



# Introduction to SORP

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22 September 2021

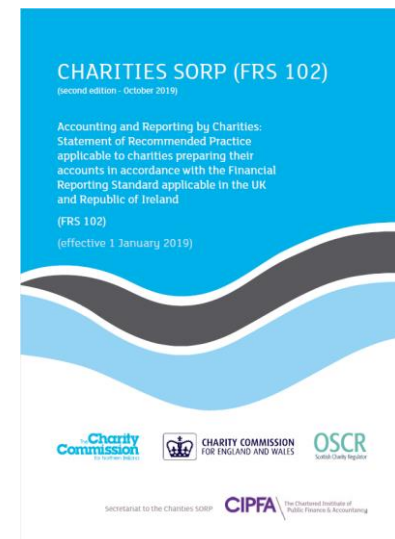
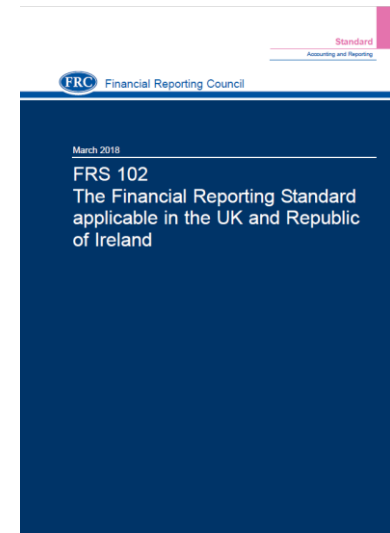


# Agenda

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

# Regulatory background

- Companies Act 2006
- Charities Act 2011
- Financial Reporting Standard (FRS) 102
- Charities SORP





# What is the SORP?

- Statement Of Recommended Practice
- 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



# SORP language

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



# 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)



# Fund accounting

Total funds

Unrestricted

Restricted

General

Designated

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 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



# Financial statements 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



# 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



# 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

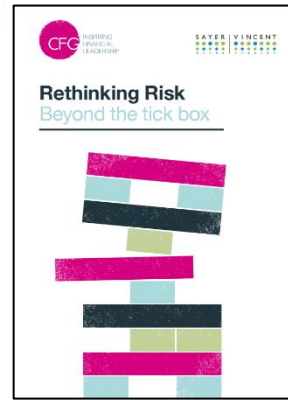


# Audit vs independent examination

- **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](https://sayervincent.co.uk/resources)



# Questions?

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