

UNDERSTANDING THE REGULATORY FRAMEWORK

Regulatory financial requirements for charity finances, including SORP and SOFA, fund accounts and annual trustee reports.

Statement of Recommended Practice (SORP)

The way in which charities report on their accounts is guided by the Statement of Recommended Practice: Accounting by Charities (SORP) issued by the Charity Commission in conjunction with the Financial Reporting Council.

The SORP contains guidance on good practice regarding the suitable treatment and presentation of charity accounts. The SORP is regularly updated and the latest revision is simply referred to as SORP 2015. It takes effect for financial years beginning on or after 1 January 2015.

The SORP requires legal and accounting interpretation and you should rely on professional expertise for this. Here we identify the key requirements of SORP.

Trustees' Annual Report

The primary purpose of the Trustees' Annual Report (TAR) is to ensure that the charity is publicly accountable for the stewardship of the funds it holds on trust. The report should assist the user to assess the charity's progress against its objectives and to understand its plans in relation to its purposes. It should be a coherent document that also meets the requirements of law and regulation. Every charity with a gross income above £25,000 must submit its Trustees' Annual Report to the Charity Commission. The content of the annual report usually includes:

- Reference and administrative details
- Structure, governance and management
- Objectives and activities
- Achievements and performance
- financial review
- Future plans
- Any funds that the organisation holds as custodian trustees for other charities.

Audit or Independent Examination

Precisely what type of scrutiny is needed depends on the income and assets of the charity. Broadly speaking, an independent examination is needed if gross income is between £25,000 and £1 million and an audit is needed where the gross income

exceeds £1 million. An audit will also be needed if total assets (before liabilities) exceed £3.26 million, and the charity's gross income is more than £250,000.

Regardless of these thresholds, an external scrutiny of accounts is needed if it is required by the charity's governing document

Statement of Financial Activities (SoFA)

The SORP replaces the profit and loss account (more commonly seen in the commercial sector) with the SoFA. The intention is to remove the concept of profit as a measure of success or failure, since this is not appropriate for charities. In the SoFA charities should show all incoming and outgoing resources, assets and liabilities belonging to specific funds in the accounts.

The different types of funds are:

- Permanent endowment funds
- Expendable endowment funds
- Restricted funds
- Unrestricted funds
- Designated funds
- General funds.

Balance Sheet

All charities preparing accruals accounts must prepare a balance sheet at the end of each reporting period. The balance sheet provides a snapshot statement of a charity's assets and liabilities and how these are represented by the different classes of funds held by a charity. The objective of the balance sheet is to show the resources available to the charity and whether these are available for all purposes of the charity or have to be used for specific purposes because of legal restrictions placed on their use.

Cash Flow Statement

The cash flow statement provides information about the ways in which a charity uses the cash generated by its activities and about changes in cash held by a charity. The statement identifies a charity's cash flows and the net increase or decrease in cash in the financial year. It also provides information that is helpful in assessing a charity's liquidity and underlying solvency. 'Liquidity' refers to the ability to meet its immediate and short-term obligations as they fall due. 'Solvency' refers to the ability of a charity to meet its longer-term obligations as they fall due.

Notes to the Accounts

In addition to the notes that provide additional analysis of the numbers presented in the SoFA and balance sheet, the SORP 2015 requires charities to provide additional narrative disclosure to help the readers of the accounts have a better understanding of the organisation. This includes details of transactions with related organisations and other stakeholders such as trustees and employees.

Information (Links)

To find out additional information on Charity Accounting and Reporting or Charities SORP please check out these useful links to other resources.

- Charity accounting and reporting: the essentials March 2015 (CC15c) - Charity Commission Guidance
- Charities SORP website - Application guidance for charity accounting
- Sayer Vincent's Made Simple series of finance guides has one on SORP 2015
- Crowe Clark Whitehill's Charities SORP FRS 102 – Reporting Checklist