



ICAEW Webinar – 4 November 2025

Trustees' Annual Report: Preparing for the Charities SORP 2026 with MHA

Now, for tomorrow

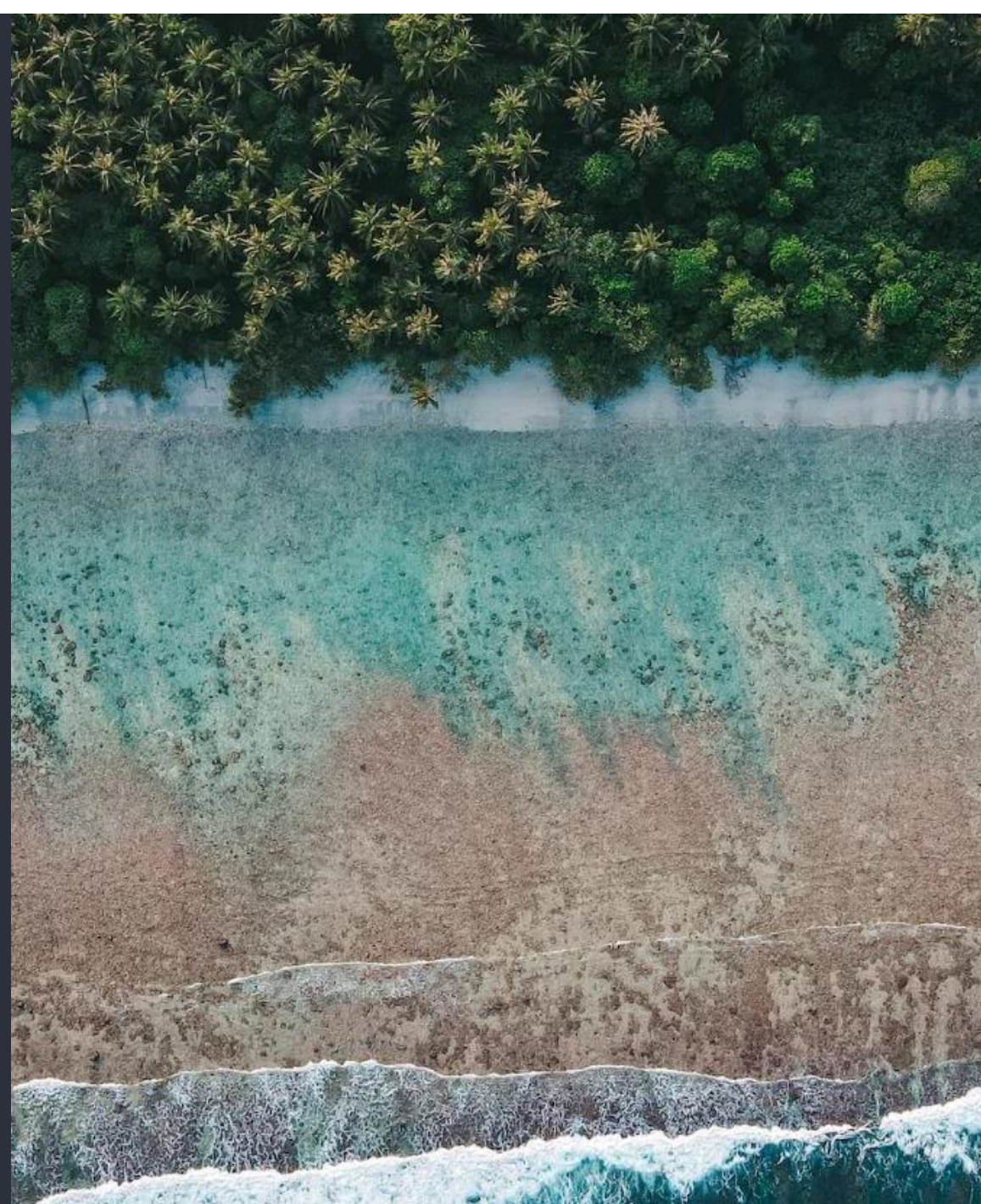
Introductions

Sudhir Singh

Head of Not for Profit & Audit Partner

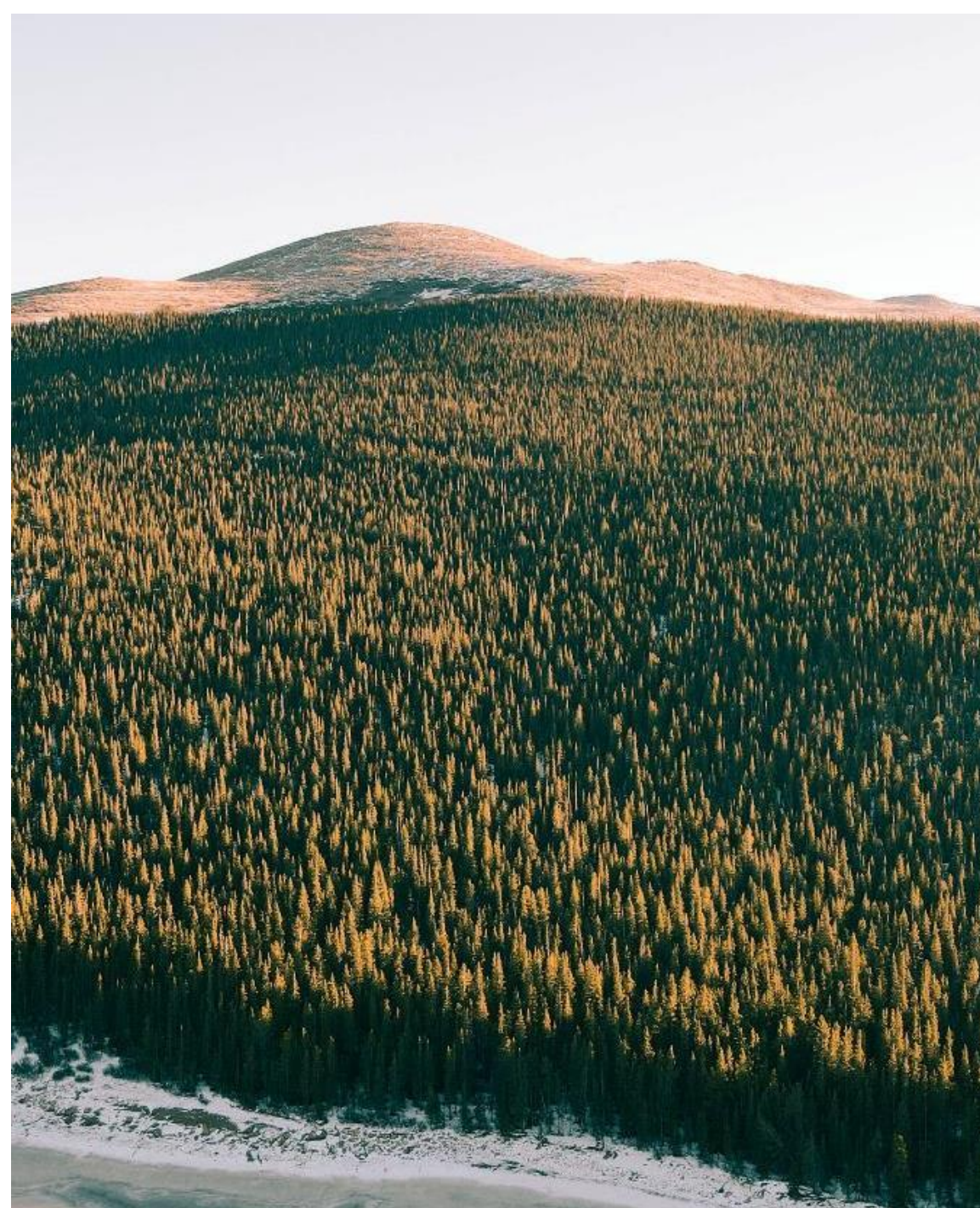
Stuart McKay

Not for Profit Audit Partner



Topics to cover

- ❑ History of SORP development and Current state
- ❑ Implementation- dates, early adoption
- ❑ Why focus on the Trustees' Annual Report?
- ❑ The DCMS charity thresholds consultation
- ❑ What else to consider beyond the SORP
- ❑ Core concept - Tiering
- ❑ Main sections - and significant changes
- ❑ Focus on some key areas of the TAR
- ❑ Good practice for TARs
- ❑ Q&A



