An introduction to the Charities SORP

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FOR ENGLAND AND WALES

ICAEW Charities Conference- Summary briefing- an introduction to the Charities SORP and its ongoing development

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January 2021

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Overview:

- What the charities SORP is and what it aims to do
- Which charities follow the SORP and why
- Why the SORP changes- law, standards, context
- The new approach to developing the next SORP
- The current timeline to developing the next SORP
- SORP resources to assist practitioners

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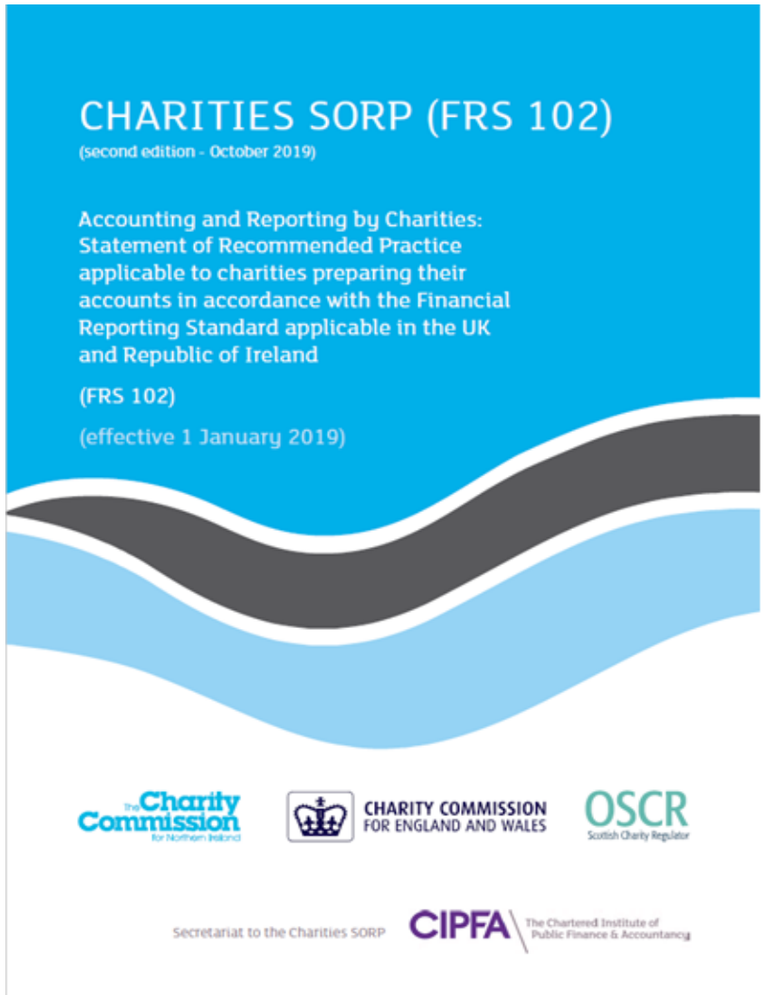
What the charities SORP is :

- Guidance on preparing ‘true and fair’ charity accounts in accordance with GAAP



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What the SORP aims to do:

- Stewardship reporting designed for the charity sector- telling the story
- The SORP is an application of FRS 102 and so is overseen by, and approved by, the FRC
- Provides guidance on how to apply for-profit reporting standards, supplemented by ‘PBE’ paragraphs
- Specifies required charity specific items such as the Statement of Financial Activities, fund accounting and certain notes
- Sets out required content for the trustees’ annual report

