

## **ACOSVO Executive Briefing - October 2013**

### **Changes to the Charity Statement of Recommended Practice (SORP)**

The Charities SORP provides guidance on how charities apply Generally Accepted Accounting Principles (GAAP). If there are significant changes to GAAP then a new SORP must be issued to reflect those changes.

### **Changes to GAAP**

New financial reporting standards have been issued by the Financial Reporting Council (FRC). The new GAAP is made up of four standards. The standard with the biggest impact for Charities is Financial Reporting Standard (FRS) 102 which sets out the bases on which income and expenditure and assets and liabilities are recognised, measured and disclosed in accounts.

The new GAAP is significantly different to the current GAAP with new disclosure requirements for the notes to the accounts. The FRC is retaining the current Financial Reporting Standard for Smaller Entities (the FRSSE) to ease the transition for smaller entities.

### **Effective Date**

Reporting under new GAAP is mandatory for financial years beginning on or after 1 January 2015 and the prior year figures must be re-stated to comply with the new requirements.

### **SORP changes**

In response to the above, the Office of the Scottish Charity Regulator (OSCR) has launched a consultation on a new draft SORP.

### **Scope and Structure**

All charities that prepare their accounts on an accruals basis to give a 'true and fair' basis must follow the SORP, unless a more specific SORP applies e.g. in the case of the Further and Higher Education sector.

The new SORP is split into modules to make it easier for charities to navigate and identify the parts that apply to them. There are Core Modules that are relevant to all charities and Special Modules that will apply only to particular charities. For example an organisation involved in social investment would need to look at module 21 Accounting for Social Investments.

### **Consultation period**

Consultation on the Exposure Draft of the new SORP closes on 4 November 2013.

OSCR has created a micro site [www.charitySORP.org](http://www.charitySORP.org) which houses all the SORP consultation documents. These include an invitation to comment on the Exposure Draft and help sheets which map the old SORP to the new Exposure Draft and explain the major changes between the two. See appendix 1 for some examples.

## Appendix 1

### Key changes

The impact of the new SORP on each organisation depends on its individual circumstances.

This briefing cannot cover all the implications of the new SORP; however I have highlighted a few points below:

- the use of the terms 'must' to denote mandatory requirements, 'should' to denote recommendations of good practice and 'may' to denote advice on how a particular disclosure or other requirement might be met
- the Trustees Report must now explain the nature of any uncertainties over going concern. The Principal Risks Statement is expanded to include an explanation of the major risks faced by the charity and how they are being managed
- a reduction in the number of headings required in the Statement of Financial Activities (SoFA)
- the SoFA has been brought into line with the fair value accounting methods of FRS102
- charities holding multi-employer, defined benefit schemes will be required to state their pension deficits on their balance sheets
- material grants made to institutions are to be listed in the notes, rather than made available in a separate publication
- there are changes to income recognition. The previous SORP referred to 'certainty' of income being received while the new draft refers to the receipt being 'probable' and there are general principles of 'entitlement' and 'measurement' that need to be met. There is also guidance on legacy income which was not included in the old SORP
- changes to the definition of branches that will result in some being treated as subsidiaries
- the SORP requires larger charities to disclose staff salaries paid in bands of £10,000 for employees earning over £60,000. The SORP committee is considering if larger charities should also be required to also disclose the job title and remuneration of their highest paid employee
- disclosure requirements for transactions with trustees have been extended to disclose why remuneration or other benefits were paid. Remuneration for employment may be distinguished from remuneration for trusteeship
- charities preparing their accounts under FRS 102 will have to prepare a Statement of Cash Flows regardless of size or whether they are a subsidiary of another charity

Full details at: [www.charitySORP.org](http://www.charitySORP.org)