<https://www.charitycorp.org/>



CHARITIES SORP 2026 (October 2025)

Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland

(FRS 102)

(effective 1 January 2026)



CHARITY COMMISSION
FOR ENGLAND AND WALES

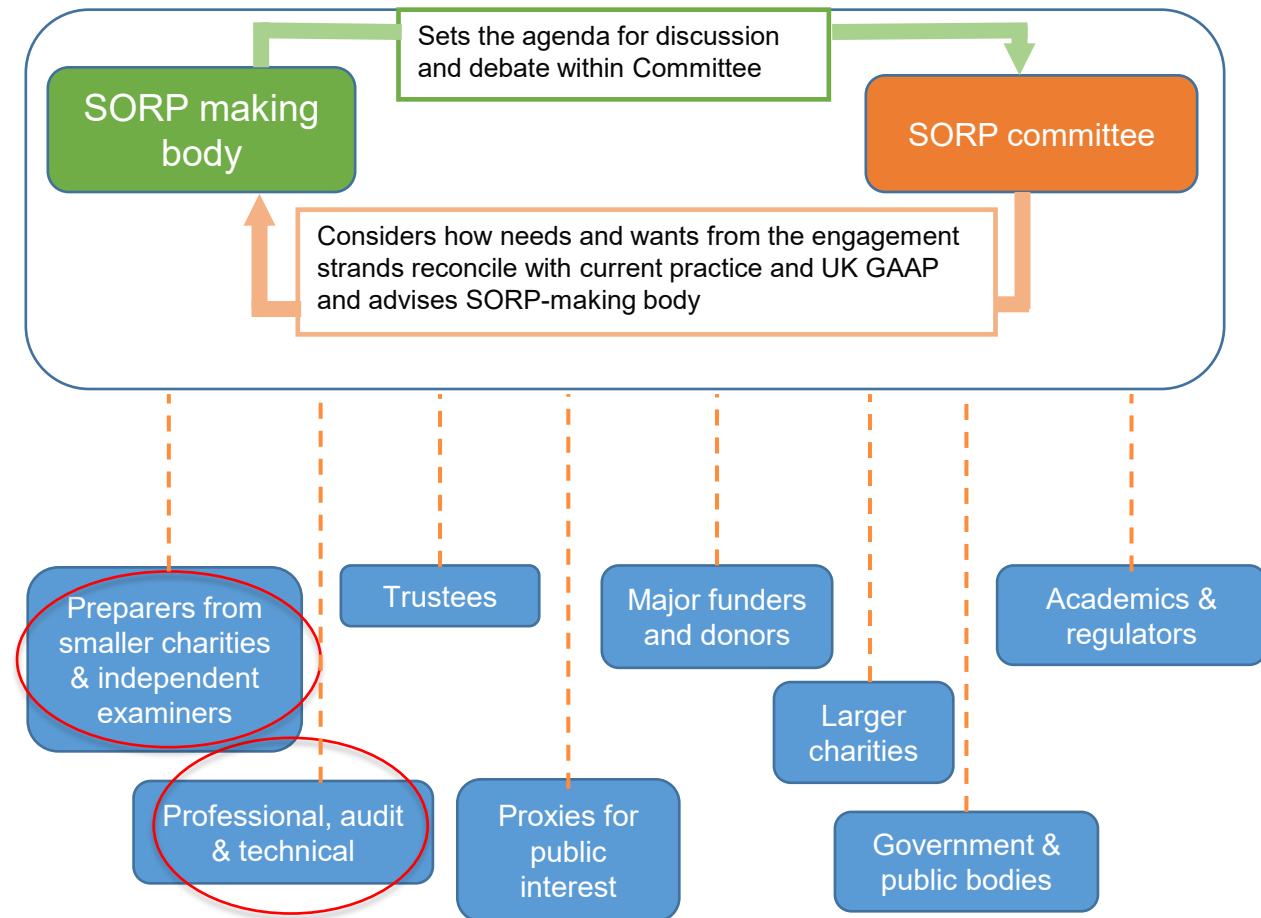




The New SORP Engagement Process

Over 70 volunteer engagement partners

15 Areas identified and discussed



The Original Timeline

Exploration, Reflection and Problem-Solving stages concluded in January 2022

Why the delay?

- New process
- FRS102 periodic review overran
- Expanded scope into ESG
- Coordination across 4 jurisdictions

The long and winding road



	Stage	Approximate time	Completed by earliest timing (latest timing)
Exploration	Exploration	3 to 6 months	June 2020 (September 2020)
Reflection	Reflection	3 to 6 months	September 2020 (March 2021)
Problem solving	Problem solving	3 to 6 months	December 2020 (September 2021)
Drafting	Drafting*	6 to 12 months	June 2021 (March 2022)
	FRC review and public consultation*	6 months	December 2021 (March 2023)
Consultation	Final edit and FRC approval*	3 to 6 months	March 2022 (September 2023)
Publication	Effective date* (allowing 3 month lead in)	-	Reporting for years beginning 1 August 2022 (1 December 2023)

The Final Timeline

Implementation



FRC review and public consultation*	6 months	28 March 2025 closed 20 June 2025
Final edit and FRC approval*	3 to 6 months	31 October 2025
Effective date*		Reporting for years beginning 1 January 2026* (E.g. 31 Dec 26 or 31 March 27 YE's)

*Early Adoption is permitted

Comparative information

- Comparative information **must be restated** as far as practicable on a like-for-like basis.
- **However** – for **lease** accounting and **revenue** recognition changes Comparatives **do not have to be restated** (revenue is optional) you apply a ***modified retrospective approach***

Some reminders...



The Charities SORP 2026 is not one-stop guidance



Must consider other relevant guidance – FRS 102, statutes and regulations in each Nation e.g. Charities Acts 2011, 2016, 2022, Accounts Regulations 2008 etc



Also consider legal form – e.g. Company Law



The SORP is modular

Why are we focussing on the Trustees' Annual Report?



Significant changes made due to revised FRS 102 September 2024 – e.g. Leasing and Revenue recognition – Not applicable to all



Several of the TAR changes will need you to have systems and processes in place at the start of the first adoption period

..... That could be as early as January 2026

Main Sections & Significant Changes

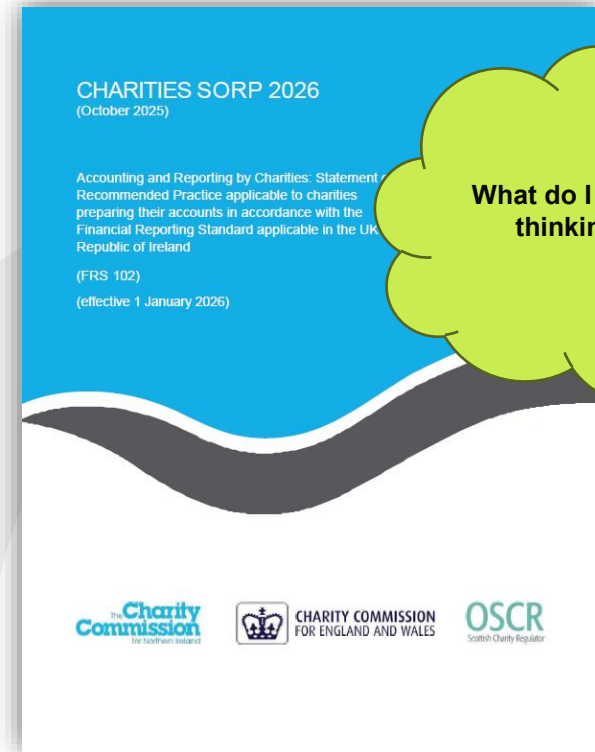
OUR FOCUS TODAY

Module 1 – Trustees Annual Report

- Financial review
- Impact Reporting
- Sustainability Reporting
- Volunteers
- Reserves
- Going concern
- Legacies

Other Significant Changes to note if applicable to you:

- Module 5 - **Revenue** recognition – 5 step model (only affects exchange transactions)
- Module 7 – Recognition of **expenses**
- Module 10 - **Leasing** – no distinction between operating and finance leases (flowchart and 2 information sheets)
- Module 14 – Statement of **cashflows** (Tier 1 & 2 exempt)
- Module 18 – **Heritage Assets**
- Module 21 – Accounting for **social investments**



What do I need to start thinking about?

