CHARITIES SORP ENGAGEMENT PROCESS

THE CHARITIES SORP

An explanation of what the SORP is there to do regarding both narrative reporting (words) and the financial statements (numbers)

INTRODUCTION

The purpose of this presentation is to give an explanation of what the SORP is there to do regarding both narrative reporting (words) and the financial statements (numbers). In particular looking at:-

- The objectives of the Charities SORP
- Trustees annual report and accounts

OBJECTIVES OF THE SORP

The recommendations of the SORP are intended to :

- improve the quality of financial reporting by charities;
- enhance the relevance, comparability and understandability of the information presented in charity accounts;
- provide clarification, explanation and interpretation of accounting standards and their application to charities and to sector specific transactions; and
- assist those who are responsible for the preparation of the trustees' annual report and accounts.

HOW THE SORP DOES THIS

- At a high level the SORP does this by:
    - Providing guidance for charities on how to apply FRS 102.
    - Including charity-specific requirements that are in addition to those of FRS 102.
      For example specify treatments required of charities where FRS 102 allows an accounting policy choice.

- The Charities SORP does not include all requirements of FRS102 and so does not remove the necessity of preparers and users of the SORP referring to FRS 102.

MUST, SHOULD AND MAY

The Charities SORP does not only include required items but also recommendations aimed at advancing standards of reporting as a matter of good practice as well as identifying alternative accounting practise which are allowed by the SORP.

These are differentiated by the terms:

- **Must**

- **Should**

- **May**

TRUSTEES ANNUAL REPORT AND ACCOUNTS

The objective of the trustees' annual report (the report) and accounts is to provide information about a charity's financial performance and financial position that will be useful to a wide range of stakeholders in assessing the trustees' stewardship and management of charitable funds, and to assist the user of the accounts to make economic decisions in relation to the charity.

TRUSTEES' ANNUAL REPORT

Who , What , Why ?

TRUSTEES' ANNUAL REPORT CONTENT

£500,000 / 500,000 euro or less = smaller charity

Above £500,000 / 500,000 euro = larger charity

Charity accounts

Accrual accounts prepared in accordance with SORP contain –
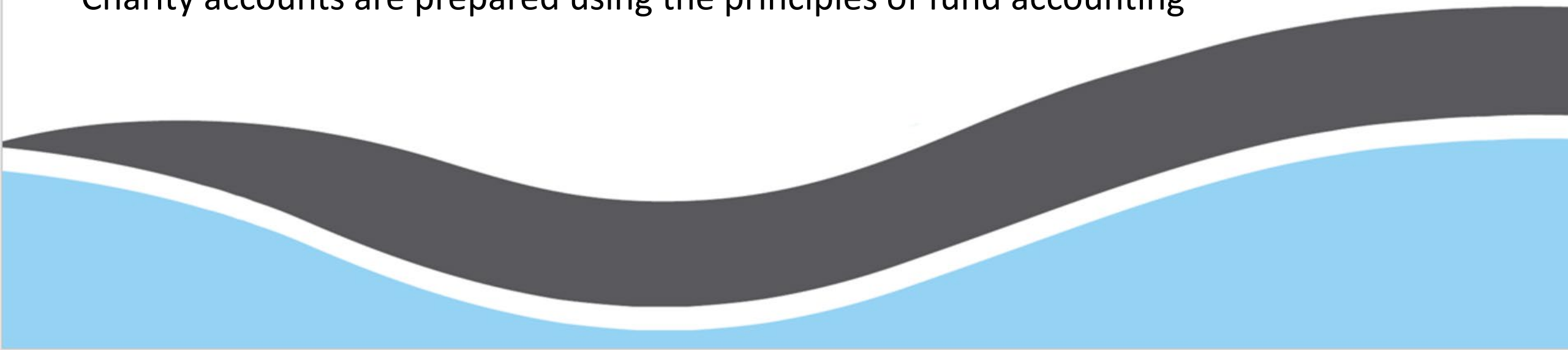
A balance sheet showing the charity's financial position at the end of year

A statement of financial activities (SoFA)

A statement of cash flows (larger charities)

