PADDLE STEAMER PRESERVATION SOCIETY

DECISION BY COUNCIL OF MANAGEMENT 14 MARCH 2015

CONSIDERATION OF GROUP ACCOUNTS

1. The duty to prepare accounts rests on the directors as a whole and not merely on the Treasurer or Finance Director. Legally, the terms “director,” “trustee” and “member of the Council of Management” mean the same thing in the case of PSPS.

2. A new set of Accounting Standards applies to all accounts starting on or after 1 January 2015. The basic standard is known as FRS102[i]. This is intended to apply to all entities (companies, charities, public bodies) and is based on international standards. There is a reduced standard (called FRSSE[ii]) which uses the same principles but requires less disclosure, although this is expected to be withdrawn in 2016.

3. Charity accounts will be governed by a Statement of Recommended Practice (SORP2015) issued by the Charity Commission and OSCR. There are two versions, one linked to FRS102 and the other to FRSSE.

4. In view of the likely withdrawal of FRSSE, Council decided to prepare its accounts under FRS102.

5. Under either of the new Standards it is difficult not to come to the view that PSPS should prepare Group Accounts covering PSPS, WSN Group and PSKCTL. There are two principles in the SORP which have to apply before a charity prepares Group Accounts (also known as consolidated accounts). They are ‘power’ and ‘benefit.’ ‘Power’ is presumed to exist if one body controls the majority of the voting rights of another. PSPS is the majority shareholder in both WSN and PSKCTL. ‘Benefit’ means the objects of the charities are broadly similar. This is the case for our three charities, where the objects are virtually the same, word for word.

6. Currently PSPS does not prepare Group Accounts[iii] as Council has taken the view that:

    a. There is a permanent restriction on PSPS benefiting from WSN and PSKCT financially, which is true as the charitable trusts prevent funds flowing to PSPS; and

    b. The cost of preparing the Group Accounts outweighs the benefit to the reader.

7. There would be a number of consequences of preparing Group Accounts, including:

    a. There would need to be a Group Report covering PSPS, WSN Group and PSKCT.

    b. Either changes of year-end dates for two of the charities or extra work preparing accounts for two year-end dates for two of the charities.

    c. The Group Accounts would be difficult to interpret without publication of each constituent’s accounts, leading to a very large document for circulation, with attendant printing and postage costs.

    d. The whole Group would be subject to audit, rather than independent examination, leading to increased fees. WSN is currently audited but PSPS and PSKCT use the simpler (and cheaper) independent examination option.

8. Currently Peter Walker of Adey, Fitzgerald & Walker of Barry carries out the independent examination of PSPS and PSKCT’s accounts. This firm is not a registered auditor. WSN’s accounts are audited by Henderson & Co of Greenock, who are registered auditors.

9. Section 479 of CA06 requires all companies within a group to be audited unless it is part of a small group.[iv] The estimated group turnover is small enough at under £3.0m to qualify for audit exemption but the group balance sheet total is estimated at over £2.8m after deducting minority interests.

10. The most efficient way of having group accounts audited is to use one firm. It is permissible to use different auditors for different companies, but the auditor of the parent company would be required to liaise with and review the work of subsidiary company auditors. Clearly this would lead to duplication of work and increased cost.

11. Henderson & Co are sympathetic to our cause and have been WSN & WEL's auditors for many years. Consequently they are familiar with their business and systems and continuing their appointment would avoid the cost of a new auditor reviewing and documenting existing systems.

12. Henderson & Co were approached with details of the PSPS and PSKCT accounts to obtain a fee estimate. The details are as follows:

	PSPS Inc VAT	PSKCT Exc VAT	Total
Fee estimate	£3,600	£1,200	£4,800
Existing cost	£1,212	£550	£1,762
	£2,388	£650	£3,038

It should be borne in mind that there is substantial additional work required to conduct an audit compared to an independent examination. In addition, the PSPS fee includes for the additional work of consolidating the three sets of accounts. The PSPS fee would be higher in the first year as comparative figures require to be prepared for the consolidated accounts and the value of minority interests established.