The Tiering System

Company charities – must prepare accruals accounts regardless of size.



Tier 1	All charities applying accruals accounts and with a gross income of not more than £500,000 (€500,000).
Tier 2	All charities with a gross income falling above the tier 1 threshold and with a gross income of not more than £15 million (€15 million*).
Tier 3	All charities with a gross income falling above the tier 2 threshold. (Above £15m)

Non-company charities – can opt to produce receipts and payments accounts as long as gross income does not exceed £500,000. (Affects over 5,100 charities)* (per the DCMS announcement)

*The tier 2 threshold of £15,000,000 currently aligns with the turnover criteria for defining a small company as defined in company law.

	MICRO		SMALL		MEDIUM	
	Current	New	Current	New	Current	New
Turnover not more than:	£632k	£1m	£10.2m	£15m	£36m	£54m
Balance sheet total* not more than:	£316k	£500k	£5.1m	£7.5m	£18m	£27m
Monthly average number of employees, not more than:	10	10	50	50	250	250

E&W Charity Thresholds consultation results



Increasing gap compared with company audits (NB Scotland,, NI and Ireland £500k/ €500k currently)

No.	Title	Tier 1 could be R&P accounts?	Current Threshold	Post-consultation Outcome
6	Independent Examination requirements		£25,000	Raise to £40,000
7	Qualification requirements for Independent Examiners		£250,000	Raise to £500,000
8	Account and statement option for lower-income charities		£250,000	Raise to £500,000
9	Audit of accounts of larger charities - income		£1,000,000	Raise to £1,500,000
10	Audit of accounts of larger charities - assets		£3,260,000	Raise to £5,000,000
11	Aggregate income for group accounts		£1,000,000	Raise to £1,500,000
12	Audit requirement for group accounts		£1,000,000	Raise to £1,500,000

NB Changes not before 1 October 2026 – BUT will the SORP need updating soon – more valuable deregulation coming?

££ “Gross Income” ££

- **Gross income**’ is defined in s. 353(1) of the Charities Act 2011 as ‘gross recorded income from all sources including special trusts’.

On the accruals basis gross income should be calculated as:

- the total **incoming resources** as shown on the **Statement of Financial Activities** (prepared in accordance with the SORP) for all funds but:
- **excludes** any gains on **revaluation** of fixed assets or gains on investments;
- **excludes** the **receipt** of any **endowment**; and
- only for accruals accounts purposes would **include** any amount **transferred** from **endowment** funds to income funds during the year so as to be available for expenditure.

The Tiering System

There are 29 modules of the SORP - Tiering (where different requirements apply) only affect the following modules:

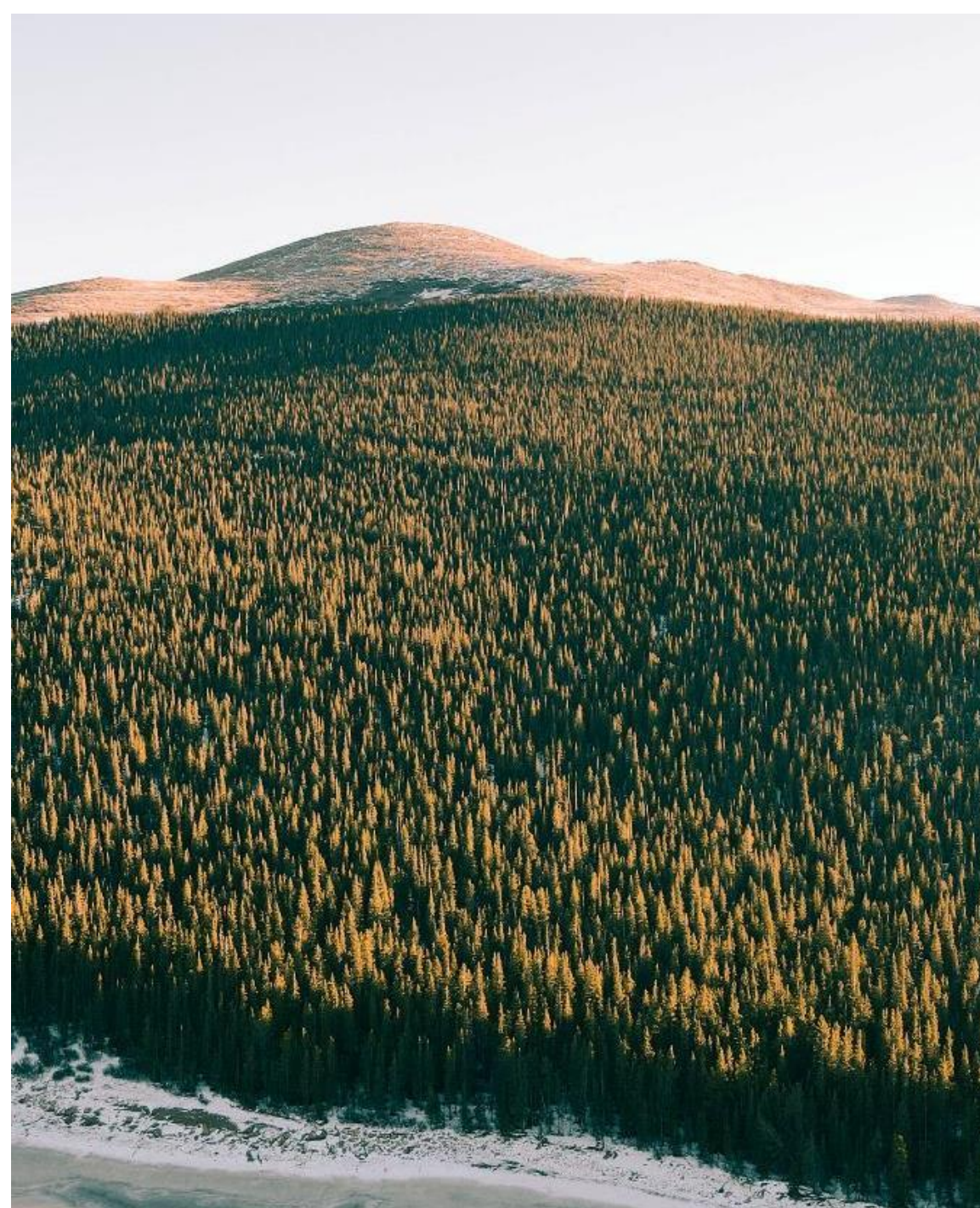
1. **Module 1** – Trustees' Annual Report
2. **Module 4** – Statement of Financial Activities
3. **Module 8** – Allocating costs by activity in the statement of financial activities
4. **Module 9** – Disclosure of trustee and staff remuneration, related party and other transactions
5. **Module 14** – Statement of cash flows

For all other modules in the SORP, tiering does not apply, and those modules will be applied in full to all charities, where applicable.

Trustees Annual Report

OUR FOCUS TODAY

What do I need
to start thinking
about?



The Trustees' Annual Report (TAR)



Themes and considerations before writing....



- Module 1 - “largely rewritten” to help trustees **link the narrative to the numbers**, and to make the requirements clearer and more proportionate.
- 2026 explicitly reminds preparers that the trustees’ report provides context for the **financial statements** and **must be consistent** with them. (1.34)
- Additional information may be included within the report or may accompany the accounts if it is considered helpful for users, for example a Chair’s Report, an environmental report, or an impact assessment.

Two initial questions to ask:

1. **Who are the users of the report?**
2. **What are the information needs of users of the report?**

Funders, donors, financial supporters, service users, members, beneficiaries and other stakeholders.

Report should be fair, balanced and understandable.

