

SORP (2005)

The new Statement of Recommended Practice for Charities (SORP 2005) is mandatory for all accounting periods starting on or after 1 April 2005, although earlier adoption is possible.

The intention of SORP 2005 is to provide a better link between income and related cost categories. Also, there is a move towards more clearly reporting achievements in relation to organisational objectives. As a result, the headings for incoming resources and resources expended have been altered. A comparison of the old and new pro-formas is set out below.

SORP 2000	SORP 2005
Incoming resources	Incoming resources
Donations legacies and similar resources	Incoming resources from generated funds <ul style="list-style-type: none"> • Voluntary income • Activities for generating funds • Investment income
Incoming resources from operating activities in furtherance of the charity's objects	Incoming resources from charitable activities
Incoming resources from operating activities for generating funds	
Investment income	
Other incoming resources	Other incoming resources
Total incoming resources	Total incoming resources
Resources expended	Resources expended
Costs of generating funds	Costs of generating funds <ul style="list-style-type: none"> • costs of generating voluntary income • fundraising trading: cost of goods sold and other costs • investment management costs
Charitable expenditure <ul style="list-style-type: none"> • grants payable in furtherance of the charity's objects • costs of activities in furtherance of the charity's objects • support costs for the above • management and administration 	Charitable activities
	Governance costs
	Other resources expended
Total resources expended	Total resources expended

In essence for **incoming resources** the numbers will remain the same as they were under SORP 2000. The key difference is that all "generated fund activities" will be shown together and above the "charitable activities".

For **resources expended** the changes are more significant. The Statement of Financial Activities (SOFA) has moved away from a functional analysis towards an analysis by activity. In particular, neither 'grants payable' nor 'support costs' will appear separately on the face of the SOFA. Instead, these costs should be allocated to the relevant activities to which they relate. Inevitably, this will mean some careful analysis - for the current and previous period.

Activity Reporting

Since SORP 1995 the SOFA has provided for the analysis of resources expended based on a 'functional' split. This concept was not universally understood and was criticised by a number of commentators as being inconsistently applied. SORP 2005 provides for the analysis of resources expended based on activity. There are three main activity groups:

- Charitable activity (achieving the charity's charitable objectives)
- Fundraising activity (raising funds to expend on charitable objectives) and

- Governance activity (overseeing the work of the charity).

Each of these groups could contain a variety of individual activities, more details of which may be given in the notes.

For some charities, this approach will be welcome as it ties in with the way they apply for grants and monitor their operations. For others, it will require an initial estimate of how certain salaries and overheads should be allocated between the three headings and, indeed, between individual activities or projects. The SORP suggests that apportionment of salaries, overheads and support costs should be on a basis that is reasonable, justifiable and consistent. Different approaches will be appropriate for different types of charity. Once selected, the apportionment bases should be consistent from one year to the next, unless there is a compelling reason to change.

Trustees' Reports

The Trustees' Annual Report has played a major role in charity accountability. SORP 2005 builds on its predecessors by adding a number of additional disclosures to the report including:

- **Reference and administrative details**
Disclosure recommendations are expanded to include the name of any Chief Executive Officer or other senior staff members to whom day-to-day management of the charity is delegated.
- **Structure, Governance and Management**
SORP 2005 pulls together existing recommendations concerning governance and structure into one section of the report. An additional disclosure is added to this section that sets out the policies and procedures adopted by the charity for the induction and training of its trustees.
- **Objectives and Activities**
This new section creates a stronger and more focused structure than past SORP recommendations. SORP 2005 confirms that the valuation and inclusion of volunteers' contribution to charity activities is not required within the SOFA but encourages trustees to provide readers with

sufficient information to understand the role and contribution of volunteers.

- **Achievements and Performance**
This new section provides greater clarity as to disclosure expected about the achievements and performance of the charity and any subsidiary undertakings in the year. A summary of any measures or indicators used by the charity to assess its achievements should be included in the report. The recommendations of SORP 2000 to report on the effectiveness of fundraising activities have been expanded.
- **Financial Review**
Reserves policies are now reported as part of the financial review section and should include designated as well as unrestricted reserves. This section now also includes details of the charity's principal funding sources and how expenditure has supported the key objectives of the charity.
- **Plans for the future**
SORP 2005 gives greater emphasis to this disclosure and recommends that future plans should include the aims and key objectives set for future periods and details of any activities planned to achieve them.

Contact Details

John Calow
Partner
Thomas May & Co
Allen House
Newarke Street
Leicester
LE1 5SG

Tel: 0116 233 5959
Email: johncalow@thomasmay.co.uk

Disclaimer – for information of users

This bulletin is produced for information only and no action should be taken without seeking the appropriate advice. Therefore no responsibility for loss occasioned by any person acting or refraining from action as a result of the material contained in this bulletin can be accepted by the authors or the firm.

December 2005