13. Council considered three other options, set out below.

14. **OPTION 2 – Reduce shareholding** The additional cost could be avoided by PSPS reducing its shareholding in WSN below the 50% level with the divested shares being held by one or more trustees. Such an arrangement could be unsatisfactory because:

    a. If strictly governed by an agreement between PSPS and the trustee(s), it would still amount to 'power' over WSN and would still really require Group Accounts (see para. 5);

    b. If not strictly governed, PSPS would be giving away its controlling interest which took many years of patient negotiation to obtain;

    c. PSPS members believe that Waverley is the Society's ship and have contributed over £2.5m (through the Society) to keep her sailing. This should be backed up with the continued majority shareholding (controlling interest);

    d. There is a likelihood of differences of opinion with the nominated trustee(s) which could undermine the Society's position;

    e. There would be little or no control over future share transfers (e.g. after loss of interest, incapacity or death) once the Society had given them up; and

    f. There is a small possibility of another body gaining control over Waverley.

15. **OPTION 3 – One year delay** A one year delay could be achieved by changing the end date of the 2014 Accounts to 31 October. Compliance with the new Standard would then not be required until the year ended 31 October 2016. Clearly this would require a significant additional effort to redraft the completed accounts.

16. **OPTION 4 – Continue with the present arrangements** It does not appear to be an offence to fail to comply with the Standard. Peter Walker appears to be comfortable to continue. Clearly the trustees and Treasurer could be subject to criticism and there could be reputational damage. We are not making false statements

as there are paragraphs in the Notes to the Accounts describing our relationship with our subsidiaries. Council were informed that there was an example of this practice in the business world.

17. Council carefully considered these issues and decided not to prepare Group Accounts for the following reasons:

    a. There is a permanent restriction on PSPS benefiting from WSN and PSKCT financially, as the charitable trusts prevent funds flowing to PSPS;

    b. The cost of preparing the Group Accounts outweighs the benefit to the reader. Council took the view that as each charity has a different year-end date, it would cause a lot of extra work in the preparation process;

    c. The operations of each charity are different. WSN is an operating shipping company, PSKCT owns its ship but the operations are in the hands of Dart Pleasure Craft and PSPS is a fundraising and membership organisation. There was little advantage in combining such disparate figures as the underlying results of each charity would be masked;

    d. There are significant minority interests of 35% in WSN and 17% in PSKCT. The minority interests' share in the "equity" of the charities would be deducted in the Group Accounts, which means the bottom line figures, although technically correct, would not provide any useful information to an ordinary member;

    e. The additional costs of audit, at least £3,000 annually (equivalent to 130 members' subscriptions – 5% of the total); and

    f. The possibility of further additional costs should a future Treasurer not possess the relevant skills to complete the exercise without further paid professional input.

18. Council resolved to continue its present practice of using the exemption provided by Section 405 of the Companies Act 2006 not to prepare group accounts on the grounds that:

    a. Its subsidiaries are constituted as charities and so there are severe long-term restrictions over the assets of the subsidiaries; and

    b. Disproportionate expense would be incurred in the preparation of group accounts.

Note prepared by Martin Longhurst

16 March 2015

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[i] FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"

[ii] "Financial Reporting Standard for Smaller Entities"

[iii] Using exemptions allowed by Section 405(3) of the Companies Act 2006 (CA06):

> "(3) A subsidiary undertaking may be excluded from consolidation where—
> (a) severe long-term restrictions substantially hinder the exercise of the rights of the parent company over the assets or management of that undertaking, or
> (b) the information necessary for the preparation of group accounts cannot be obtained without disproportionate expense or undue delay, or
> (c) the interest of the parent company is held exclusively with a view to subsequent resale."

[iv] S.479(2) CA06 defines a small group thus: "(b) that the group's aggregate turnover in that year is not more than £5.6 million net (or £6.72 million gross);
(c) that the group's aggregate balance sheet total for that year is not more than £2.8 million net (or £3.36 million gross)."