What the 3 tiers look like in the Trustees Report

Structure change:

- **Old SORP 2015** – all sections listed together for small charities first then all sections again with additional requirements for larger charities
- **New SORP 2026** – each section taken individually and built-on separately in tiers (see below)

Table 1: Relevant paragraphs for each tier

Section	Tier 1	Tier 2	Tier 3
Objectives and activities	1.19 to 1.22	1.19 to 1.26	1.19 to 1.26
Achievements and performance	1.27	1.27 to 1.32	1.27 to 1.33
Financial review	1.34 to 1.42	1.34 to 1.45	1.34 to 1.46
Plans for future periods	1.47	1.47 to 1.49	1.47 to 1.49
Structure, governance and management	1.50 to 1.51	1.50 to 1.54	1.50 to 1.54
Reference and administrative details	1.55 to 1.56	1.55 to 1.59	1.55 to 1.59
Sustainability	1.60	1.60	1.60 to 1.65

Heat Map of Changes:

The content of the trustees' annual report

1.18. The SORP requirements that charities must follow are set out under the following headings:

- objectives and activities
- achievements and performance
- financial review
- structure, governance and management
- reference and administrative details
- sustainability
- exemptions from disclosure
- funds held as holding trustee on behalf of others

Key:



Trivial Changes



Minor Changes



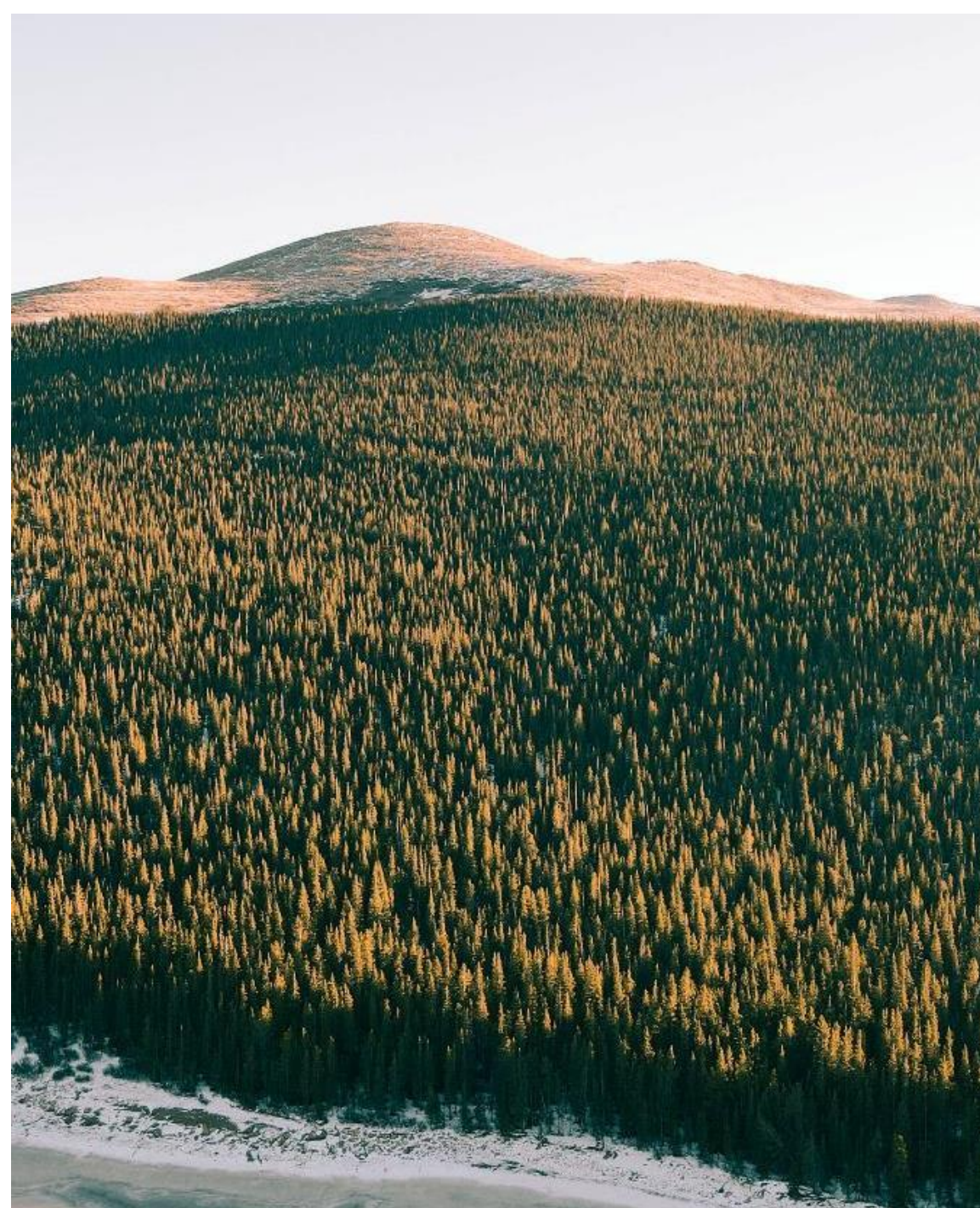
Significant Changes

1.19. The headings used in the report may be amended to fit the preferences of the charity provided the information required by this module is clearly presented in the report.

Trustees Annual Report

Section 1:

Objectives & Activities



Volunteers

General principles

Distinguish general volunteers from “non-general” (trades and professions) volunteers

General volunteers

Contribution **MUST NOT** be included as income

Non-general volunteers (from trades and professions)

Income recognition – reliable measurement – “often prevents”

Module 6 – Donated goods, facilities and services, including volunteers – states where capable of measurement charities will recognise income contribution → Some charities will be able to continuing doing this

