

# Charities Statement of Recommended Practice (SORP)

## Accounting & Reporting by Charities - March 2005

The updated Charities' Statement of Recommended Practice (SORP 2005) was issued in March 2005. The following is a summary of some of the most important points covered by the SORP. We have also produced a booklet, which covers far more of the detailed requirements and we would recommend that you refer to the booklet for further information.

### Background

Sector involvement and consultation has been key in the production of SORP 2005, and research, input and feedback provided by the sector, its advisors and the Charities SORP Committee, has informed each stage of the SORP's development. Whilst the principles underlying SORP 2005 are broadly unchanged, the SORP focuses on the need for clearer reporting of objectives, activities undertaken, achievements, outcomes and impacts – both discursively through the Trustees' Report and numerically through a restructuring of the Statement of Financial Activities (SOFA). SORP 2005 also reflects the impact of accounting standards issued, amended or withdrawn since the last revision of the SORP in October 2000.

### Adoption

SORP 2005 applies to accounting periods beginning on or after 1 April 2005. Charities with year ends of 31 March 2006 will therefore be amongst the first charities which will have to adopt SORP 2005, although any charities with shorter accounting periods which start on or after 1 April 2005 will need to comply with SORP 2005. Early adoption is encouraged, although it should be noted that, as comparative figures are likely to need re-stating, additional time and consideration may be needed when SORP 2005 is adopted for the first time. Charities should adopt all relevant recommendations and should not "cherry pick".

### Scope

The accounting recommendations of SORP 2005 apply to all charities (except in specific and exceptional circumstances) in the United Kingdom that prepare accounts on the accruals basis to give a true and fair view of their activities and financial position, regardless of their size, constitution or complexity. The SORP specifies the extent of the scope of its recommendations to charities based in Scotland, Northern Ireland and the Republic of Ireland, and to certain classes of charities which may also be subject to separate reporting requirements.

### Main changes

The main changes in SORP 2005 may be summarised as follows:

- Restructuring of the Trustees' Annual Report using seven key sections, with some additional disclosures included within these sections
- Emphasis on performance information to enable the reader to assess progress against the charity's stated aims and objectives, and to understand the charity's future plans.
- The structure of the SOFA has been changed to encourage charities to establish a clearer correlation between incoming resources and related resources expended. The headings should highlight the activities being undertaken by the charity rather than merely describe the nature of the income stream, or the method by which resources are expended.
- The sections dealing with recognition of incoming resources, and of resources expended, have been substantially rewritten and expanded to provide more specific and tailored guidance for charities, especially in relation to grants and contracts.
- Greater emphasis on the analysis and disclosure of grantmaking activities by purpose and objective, rather than by the type of funding provided to the grant recipient. The split by type of funding should be included in the notes to the accounts.
- Some minor changes to institutional grant disclosure, particularly where non-disclosure may be justified. Trustees no longer have to inform the Charity Commission of proposed cases of non-disclosure prior to the approval of the accounts.
- Support costs are no longer shown as a separate category on the face of the SOFA, but instead should be allocated to, and analysed as a component of, each category of expenditure in the notes to the accounts.
- A new heading "Governance Costs" replaces SORP 2000's "Managing and administering the charity" category. Governance costs are more narrowly defined.
- More detailed recommendations are provided on attributing costs between the activity categories on the SOFA with further guidance on the basis which can be adopted. The basis and method of cost allocation to each category should be disclosed.
- Clarification of the treatment of costs incurred on multi-purpose activities (such as those which may be intended as both fundraising and educational).
- The requirement to disclose the cost of trustees' indemnity insurance has been removed.
- The £10,000 bandings provided for the analysis of emoluments of higher paid staff should start at £60,000 (not £50,000).
- The term "heritage assets" replaces "historic and inalienable assets" in the previous SORP.
- There are specific recommendations in relation to "programme-related investments" and "pooling schemes".

- Following the introduction of FRS 17: *Accounting for Retirement Benefits*, a new section has been added to the SORP which will primarily impact charities that operate a defined benefit pension scheme.
- If a charity makes use of financial derivative products there are now requirements relating to information to be given in the notes to the accounts.
- The reserves definition in the SORP's glossary has been changed. Designated funds are not automatically excluded from "reserves" so charities can be more flexible when calculating and defining "reserves".
- The section dealing with consolidated accounts has been rewritten to reflect changes in FRS 2: *Accounting for Subsidiary Undertakings* in relation to dominant influence, and to clarify the meaning of "control". The SORP also explains when consolidation is not required.
- There is clarification regarding the recognition and measurement of gift aid payments from a trading subsidiary, and more guidance in respect of the production and scrutiny of summarised accounts and information.

#### **Further guidance**

We recognise that certain areas of SORP 2005 may require specific consideration by Trustees and the Finance team. For example, balancing the need to report objectives, activities, achievements and plans in line with the SORP's recommendations and the numbers presented in the accounts, whilst not giving too much detail and superfluous and unfocused information; the recognition of certain streams of income and expenditure; the restructuring of the SOFA, including the allocation of costs; and, where applicable, the adoption of the principles of FRS 17 in respect of retirement benefits. We will address these matters in further detail in future editions of Charity Briefing.

SORP 2005, and other useful guidance, can be downloaded from the Charity Commission's website [www.charitycommission.gov.uk](http://www.charitycommission.gov.uk) or by phoning the Charity Commission's helpline on 0870 333 0123.

For a copy of our complementary SORP 2005 booklet "Enhancing the Words....Presenting the numbers", please contact Nicola Hodgson (020 7509 9209; [nhodgson@cvsdfk.com](mailto:nhodgson@cvsdfk.com)). For further guidance on SORP 2005 or

other reporting and accounting matters, please contact your usual Charities Partner, or Sally Kirby.

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#### **Further Information**

Further information about our Charities Group may be obtained from any of the specialists listed above or from Helen Seaton, who is secretary to the Group. Helen may be contacted on 020 7509 9487 or by email at [hseaton@cvsdfk.com](mailto:hseaton@cvsdfk.com)

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