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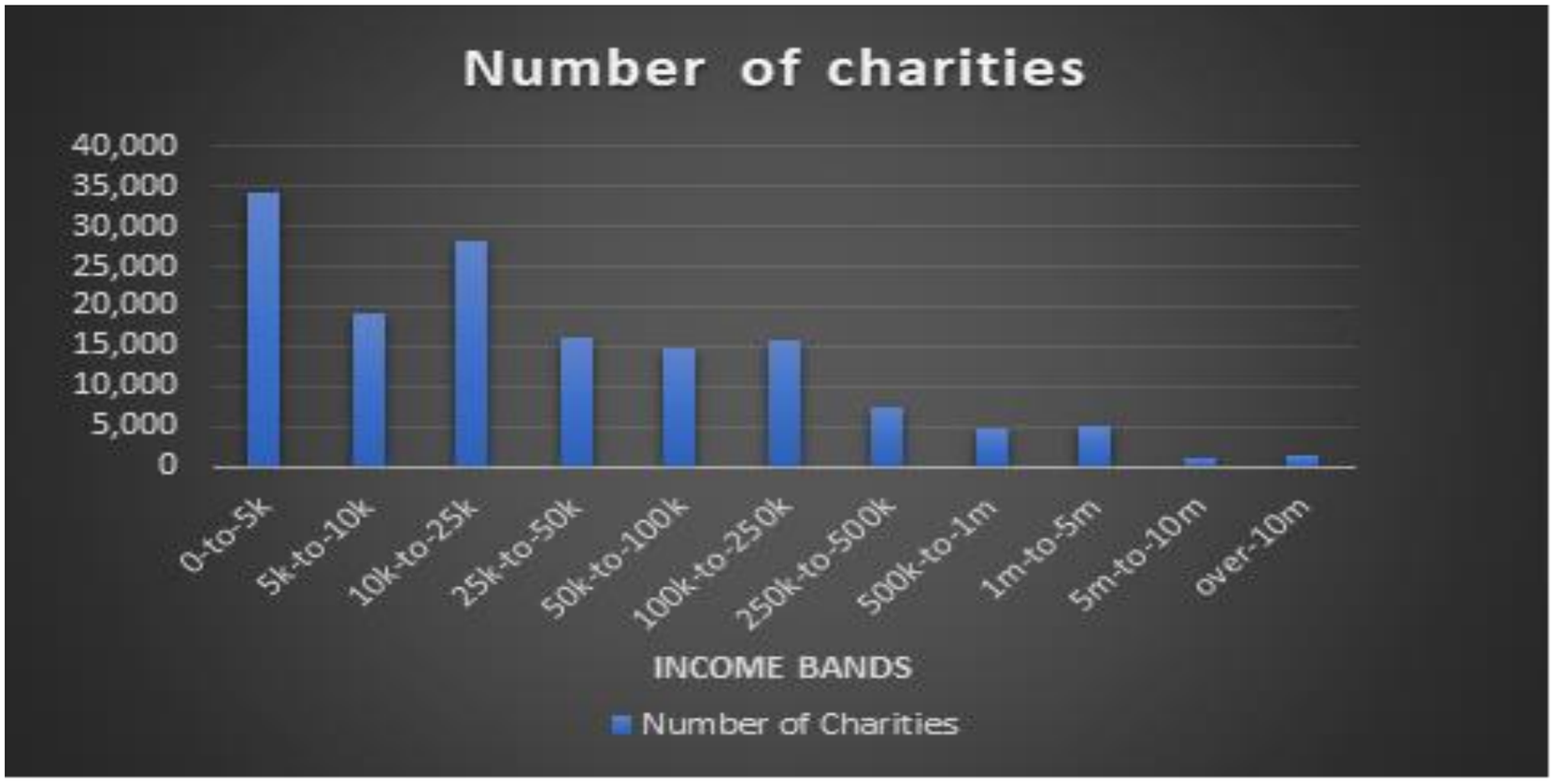
Sector overview- number by income band (Sept 2020):



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Which charities follow the SORP and why:

- All charities choosing or required to prepare ‘true and fair’ accounts under UK-Irish GAAP must follow the charities SORP unless or a more specific SORP applies
- SORP gains its authority from two sources
  - FRS 100 Application of Financial Reporting Requirements
  - Law- company law and/ or charity law
- Charity law is a devolved matter so SORP most cover three UK charity law jurisdictions. Largely voluntary in the Republic of Ireland
- Why follow it?
  - Requirement to prepare ‘true and fair’ accounts
  - If specified in regulations
  - Good practice