Trustees’ Report disclosures are important for understanding

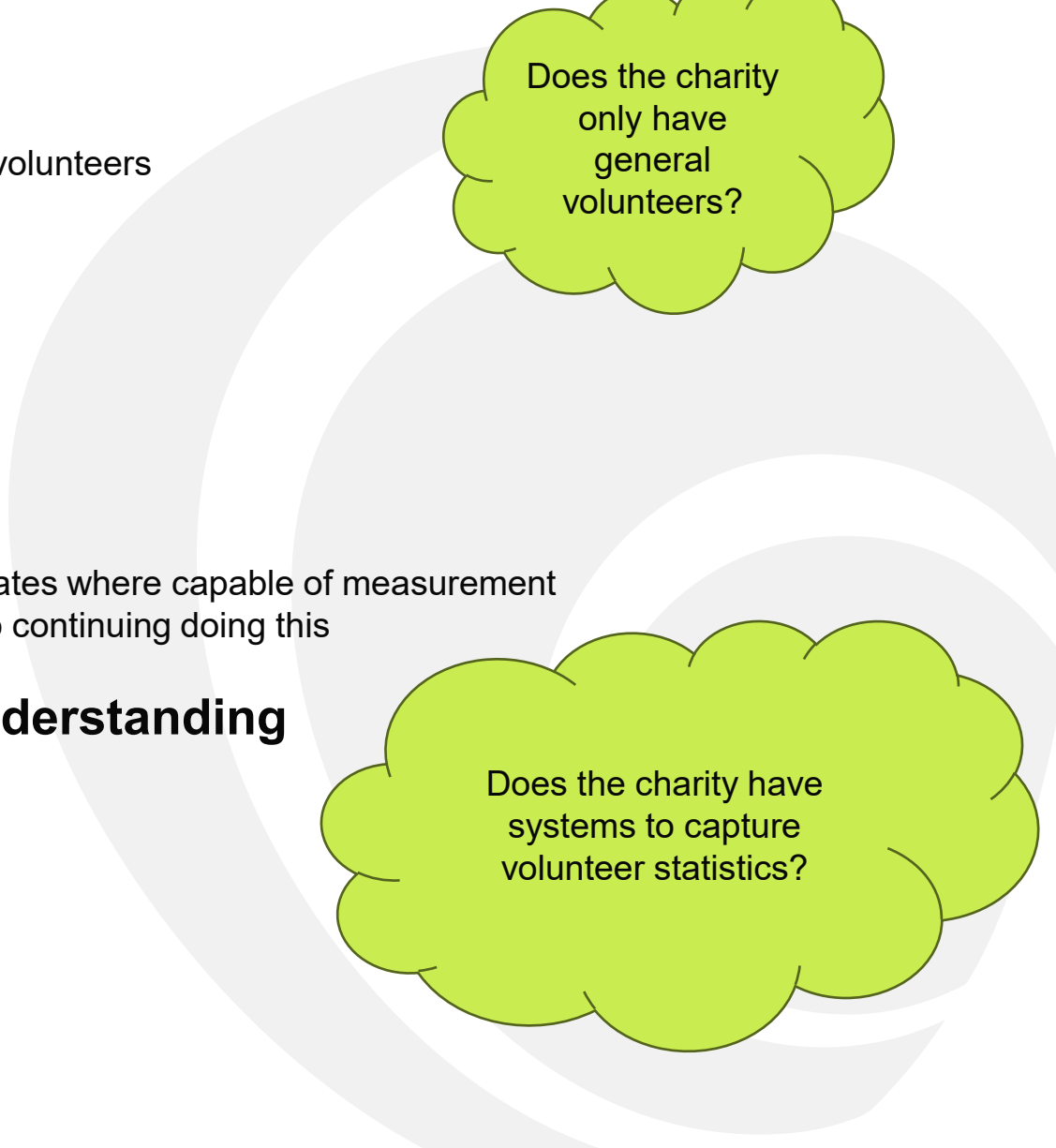
Tier 1 requirements

MUST - Scale and nature of activities undertaken

Tier 2 and 3 additional disclosures

SHOULD – Volunteer numbers and activities supported

MAY – Volunteer hours or staff equivalents



Does the charity only have general volunteers?

Does the charity have systems to capture volunteer statistics?

Objectives & activities



Does our expenditure by charitable activities link to our aims and objectives?

Tier 1
The Report on objectives and activities **Should** be consistent with the analysis of expenditure within the notes to the accounts

Tier 2 & 3:

“.....**must** provide the user with a more detailed understanding of their short term and longer term aims and objectives and how those in the short term relate to those in the longer term.”

- **Prompt questions & impact:** 2026 adds **prompt questions** to help charities report the difference their work makes, including **outputs/outcomes** and how they contributed to aims.
- **Concrete output/outcome examples:** 2026 illustrates the kind of detail expected (e.g., numerical targets, outputs achieved, and outcomes/impacts linked to objectives) help user understand ‘scale and resources used in delivery.
- **Prompt questions** given to aid in meeting the requirements:
 - What aims and objectives have trustees set for the charity this reporting period and how has the charity performed against the stated aims and objectives?
 - What significant activities does the charity undertake (including its main programmes, projects or services provided) and how do these contribute to the achievement of the charity’s stated aims and objectives?
 - What are the changes or differences the charity seeks to make through its activities?
 - What are the charity’s strategies for achieving its stated aims and objectives?
 - What criteria or measures does the charity use to assess success in the reporting period?

What does impact mean to us?

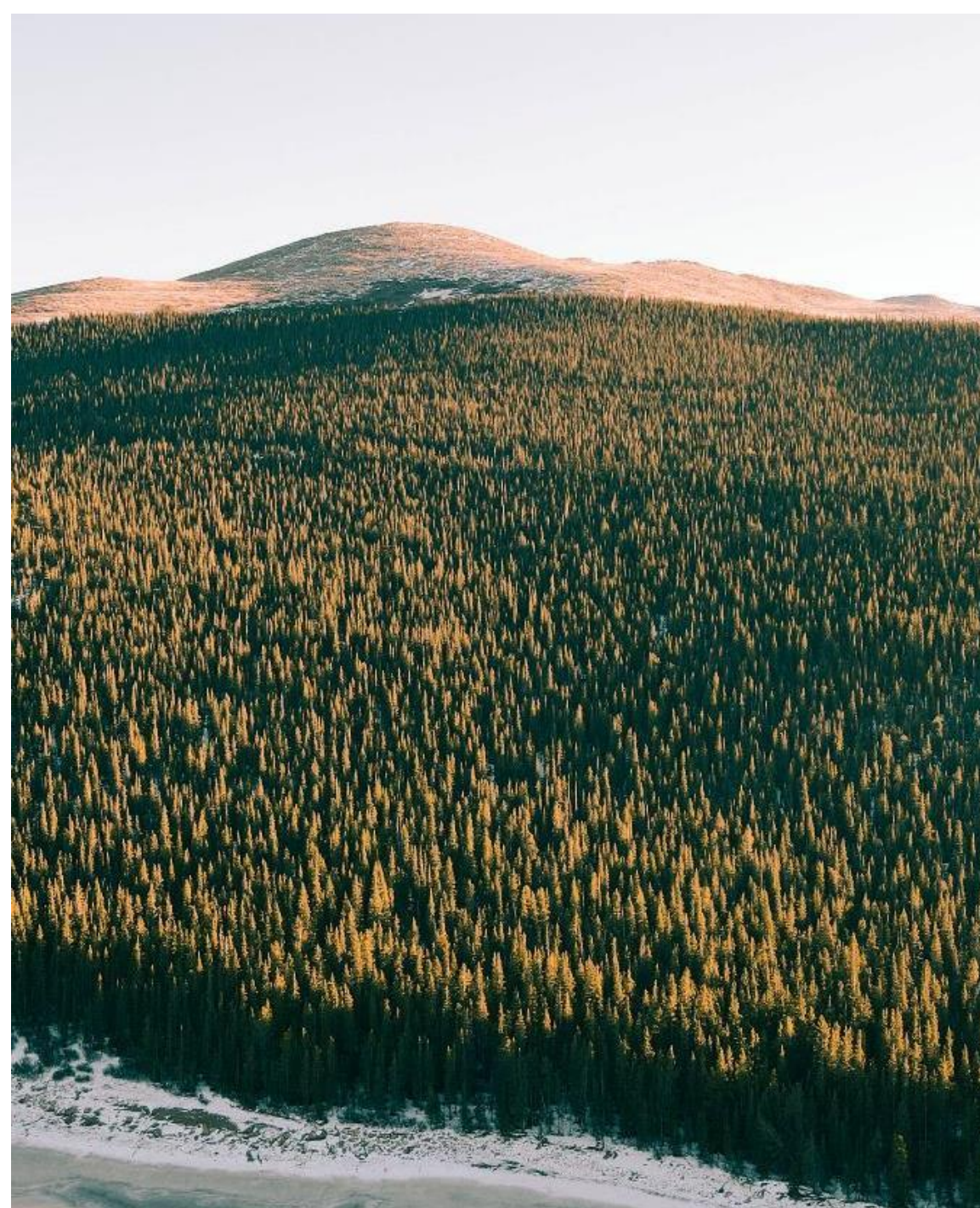
Are aims and objectives all aligned to the financial year?

What difference does the charity make?

Trustees Annual Report

Section 2:

Achievements & Performance



Achievements & Performance

Very few changes



TIER 1:

Prompt questions used (similar to SORP 2015 but segregated to **clarify/separate** out impact):

1. In what way has the charity's work made a **difference to** the circumstances of its **beneficiaries**?
2. Has the charity's work provided any **wider benefits** to **society** as a whole?

