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Kate Sayer: What's the truth behind the numbers?

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We need to be clear that estimation and judgement are widely used in producing accounts, writes our columnist



Kate Sayer

In this "post-truth" era it can appear to be difficult to distinguish facts from fiction, but that makes it even more important to be able to interpret data and statistics. Quite often the problem is the lack of context for the numbers being presented, and they only actually make sense if you know a little about how the author was thinking.

First, let's get rid of the myth that there is such a thing as creative accountancy. I don't mean that accountants are not creative people, but in this context it implies "dodgy", whereas finance professionals should be leading the way on transparency.

We need to be honest about facts in information. Facts are the raw data. In the context of accounts for organisations, the data are the transactions that have been entered into the records. For example, actual receipts and payments are facts that can be verified by reference to the underlying paperwork and the entries on the bank statement. Someone has to use their judgement to allocate the receipt or payment to the correct category in the records, but there is usually a right or wrong answer at this stage of processing the data.

After that, there is extensive use of estimation and judgement in order to produce a set of accounts and even to audit them. There are rarely right or wrong answers: a way of interpreting the data is either reasonable or unreasonable. In order to make sense of the numbers, you need to understand what the assumptions were in creating that interpretation of the data.

A good example of this is the preparation of annual accounts and reports to funders. In order to explain how funds have been spent, you typically have to go through several stages. The easy part is identifying payments (factual data) that relate only to that funding. Next, the allocation of salaries requires some knowledge about how people spend their time. Even if staff keep timesheets, this is their estimate of how they spent their time, so you come to a reasonable estimate of the proportion of people's time and therefore salaries that should be attributed to that fund. Central management and overhead costs are usually apportioned according to the salaries or total direct costs – it is an estimate.

So a large proportion of the costs are actually based on estimates and judgement. There is nothing wrong with that, but we need to be honest about the basis. We should not present estimates as data. For example, I have seen funder reports that show actual amounts for expenditure on overhead categories such as rent, insurance and so on, when in reality this is a certain percentage of the total cost. It would be more honest to state that the funding contributes to a percentage of the rent and overheads.

Transparency about the numbers is not simply about publishing more numbers – it is about explaining your thinking, the assumptions you make and the basis for allocating and apportioning costs.

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