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Why the SORP changes:

- Changes to UK-Irish GAAP
- Changes to law (unless SORP simply signposts)
- To keep abreast of change in the wider sector reporting environment
- SORP Governance review (reported June 2019)

SORP governance review recommendations

Reporting needs	• The reporting needs of (i) the proxy user for the public and beneficiary interest and (ii) smaller charities require a refocusing of the SORP and greater simplification of reporting requirements for smaller charities with more support for trustees
SORP Committee	• The SORP Committee be retained but reforms are needed regarding size, composition and clarification of the respective roles of the SORP-making body and SORP Committee.
Engagement	• Broader and ongoing engagement is needed with a much wider group of stakeholders if the SORP is to continue to be fit for purpose.
Non-statutory reporting	• The sector and charity regulators should collaborate to identify and codify best practice in non-statutory financial reporting.
Ensure action	• The SORP-making body, supported by the Financial Reporting Council (FRC) needs to ensure that the redesigned SORP development process takes effect.
Adequate resources	• The charity regulators are asked to ensure that SORP process is adequately resourced to implement these recommendations.

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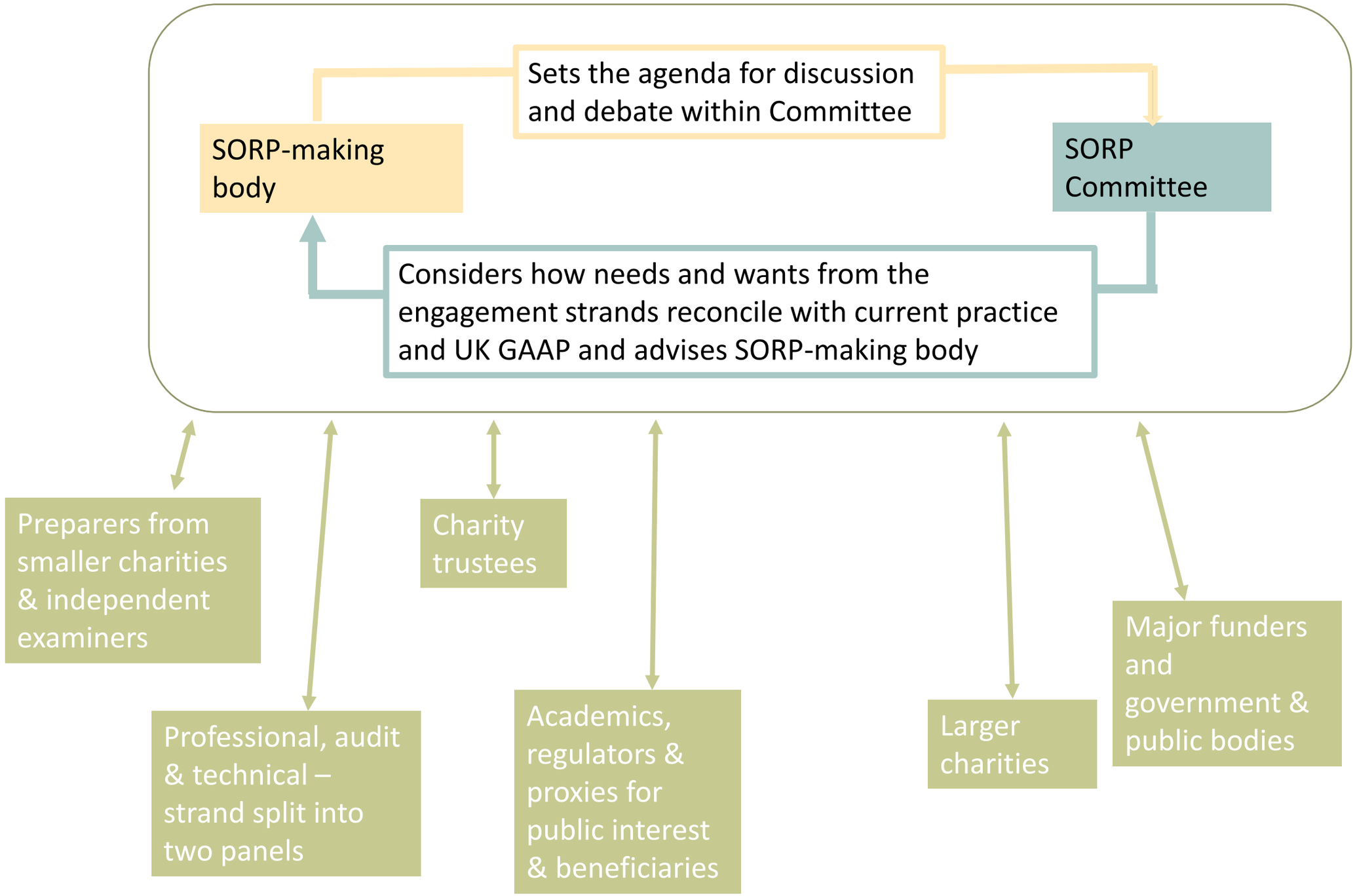
Looking to the future- the approach to developing the next SORP:

- Implementing the recommendations in a phased
  - Began with recruiting a new SORP Committee (first met March 2020)
  - New engagement process launched (July 2020)
  - New engagement process to broaden the dialogue and feed ideas into advisory SORP Committee
  - SORP Committee deliberates and advises on changes to the SORP
  - New SORP drafted and put out to consultation
  - Post consultation review – changes made and FRC approval sought


Sets the agenda for discussion and debate within Committee
SORP-making body
SORP Committee
Considers how needs and wants from the engagement strands reconcile with current practice and UK GAAP and advises SORP-making body
Preparers from smaller charities & independent examiners
Professional, audit & technical – strand split into two panels
Charity trustees
Academics, regulators & proxies for public interest & beneficiaries
Larger charities
Major funders and government & public bodies

Timeline to the next SORP:

- Timeline is tentative and contingent on FRC plans for GAAP with effect reporting years beginning on or after 1 January 2024

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Timeline to the next SORP (1):

Process stage- approximate time completed by earliest timing (latest timing):

- Exploration 3 to 6 months October 2020 (January 2021)
- Reflection (input to FRC Spring 2021 review) 3 to 6 months April 2021 (July 2021)
- Problem solving 3 to 6 months July 2021 (January 2022)
- Drafting (Based on exposure draft FRS 102 with final FRS 102 published early in 2023) 6 to 12 months January 2022 (January 2023)
- FRC review and public consultation 6 months July 2022 (July 2023)

Timeline to the next SORP (2):

- Final edit and FRC approval (Subject to FRS 102 published in final form and faithfully reflected in the SORP text) 3 to 6 months October 2022 (January 2024)
- Effective date (allowing 3 month lead in) - Ideally publish no later than October 2023
- Reporting for years beginning 1 January 2024