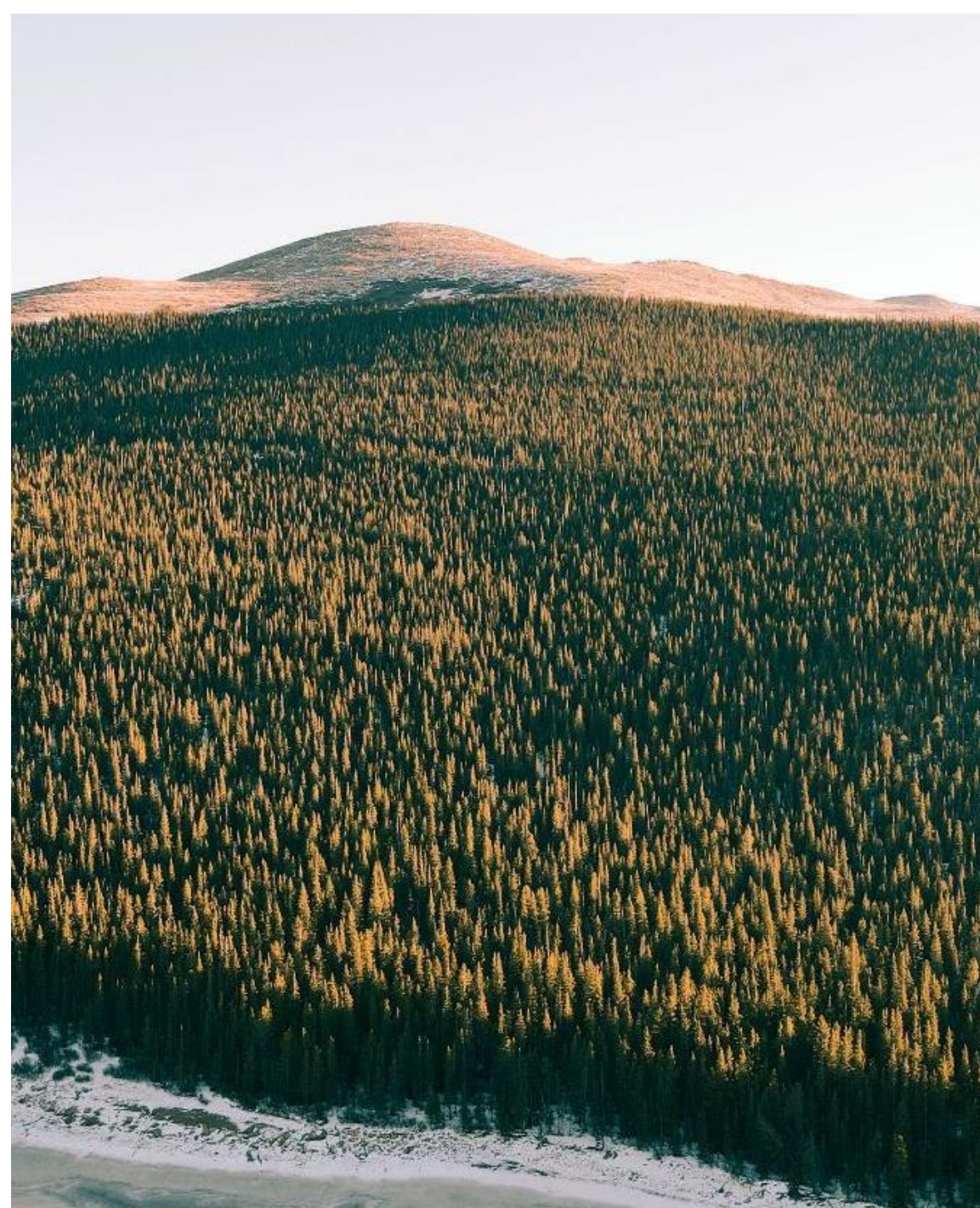
TIER 2

- Inclusion within a **MUST** that review of activities and achievements includes those performed by charity and **any subsidiaries**.

Trustees Annual Report

Section 3:

Financial Review



Financial Review

ALL TIERS

- All financial details used in the report **must** be consistent with the figures in the accounts
- Reserves are now **defined** in the Glossary of terms
- The figure for reserves in the report **must** be consistent with the accounts and, where this is not evident, the charity **must** provide a reconciliation, either in the funds note or as a separate note.

Reserves Defined (again)



“Reserves” unless otherwise indicated will mean “free reserves”.	
Unrestricted funds at Y/E in Balance Sheet	£'XXX
Take away unrestricted funds that may not be readily available for spending such as:	
Fixed assets , such as land and buildings, or leased assets, used to carry out the charity's activities	(£'XXX)
Investments for the purpose of achieving the charity's purposes	(£'XXX)
Designated funds if committed for spending	(£'XXX)
Commitments that have not been provided for as a liability in the accounts. This definition of reserves normally excludes: <ul style="list-style-type: none"> • permanent endowment funds • expendable endowment funds; and • restricted funds 	£'XXX
However, you may need to consider:	
• where restricted funds are held, the nature of the restriction, as such funds may reduce the need for reserves in particular areas of the charity's work	(£'XXX)
• whether expendable endowment is readily available for spending	£'XXX
• the impact on reserves of having a pension provision , a long-term mortgage , lease liabilities or a revaluation reserve in the charity's accounts	£'XXX
TOTAL RESERVES	£'XXX

Financial Review (Reserves)

New requirements for each Tier

The figure for **reserves** in the trustees' annual **report must** be **consistent** with the **accounts** and, where this is not evident, the charity **must**:

- provide a **reconciliation**, either in the **funds note or as a separate note (see previous slide)**
- **compare** the amount of reserves with the charity's reserves policy
- **explain**, where relevant, what steps the charity is taking to bring the amount of reserves it holds into line with the level of reserves
- **Must identify** and **explain** any material amounts that have been **designated** or otherwise **committed** as at the end of the reporting period
- **Must** indicate the likely **timing** of the **expenditure** of any material amounts **designated** or otherwise committed at the end of the reporting period

Financial Review

Tier 2 & 3 Requirements

Tier 3 only

The report **must** explain any factors that are likely to affect the financial performance or position going forward.

Previously in
2015 SORP for
all larger
charities



- **Principal Risks & Uncertainties**

Must explain a description of the principal risks, including any risks arising from **environmental** issues, **cyber** and uncertainties facing the charity and its subsidiary undertakings, as identified by the charity trustees, together with a summary of their plans and strategies for managing those risks

Environmental
& Cyber are
new additions

- **Investment policy**

Where the charity holds material financial investments, the report **must** explain the **policies** adopted by the charity trustees for the selection, retention and realisation of investments including (**previously a should**) the extent (if any) to which it takes social, environmental or ethical considerations into account.

Implications of
CC14 & consider
explanation /
justification

- **Legacy Income (should)**

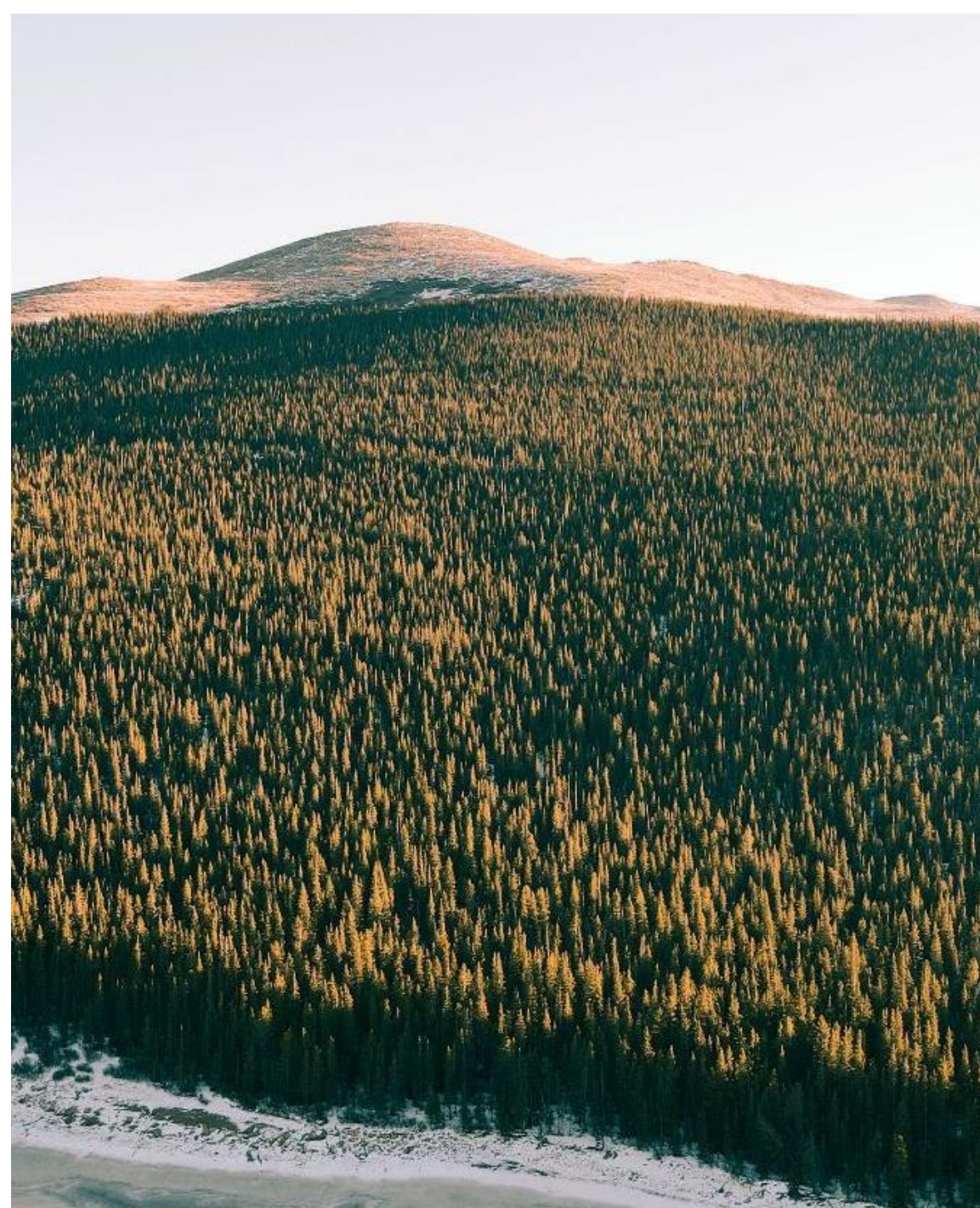
The impact of any material legacy income recognised in the accounts prior to the resources being received. This explanation is to help users of the accounts to understand the effect timing differences may have on resources available to the charity.

