need for information, ability to access it and power to seek accountability will differ. Not all stakeholders will have comparable needs and not all information can be as easily or readily made available. A balance, between the costs of providing information and the benefit the recipient obtains from it, must be struck otherwise resources are diverted away from providing public benefit.

We support a greater focus on non-financial reporting but recognise that this is not a simple or easily achieved aspiration. Furthermore, as this is IFR4NPO, we would urge a focus on the financial elements first and to not allow the development of financial reporting to be derailed by the more challenging prospect of the non-financial elements.

We agree that starting with existing frameworks are sensible and there is greater efficiency that starting from scratch and/or reinventing the wheel. There will undoubtedly be elements of which ever framework forms the basis of an NPO standard that are not applicable or elements from other frameworks that could be usefully lifted and incorporated. It makes sense to choose a pre-existing framework and adapt it with NPOs in mind. The arguments advanced for choosing the IFRS for SMEs are sensible, pragmatic and balanced.

We hope these comments are useful to the progress of the project and look forward to working further on IFR4NPO with you.

Charity Finance Group

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