

# HOW THE SORP IS DEVELOPED AND ITS PLACE IN LAW



An Rialálaí  
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The **Charity**  
**Commission**  
for Northern Ireland



**CHARITY COMMISSION**  
FOR ENGLAND AND WALES

**OSCR**  
Scottish Charity Regulator

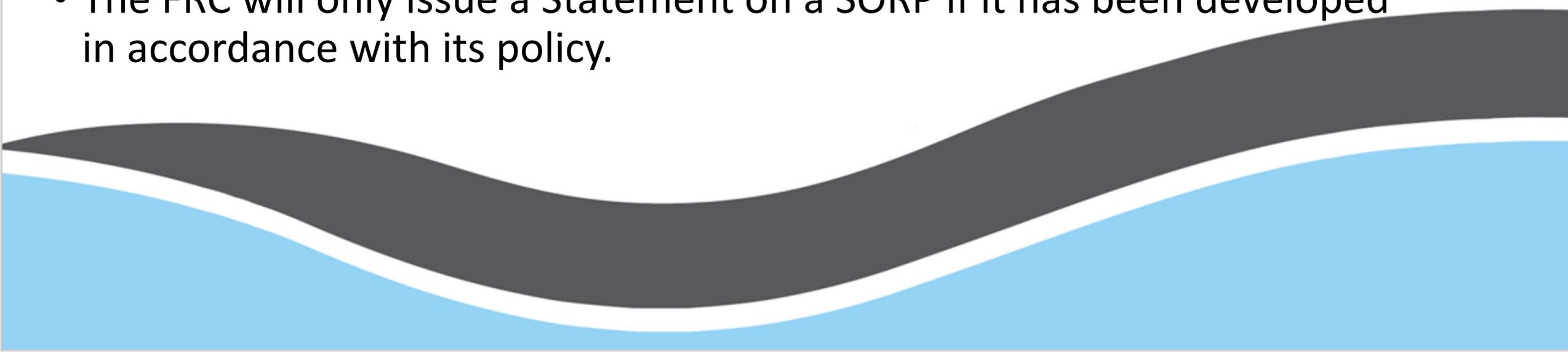
# INTRODUCTION

The purpose of this presentation is to

- describe the process for reviewing and changing a Statement of Recommended Practice (SORP); and
  - to explain the place of the Charities SORP in charity law, company law, accounting standards and 'true and fair'.
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# THE PROCESS FOR REVIEWING AND CHANGING THE SORP

# OVERVIEW

- The Financial Reporting Council (FRC) is a prescribed body for issuing accounting standards in the UK and Republic of Ireland
  - Statements of Recommended Practice (SORPs) show how these accounting standards are applied to particular specialised industries, including charities
  - The FRC sets the policy for developing SORPs and a SORP must have a Statement by the FRC confirming that it does not appear to conflict with any fundamental points of principle in accounting, auditing or actuarial standards
  - The FRC will only issue a Statement on a SORP if it has been developed in accordance with its policy.
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# WHO CAN DEVELOP OR REVIEW A SORP?

- Industry and sector bodies that wish to develop SORPs must be recognised by the FRC as a SORP-making body
- The SORP making body is responsible for updating the relevant provisions within the SORP on a timely basis to bring them in line with new legislation or FRC standards or to withdraw them as appropriate
- SORP-making bodies have a responsibility to act in the public interest when developing, maintaining and issuing SORPs.



# WHO IS THE CHARITIES SORP-MAKING BODY?

- Currently the SORP-making body for the charity sector comprises the charity regulators in the UK:
  - Charity Commission for Northern Ireland
  - Charity Commission for England and Wales
  - Office of the Scottish Charity Regulator
- The Charities Regulator in the Republic of Ireland is currently an observer to the SORP-making body and may join as a fourth partner later.

