Introduction to SORP

Ellie Lockey

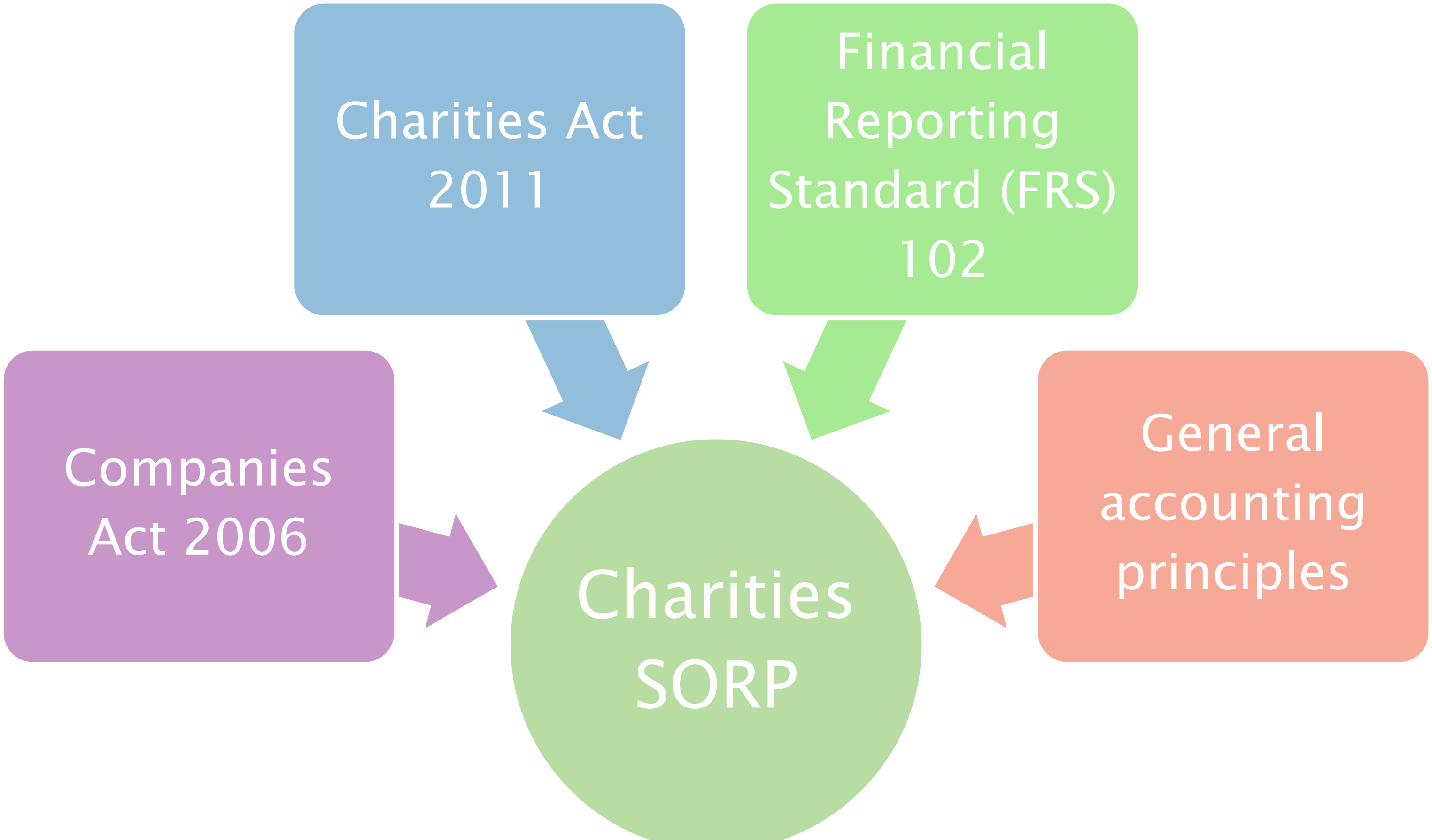
14 November 2024

SAYER | VINCENT

Agenda

- Background to SORP
- Core concepts
- Financial statements form and content
- Trustees' annual report

Regulatory background



The Charity Commission for Northern Ireland

OSCR Scottish Charity Regulator

CHARITY COMMISSION FOR ENGLAND AND WALES

What is the SORP?

- Statement Of Recommended Practice
- For statutory accounts
- Accounting rules in a charity context
  - Removes profit as measure of success
  - Surplus/deficit is often just a result of timing
  - Still have to follow core rules
- Activity based reporting
- Use of resources to further charitable aims
  - Objects, activities, achievements, impact

What is the SORP?

Accessible, modular document

- Core modules
- Additional sections
- Detailed glossary of terms

Specific terms

- Must – has to be included
- Should – best practice to include
- May – options available

Who follows the SORP?

Registered charities, including:

- Unincorporated registered charities
- Charities that are also registered companies
- Charitable Incorporated Organisations (CIOs)

SORP accounts components

- Trustees' annual report
- Auditor's/Independent Examiner's report
- Statement of financial activities (SoFA)
- Balance sheet(s)
- Statement of cash flows
- Notes to the accounts

Charity accounts vs company accounts

- Basic principals regarding the preparation the accounts are the same
- Key financial health indicators/warning signs are the same (but with some additions)
- Characteristics of good financial information are the same

What's different about charity accounts?