Consider giving
details of
expected timings
or uncertainties

Trustees Annual Report

Section 4:

Plans for the Future



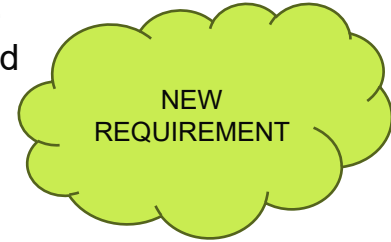
Plans for the future

Previously only for larger charities (+£500k gross income)

Reference & admin

TIER 1:

The report **must** provide a summary of the charity's **plans for the future**. It may be helpful for the charity to consider its reserves and going concern assessment when considering its future plans.



TIER 2 & 3 (NO CHANGE FROM 2015 SORP)

The report **must** provide a summary of the charity's plans for the future, including its aims and objectives and details of any activities planned to achieve them.

The report **should** explain the trustees' perspective of the future direction of the charity. It should explain, where relevant, how experience gained or lessons learned from past or current activities have influenced future plans and decisions about allocating resources to their best effect.

TIER 2 & 3:

The report **must** provide the name of auditors, if applicable.



Exemptions from disclosure

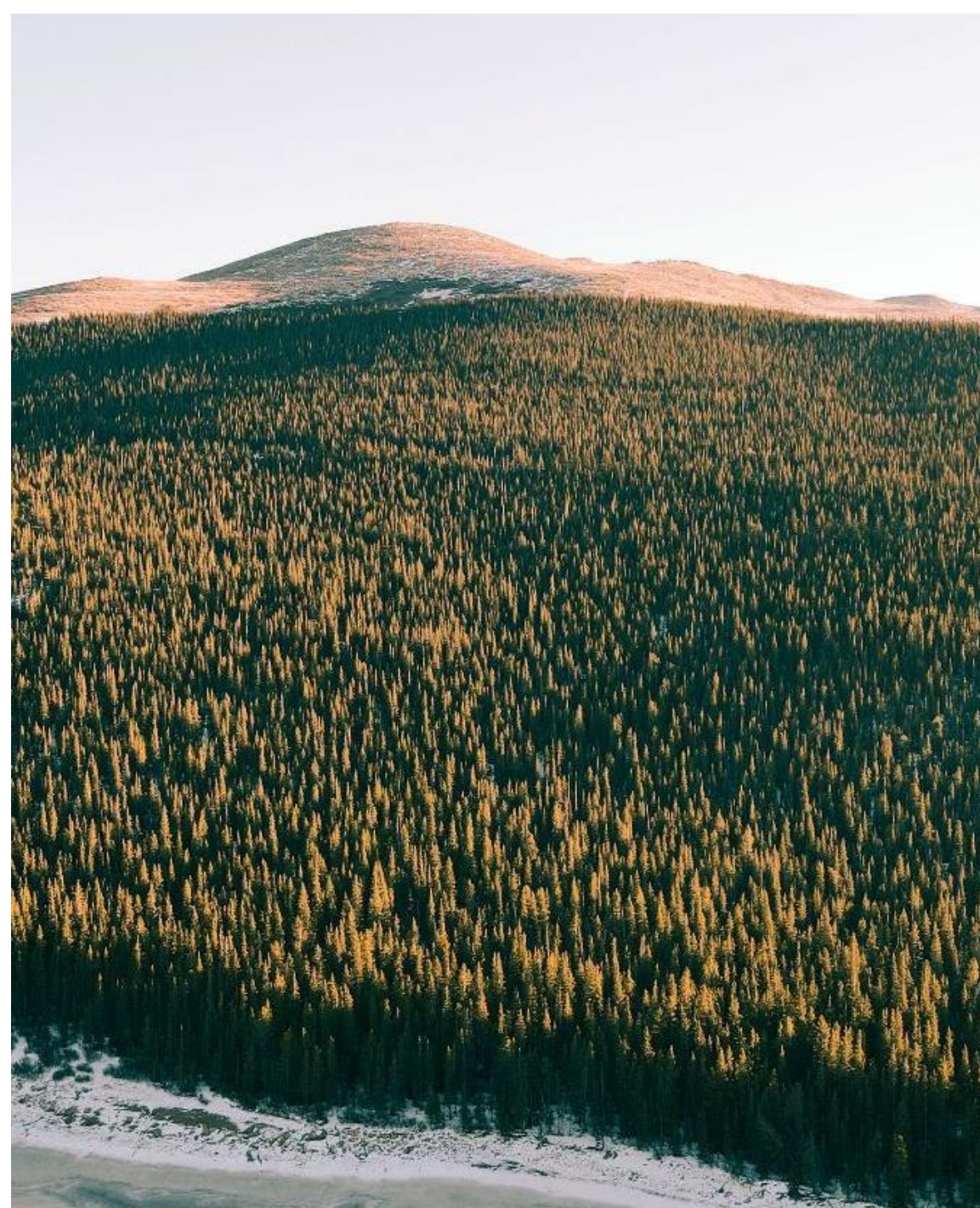
On occasions, the disclosure of the names of trustees, or of the charity's principal address, or the disclosure of the name(s) of any chief executive officer or other senior staff member(s) could lead to that person (or others) being placed in personal danger (for example, in the case of a women's refuge).

SORP 2015 said: Where a report omits the name of a trustee, chief executive officer or senior staff member or the charity's principal address, **it should give the reason for the omission.**

SORP 2026: Removes this requirement. However, does note that Regulator (Charity Commission) approval is normally required (this can differ depending on jurisdiction)

Trustees Annual Report Section 7:

Sustainability



New sustainability reporting

FOR ALL TIERS (very light touch)

- Trustees **may** choose to explain in the report how the charity is responding to and managing environmental, governance and social matters. Trustees are **encouraged** to consider the needs of stakeholders when reporting in this area.

For TIER 3 only

- The report **must** provide a **summary** of how the charity is **responding** to and managing environmental, governance and **social matters**.
- For example, the report **could** provide details of the **key performance indicators** used to assess **progress against targets** used to manage climate-related risks and realise climate-related opportunities and a description of the calculations on which those key performance indicators are based.
- Governance matters **may** include details of privacy, cyber security, data security and business ethics, whilst social matters **may** include information on **employee engagement** and **wellbeing**, board **diversity** and **inclusion** and how a charity **supports** its local **community**.
- Where the charity is already reporting on these matters but the detail is not included in the trustees' annual report, details on where to find the information **should** be included, for example, a **website link**.