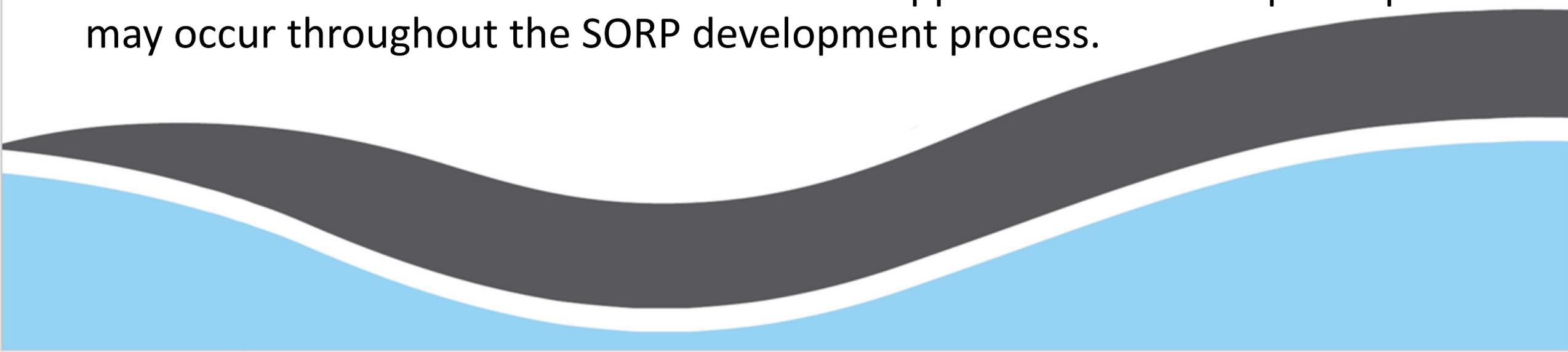


# PRE-DEVELOPMENT STAGE

- Before developing or revising a SORP, the SORP-making body must seek approval from the FRC
- Approval from the FRC is needed to ensure that
  - there is agreement over the nature and scope of the SORP; and
  - the SORPs recommendations do not overlap with an FRC project or address a matter that the FRC would prefer to deal with itself.

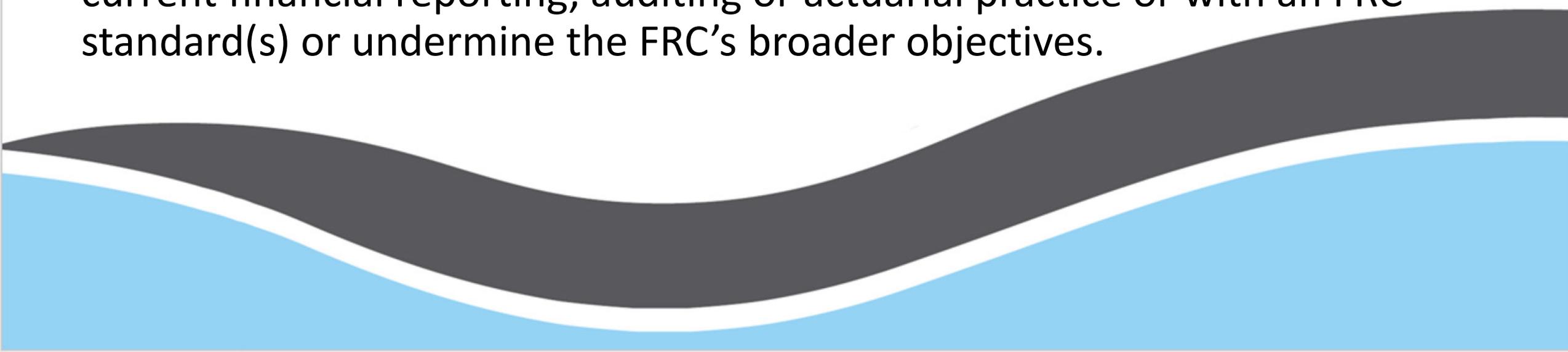


# THE PROCESS TO REVIEW AND CHANGE A SORP

- SORPs must be developed in line with current FRC standards and best practice
  - SORPs must be drafted by the SORP-making body or by a properly constituted board and/or working party of the SORP-making body (the standing groups)
  - A SORP making body can also set up ad-hoc groups to advise the standing groups on specific issues.
  - The SORP development process must ensure effective participation by stakeholders and have sufficient technical support. Stakeholder participation may occur throughout the SORP development process.
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# WHY IS IT IS NECESSARY TO FOLLOW THE PROCESS?