Explanatory notes

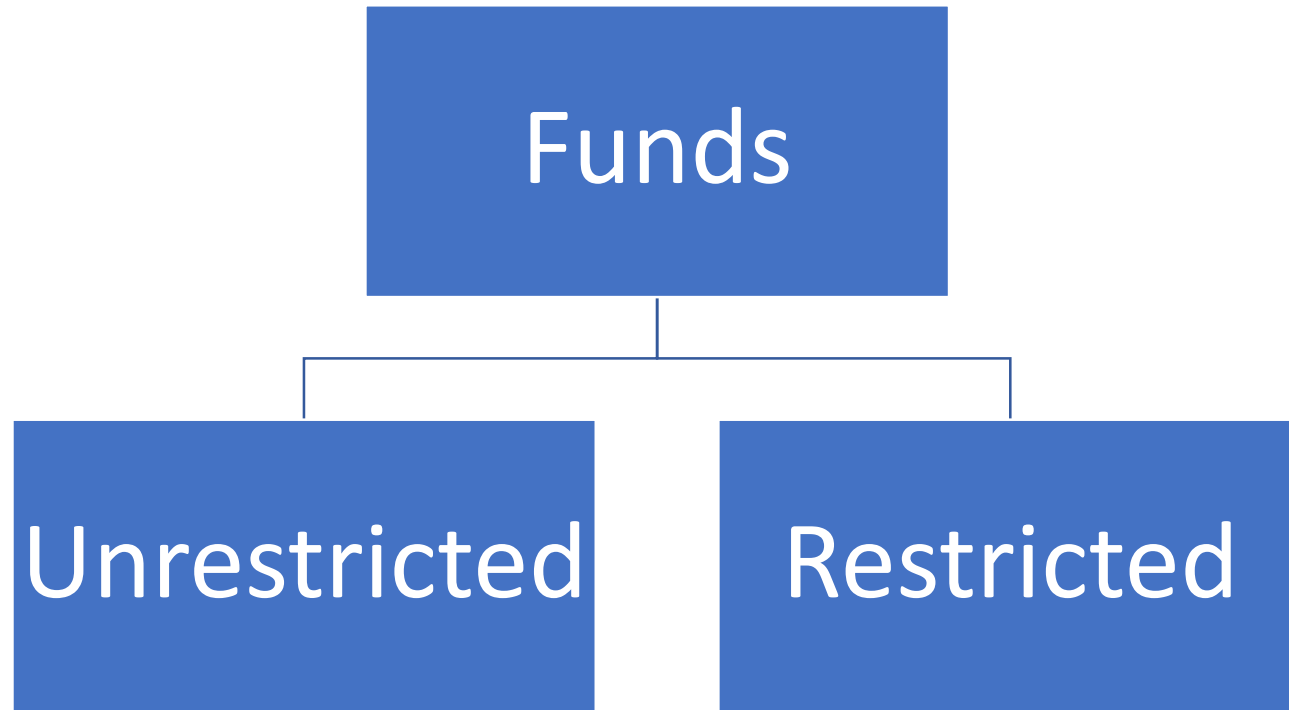Charity accounts are prepared using the principles of fund accounting

Charity accounts- policies

The building blocks ….

Accounting standards, polices, concepts and principles

Charity accounts – fund accounting

Charity accounts – Statement of financial activities SOFA

SoFA

Single accounting statement that includes all income, gains, expenditure and losses reported in the period.

Provides the user with an analysis of the income and endowment funds received and the expenditure by the charity on its activities.

Presents a reconciliation of movements in a charity's funds for the reporting period.

Charity accounts – Balance Sheet

The objective of the charity balance sheet is to show the resources available to the charity and whether these are available for all purposes of the charity or have been used for specific purposes because of legal restriction placed on their use

Charity accounts – Statement of cash flows

The objective of the statement of cash flow is to provide information about the ways in which a charity uses the cash generated by its activities and about changes in cash and cash equivalents held by a charity.

Larger charities (income > £500k/500 euros) preparing their accounts under FRS102 must provide a statement of cash flows expect where the disclosure is permitted by SORP.

Charity accounts – Notes to the accounts