- Funds – unrestricted and restricted
- SOFA (not profit and loss account)
- Focus on funds in total rather than result for the year
- Public Benefit reporting
- More scrutiny and regulation
- Tax position

SORP language

Profit and loss account	Income and expenditure account	SoFA
Profit	Surplus	Net income
Loss	Deficit	Net expenditure

Fund accounting

- Total funds
  - Unrestricted
    - General
    - Designated
  - Restricted
    - Income
    - Endowment (capital)
      - Permanent
      - Expendable

Unrestricted funds

Funds received for charitable objects

- General donations
- General legacies
- Self-generated income from sales of goods or services
- Investment income

Designated funds

- Funds earmarked by trustees for a particular purpose

Restricted income funds

- Restriction imposed by donor
- Restricted funds may be
  - For a specified project
  - For a specific geographical area
  - Funds raised in an appeal
  - Investment income (if generated from invested restricted funds)
- Funds must be spent for purpose
- Can be assets

Endowment funds

- Similar to restricted funds
  - Permanent – no **ability** to spend capital
  - Expendable – no **requirement** to spend capital

- Capital invested to generate a return to spend on charitable activities

- Income generated may be restricted or unrestricted – check terms

Fund disclosure

- Detailed analysis of funds in notes
- Separate income & expenditure by fund
- Transfers between funds
- Narrative explanations for each fund

Statement of financial activities SoFA

- Grouped by activities, not types of income/expenditure
- Income headings link to expenditure
- Distinguish between funds
- Support and governance costs allocated to charitable activities
- Should correspond to trustees' annual report
- Detailed notes

Incoming resources

Donations and legacies

Charitable activities

Other trading activities

Income from investments

Other

Donations and legacies

- Gifts given on a voluntary basis
- Grants of a general nature
- No expectation of a service in return
  - Can include subscriptions if substance is donation
- Donated goods and services

Charitable activities

- Grants and donations for specific activities
- Fees for services as part of charitable activities (primary purpose trading)
- Expand with sub-headings
  - Link with reporting in trustees' report

Other trading activities

- Non-charitable trading
  - Both within charity or subsidiary
- Fundraising events
- Retail income
- Property income
- Sponsorship

Income recognition

- As soon as is prudent & practicable
- Three golden rules
  1. Entitlement
  2. Measurement
  3. Probability (more likely than not to be received)

Donated goods and services

- Recognise if you would have paid for it
- Benefit is quantifiable and measurable
- Value to charity receiving
- **Do not** include volunteer time
  - Report in trustees' report

Resources expended

Match charitable activities with income

Costs of generating funds

- Fundraising and trading
- Investment management

Support and governance costs

- Not activities in their own right
- Reanalyse and charge to activities

Staff and trustee costs

- Staff paid > £60k
  - State number in each £10k band
  - Salaries and benefits only
- Termination and redundancy costs
- Trustee payments and expenses
- Other disclosures
  - Key management personnel
  - Staff numbers

Trustees' annual report – all

- Objectives and activities
  - Public benefit
- Achievements and performance
- Financial review
  - Reserves policy and going concern (more detail if large)
- Structure, governance and management
- Reference and administrative details
- Requirements of Companies Act

Trustees' annual report – large

- Material activities and policies
  - Grant making
  - Investments
  - Use of volunteers
- Expanded performance measures
- Principal risks and uncertainties
- Remuneration of KMP
- Plans for future periods
- Fundraising practices (if audited)

Reserves

- Policy
  - Why you need reserves, how much and what for
  - Compare with actual level
  - No standard formula or approach

- What does this depend on?
  - Income volatility and risk
  - Nature of costs – fixed or flexible
  - Future plans and needs
  - Scenario planning and stress testing

‘Free’ reserves

Reserves the charity holds at the end of the reporting period *after* making allowance for any ***restricted funds***, and the amount of ***designations***, ***commitments*** (not provided for as a liability in the accounts) or the carrying amount of ***functional assets***

Going concern

A basic underlying accounting assumption that an organisation will be able to continue operating for a period of at least 12 months from the date the accounts are signed

- Can meet all liabilities as they fall due

Going concern

- Trustees must make their own assessment and confirm this at point of approval
- If uncertainties, the nature of these must be explained in the TAR
- Auditors are required to review and conclude

Thresholds

Large charity – income in excess £500k

Charity audit threshold (charity):

- E&W: £1 million
- Scotland: £500k

Non-small company – exceed 2 of 3 of:

- Turnover > £10.2 million
- Gross assets > £5.1 million
- Employees > 50 (average head count)

External scrutiny

Income (£)	0 – 25K	25K – 250K	250K – 500K	500K – 1m	1m – 10.2m	10.2m
Commercial company and CIC	No need for any external scrutiny					Audit
Charitable company and CIOs	n/a	Independent examination			Audit	
OSCR registered	Independent examination				Audit	

- Check governing documents and funder requirements

Audit vs independent examination

- Audit
  - Verification of transactions
  - Seeks material completeness and accuracy of accounting records
  - Report states accounts show ‘True and Fair’ view
  - Provides more assurance
- Independent examination
  - Reviews accounting records
  - Checks accounts prepared from underlying records
  - Verification of transactions to original documents only if queries
  - No check of internal financial controls

Resources to help

- Charity Commission guidance and publications
  - https://www.gov.uk/guidance/charity-commission-guidance

- Sayer Vincent publications
  - "Made simple" guides
  - Beyond reserves
  - Rethinking risk – beyond the tick box
  - Honorary Treasurer's Handbook
  - Find at sayervincent.co.uk/resources

Questions?

Ellie Lockey

Eleanor.Lockey@sayervincent.co.uk

Sayer Vincent LLP

www.sayervincent.co.uk

@sayervincent