A SORP-making body must evidence the process followed. The FRC will not normally agree to make a Statement on the SORP unless it is satisfied that:

- (a) in developing the SORP, (i) due process was followed and (ii) the development process was designed to lead to effective participation by stakeholders; and
  - (b) the SORP does not contain any points of principle that conflict with current financial reporting, auditing or actuarial practice or with an FRC standard(s) or undermine the FRC's broader objectives.
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# HOW TO CONDUCT THE REVIEW PROCESS

- The process followed must be conducted in a spirit of openness and follow due process including open consultation
  - A SORP-making body will publish all responses to the formal consultation on its website
  - All statements of intent and consultation drafts shall be presented to the FRC for comment and/or review before publication.
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# FINAL STEPS

- The FRC will carry out a review of the SORP in accordance with its governance requirements
- The SORP-making body must allow sufficient time for any changes sought by the FRC to be incorporated prior to publication
- Following any subsequent changes to the draft SORP, the FRC must decide whether they can issue a Statement on the SORP prior to publication
- Once the FRC issues its Statement on the SORP, the SORP can be published.



# WHAT IS THE SORP'S PLACE IN:

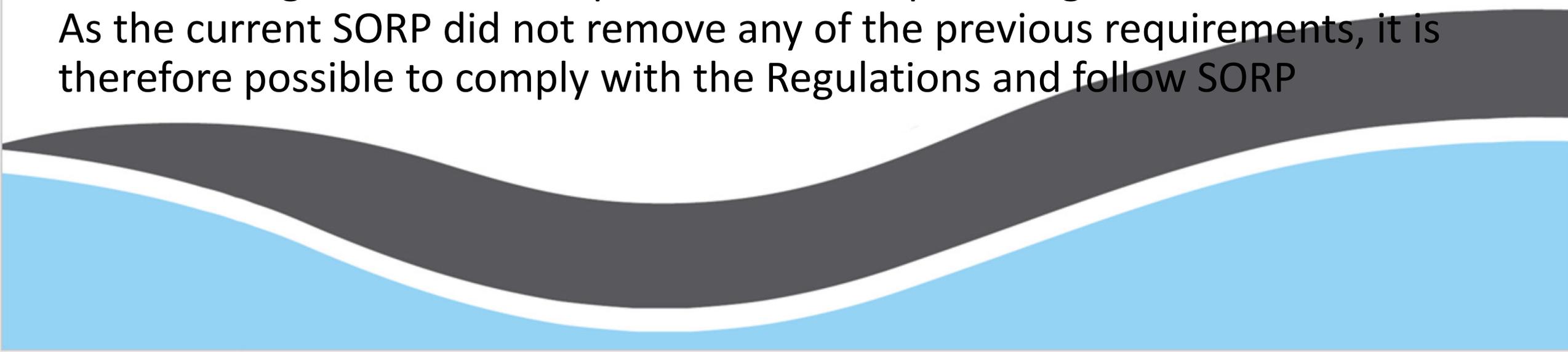
- **charity law**
- **company law**
- **accounting standards and**
- **'true and fair'**

# Legal requirements for preparing charity accounts

- England and Wales - section 132 of the Charities Act 2011
- Scotland – section 44 of the Charities and Trustee Investment (Scotland) Act 2005
- Northern Ireland – section 64 of the Charities Act Northern Ireland
- Republic of Ireland – s48 of the Charities Act (not yet implemented)



