



"OVERALL AUDIT SERVICE AWARD" - WINNER 2009
Annual Charity Finance survey

not for profit | SORP 2005

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The Charity Commission and the SORP Committee issued the revised Charities SORP on 4 March to address sector needs and changes, implement new accounting standards and address developments within the sector. The main changes relate to improving trustee annual reporting to focus more on reporting objectives, activities, results and plans, a restructuring of the SOFA to provide a better correlation between income and expenditure and addressing the difficulties on cost allocations. SORP 2005 is applicable to all accounting periods beginning on or after 1 April 2005, although early adoption is encouraged.

The Charity Commission have stated that the new SORP '...provides a framework that enables charities to better explain what they aim to do, how they go about it and what they achieve. It does so in a way that pulls together narrative and financial reporting into a coherent package focused on activities undertaken.'

The main changes are summarised below.

trustees' annual report

The purpose of the Trustees' report is to discharge the charity trustees' duty of public accountability and stewardship and although much of the detail is unchanged, the Commission have focused on the structure of the Trustees' report. The aim is to provide a common and structured approach that will explain the link between charities objectives, strategies, activities and the achievements that have flown from them.

The Trustees' Annual Report now contains the following specific headings and the changes in disclosure requirements and the sections to which they relate are set out below:

1) Reference and Administration Details of the Charity, its Trustees and Advisors

The name of the Chief Executive Officer to whom the day to day management of the charity is delegated is to be disclosed.

2) Structure, Governance and Management

The delegation of powers from trustees to staff in the day to day operation of the charity is to be disclosed. The report will now include an organisation structure of the charity and details of how decisions are made and by whom.



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Following the recommendation of the Strategy Unit report, there is now a requirement to disclose the methods adopted for the recruitment and appointment of new trustees together with the policies and procedures adopted for the induction and training of trustees. This follows the first regulatory study produced by the Charity Commission : RS1 - The recruitment appointment and induction of charity trustees.

3) Objectives and Activities

Following much debate in the sector about the contribution of volunteers and in particular the issue of placing a value on their contribution, SORP requires additional disclosure in the Trustees' Report where the charity makes significant use of volunteers in the course of undertaking its charitable or income generating activities. This additional disclosure should provide the readers with sufficient information to understand the role and contribution of volunteers; for example the types of activities volunteers undertake and the hours that they contribute may provide an indicative value of this contribution, although this need not be recognised within the SOFA.

4) Achievements and Performance

This section of the report should now provide a review of the performance against the objectives that have been set and this is likely to include both qualitative and quantitative information. There is also a concession for charities that are not subject to a statutory audit requirement that they may limit their disclosures within this section to providing a summary of the main achievements of the charity during the year.

5) Financial Review

The requirements under this section have followed the recommendations in the Strategy Unit report and now require details of social, environmental and ethical considerations which were taken into account by the trustees in setting the investment policy of the charity.

6) Plans for the Future

Following on from the requirement to report on the achievements which the charity has made in the year, SORP also requires charity Trustees to consider its objectives for the future together with the activities which are planned to meet those objectives in the forthcoming the year.

7) Funds Held as Custodian Trustee on Behalf of Others

Where the charity is, or its trustees are, acting as custodians details of the arrangements should be disclosed in the Trustees' report.

statement of financial activities (SOFA)

The aim of the Commission to ensure that charity reporting should focus more clearly on the reporting of achievements against organisational objectives has been achieved by creating a structure for the SOFA which requires a greater focus on the reporting of the costs of activities and the objectives, programmes and services that these costs support. In reporting these achievements within the Trustees' Annual Report, a link should be made to the figures contained within the SOFA.

To address the difficulty in establishing a relationship between incoming resources and resources expended and in understanding the categorisation of costs, the SORP requires, where possible, a clear link between incoming and outgoing resources and in particular activity analysis. The changes that have been made to the SOFA are as follows:

incoming resources

A clearer distinction is drawn between incoming resources derived from activities designed to generate funds that enable charitable activities to be undertaken and income receivable from charitable activities. In particular the SORP provides additional guidance on accounting treatments to be adopted in contractual arrangements and recognises the specific guidance of Application Note G to FRS5 in relation to the recognition of income and expenditure for long term contractual relationships.

A clearer distinction has also been drawn between voluntary income (gifts and donations) and trading activities undertaken to generate income.

resources expended

The Resources Expended categories have been amended to provide disclosure of the costs of the different activities. This may be the main services provided i.e. care work, advisory services, housing etc; or the resources expended on material programmes or projects undertaken by the charity. As a consequence, Support Costs do not appear as a separate category in the SOFA, instead they are allocated to the relevant activities headings. The rationale is that support costs, whilst necessary to deliver an activity, do not in themselves produce or constitute a charitable activity. However, The SORP does recognise the 'user interest' in both the level of support costs and the basis for allocation across activity headings, but this is addressed through the notes to the accounts. The SORP also provides further guidance on a number of different basis for support cost allocation.

Where a charity is involved in grant making to achieve its objectives rather than programme or project delivery, the SORP extends the requirement to report grant making on an activity basis. Where a charity is involved in a combination of grant making and programme or project delivery to meets its objectives, then the activity analysis should include both the costs of grant making and programme or project delivery with analysis within the notes to the accounts. Further information of grant making, in particular the nature of the activities or projects that are being funded should be provided.