SECR and ESOS reporting goes on top of this requirement

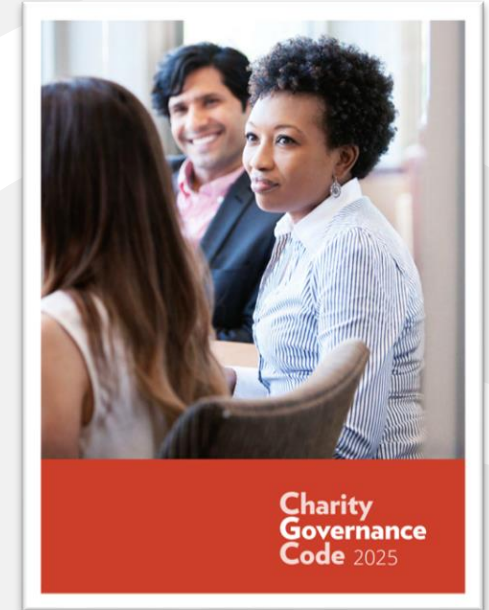
New **ESG reporting** – a **MUST** Tier 3 requirement

Governance

- Privacy, cyber security, data security, business ethics
- Governance codes

Social Issues

- Employee engagement and wellbeing, board diversity and inclusion, charity support for local community



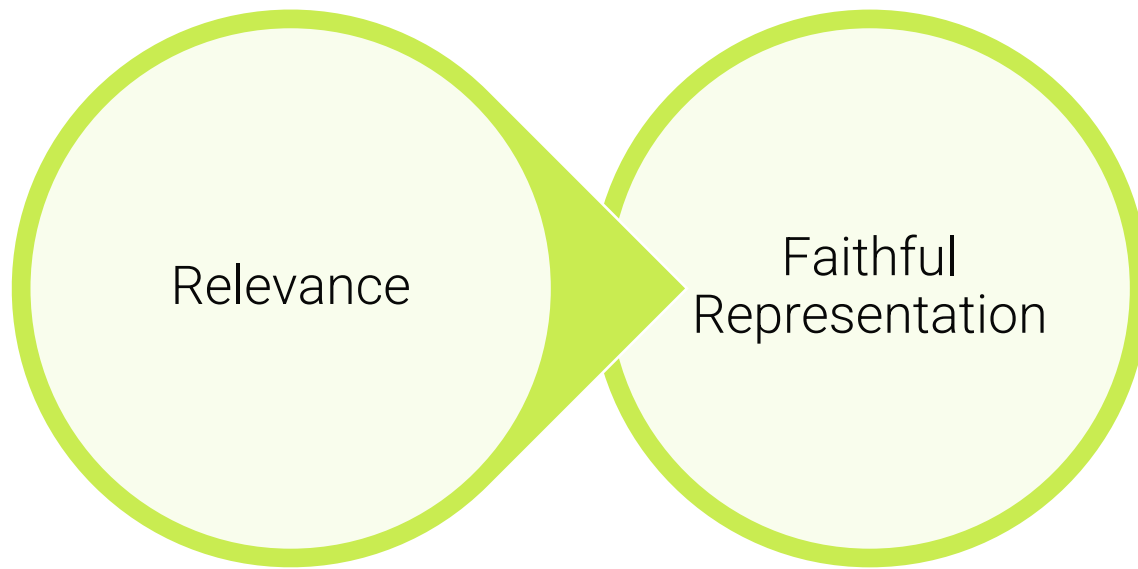
Reporting of these issues is likely to develop in the future but has significant management and governance implications

Good practice for Trustees' Annual Reports

Charity SORP para 1.8

*Good reporting explains what the charity is set up to do, how it is going about it, and what is achieved as a result of its work. The report should **help users** to interpret the accounts by **linking** the activities and achievements reported with the sources of income used to finance them and the expenditure incurred on those activities. A charity's accounts focus on its financial position and financial performance using a mixture of numerical and qualitative information. The report and accounts taken together **should provide a picture of what the charity has done (its outputs); what it has achieved (its outcomes); and what difference it has made (its impact)**. Information on how the charity achieves its mission is often the most important information need of stakeholder groups. Charities are encouraged to reflect carefully on how such a narrative is crafted in the report to meet the **needs of their stakeholders**.*

Good practice for Trustees' Annual Reports



Comparability

- Narrative Vs figures
- Over time – trend analysis

Timeliness

- When to draft – why wait?
- Aids stakeholders' decisions

Understandability

- Clear and concise
- Make sense of complex financial reporting
- Appropriate presentation - graphics

Verifiability

- Non-financial information and data are free from error
- Statements are supported by key board policies

INSIGHT

Good practice in annual reporting



National Audit Office

Published February 2025



Good practice guide

February 2025

Our interactive guide sets out our good-practice principles for annual reporting and provides illustrative examples taken from organisations in the public sector that we judge to be leading the way.

**We are the UK's independent
public spending watchdog**

Communications Team
DP Ref 015114



Published November 2024

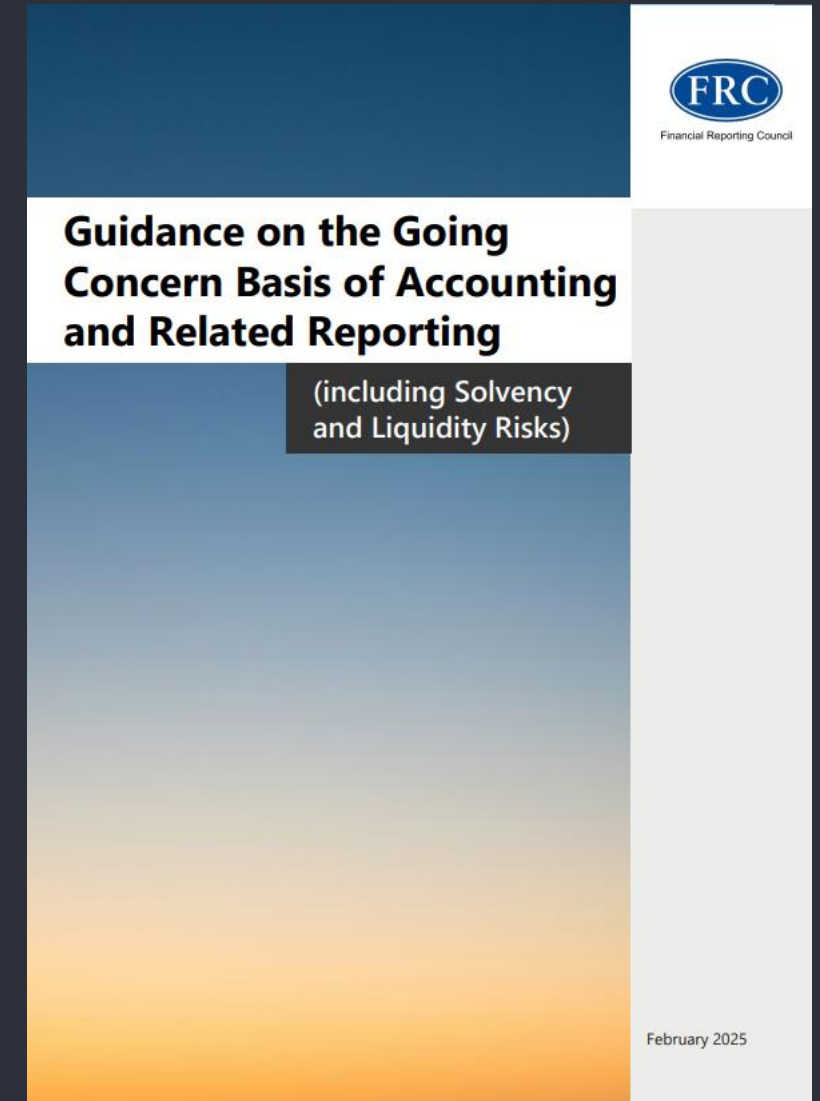
Financial difficulties and going concern

Revised guidance from Financial Reporting Council

February 2025

Updated from 2016

Useful non-mandatory guidance




Contact us

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<https://www.mha.co.uk/spotlight-on/charity-trustee-hub>



Further resources on the Charities SORP

MHA Webinar – From Draft to Practice: Preparing for the 2026 Charities SORP

<https://www.mha.co.uk/events/preparing-charities-sorp-2026>



ICAEW – Charities SORP website – Insights, articles, webinars, recordings

<https://www.icaew.com/technical/charity-community/resources/accounting-and-reporting/charities-sorp-2026>

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Now, for tomorrow