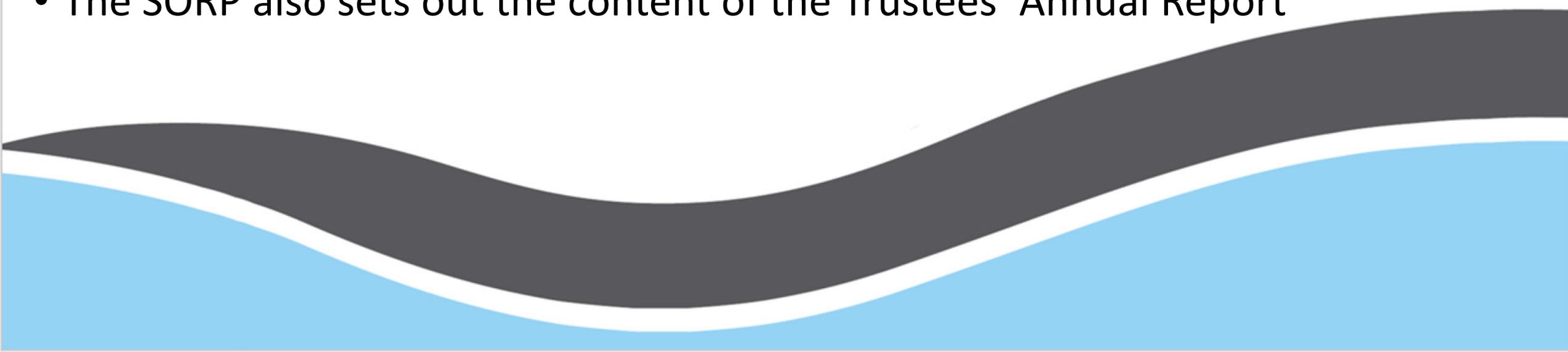
# THE SORP's PLACE IN CHARITY LAW

- For England and Wales, Scotland and Northern Ireland, the relevant act refers to regulations which specify the content of charity accounts. These regulations remain in effect until such time as they are amended, replaced, or withdrawn.
  - The Scottish regs have been amended and refer to the latest Charities SORP. Northern Ireland Regulations refer to SORP in general terms and FRS 102. However, England & Wales (E&W) regulations have not been updated and so still refer to SORP 2005.
  - The E&W regulations do not prevent trustees providing additional information. As the current SORP did not remove any of the previous requirements, it is therefore possible to comply with the Regulations and follow SORP
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# THE SORP's PLACE IN COMPANY LAW

- Charitable companies must comply with reporting requirements of company law
  - Whilst the SORP has been prepared to be consistent with the requirements of company law, charities will need to ensure any particular accounting requirements and disclosures applicable to them are also met.
  - Accounting statements required by SORP must be adapted to meet the requirements of company law. For example, an income and expenditure account may need to be incorporated into the Statement of Financial Activities.
  - Charitable companies will comply with SORP in order for their accounts to give a true and fair view as required by company law
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# THE SORP'S PLACE IN ACCOUNTING STANDARDS

- FRS 102 is the single financial reporting standard that applies to financial statements of charities
  - The SORP provides guidance to charities on how to apply FRS 102
  - Where FRS 102 allows an accounting policy choice, the SORP will identify whether a particular treatment is required or whether the charity can exercise a choice
  - The SORP also sets out the content of the Trustees' Annual Report
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# THE SORP's PLACE IN 'TRUE AND FAIR'

- 'True and fair' is a fundamental requirement of accounting standards and company law
- The requirement that financial statements must give a true and fair view is set out for charitable companies in s393 of the Companies Act 2006 and for non-company charities in the charity accounts regulations for the relevant part of the UK
- True and fair is also an expectation of FRS 102 and the Charities SORP



# CONCLUSION

This presentation provided an understanding of :

- the process for reviewing and changing the SORP and
- the place of the Charities SORP in charity law, company law, and accounting standards and 'true and fair'