Management and Administration costs have been renamed Governance Costs, are more narrowly defined and are to be shown as a separate category within the SOFA.

recognition of incoming resources and resources expended

The sections on the recognition of Incoming Resources and Resources Expended have been considerably changed. These changes take account of recognition principles put forward in the ASB's discussion paper on the Proposed Interpretation of the Statement of Principles for Public Benefit entities and focus on the effect of a transaction on the charity's asset/liability position.

More detailed guidance is also provided on the recognition of grants and donations and the operation of any conditions that may prevent their recognition. For grants payable the liability and expenditure is recognised when the recipient's right to receive the benefits falls outside the control of the donor charity.

An example is provided of how conditions apply to multi-year funding commitments which is aimed at helping to eliminate the lack of consistency in sector practice in this area, especially where the conditions involve an annual review process. The example states that where evidence exists (e.g. from past practice) of the operation of the condition, through an annual review process, then an immediate liability arises only for the first year of the funding commitment. Where the operation of the discretion, inherent in such a condition, cannot be demonstrated then a liability for the full amount of the multi-year funding commitment should be provided for. It is the requirement for the review process to be followed and have substance which is important, rather than the fact that a review takes place.

heritage assets

The SORP has introduced the term 'heritage asset' to describe assets of historical, artistic or scientific importance that are held to advance preservation and conservation objectives of a charity, or be integral to a broader objective such as educating the public in history, the arts or science as in the case of museums and galleries.

It seeks to more clearly distinguish between heritage assets held to fulfill the objectives (preservation/educational) of a charity and those assets, albeit of an historic nature, utilised by a charity that has no direct heritage objective. The term heritage asset therefore specifically excludes assets held for administrative, fund generation or investment purposes from its definition.

accounting for new developments in charity operations

A number of developments have taken place in recent years which affect the way in which charities may structure their activities or manage their investments. Additional requirements have been included to address the accounting aspects of the following developments:

Programme Related Investments

Such investments are described as 'Social Investments' which may include for example loans to individual beneficiaries (e.g. for housing deposits) or to other charities (in relation to regeneration projects). Although these investments have the potential to generate a financial return the primary motivation for making them is to further the objects of the charity.

The investments should be recognised at the amount invested less amounts repaid. Any impairment should be written off through the SOFA, although if the investments are subsequently converted into grants, the amounts should be disclosed as such within the SOFA under the relevant activity heading.

Total return approach to endowment investment

The Charity Commission may give to charities with permanent endowments, the assets of which are invested to produce an investment return, the power to adopt a total return approach to investments. Any income or capital gain from the investment will not be 'labeled' as such (as under the current rules) but the trustees can allocate the total return between present and future beneficiaries in the way they consider best meets the objective of the charity to be fair to all beneficiaries. The accounting treatment to be adopted in these circumstances will be specified in the Order granting the power.

Pooling Schemes

The SORP makes specific reference to schemes where investments are held under the control of a single body of trustees which are common to the investing charities. Where multiple charities are involved the SORP does not provide details on how to operate or manage such schemes. However it does state that where a pooled scheme holds investments for separate funds of a single reporting entity, the scheme will form part of a separate restricted fund which must be accounted for within that charity.

Financial derivatives

The SORP has recognised the increasing use of financial derivatives, such as currency forward contracts and interest rate hedging, within charities risk management and now requires an explanation of the reasons for this use within the Risk Policy statement within the Trustees' Annual Report.

start-up costs and database development

Fundraising costs may be incurred in setting up a new source of future funding or in developing supporter databases. To clarify accounting treatment, additional text drawn from UITF 24: Accounting for Start-up Costs and FRS 15: Tangible Fixed Assets and FRS 10: Goodwill and Intangible Fixed Assets is provided.

other changes

Other changes that have been made to the SORP include the following:

- the difference between summary "financial information" and summary "financial statements" has been clarified in the section on Summary Financial Information and Statements
- clarification has been given on how the tests of control apply in the context of a charitable subsidiary
- the Note of Changes in Resources Applied for Fixed Assets section has been renamed Analysis of Net Movement in Funds and expanded to include the movement on programme or social related investments and endowments as well as fixed assets
- the various statutory thresholds set out in Appendix 4 have been updated to accord with those of The Companies Act 1985 s. 247.

international accounting standards

UK accounting standards provide the financial reporting framework for the SORP. In the UK, compliance with company and charity legislation presently requires compliance with UK accounting standards. Current Government proposals (subject to consultation) indicate that it does not favour permitting charitable companies to use International Financial Reporting Standards (IFRS) in either their individual or consolidated accounts. Current proposals from the Accounting Standards Board (ASB) indicate a phased approach to full convergence with IFRS, including new standards effective in 2005 and 2006 and thereafter a series of 'step changes' replacing one or more existing UK accounting standards with standards based on IFRS as their development is completed. The SORP will continue to be reviewed in line with the ASB's Policy and Code of Practice to reflect changes in UK standards, including those arising from the convergence process.

about haysmacintyre

haysmacintyre, Chartered Accountants and business advisers, works with over 550 charities and not for profit organisations in the UK and overseas. Our services include the full range of audit, tax, VAT and comprehensive advisory services. Our multi-disciplinary specialist team has extensive sector experience working for a diverse range of charities. We are based in one location which ensures an integrated and comprehensive approach to our clients' requirements.

haysmacintyre is a founding member of MSI Global Alliance (MSI), an international alliance of independent legal and accounting firms, with 250 members in 100 countries.



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