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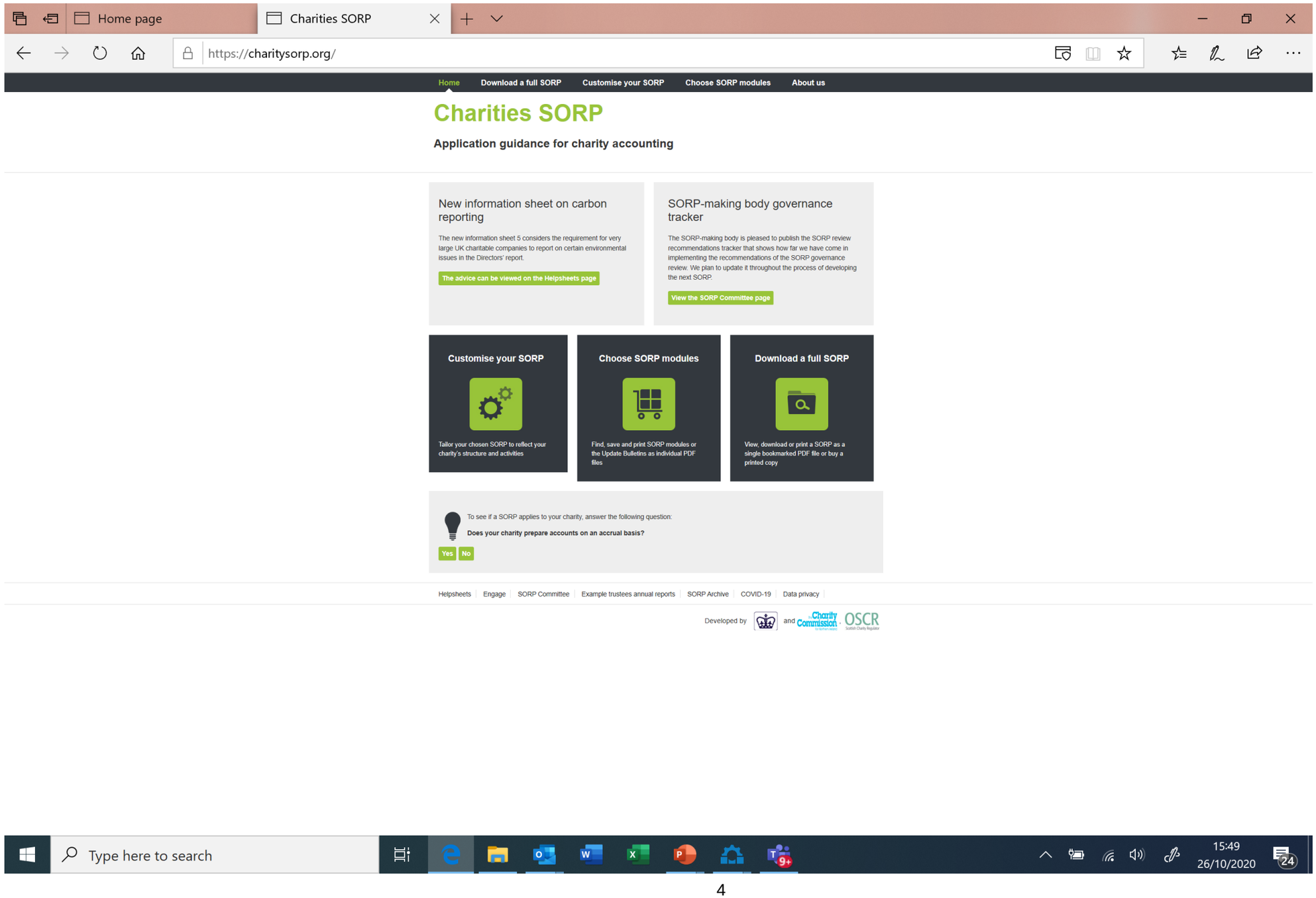
Resources- a dedicated SORP site: www.charitysorp.org



Resources to assist practitioners:

- Second edition to download: https://www.charitysorp.org/
- Revised model examples: https://www.charitysorp.org/about-the-sorp/example-trustees-annual-reports/
- Information Sheets: https://www.charitysorp.org/about-the-sorp/helpsheets/
- Archive: https://www.charitysorp.org/sorp-archive/

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COVID-19 related advice:

- Dedicated resource page: https://www.charitysorp.org/about-the-sorp/covid-19/
- SORP-making body advice on the impact of Covid-19:
  - How it is affecting the trustees' annual report (up to 10 aspects to consider)
  - True and fair
  - Post balance sheet events
  - Going concern and alternate basis of preparation
  - Dialogue with auditors
- Revised examples to come
- Signposting accounting solutions including ICAEW advice