

# Planning For SORP Adoption and the Power of the Trustee Report

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**red flare**

# Approach for Today

What Does The Regulator Think

What is SORP

Trustee Report

Statement of Financial Activities

Notes to the Accounts

Audit Issues

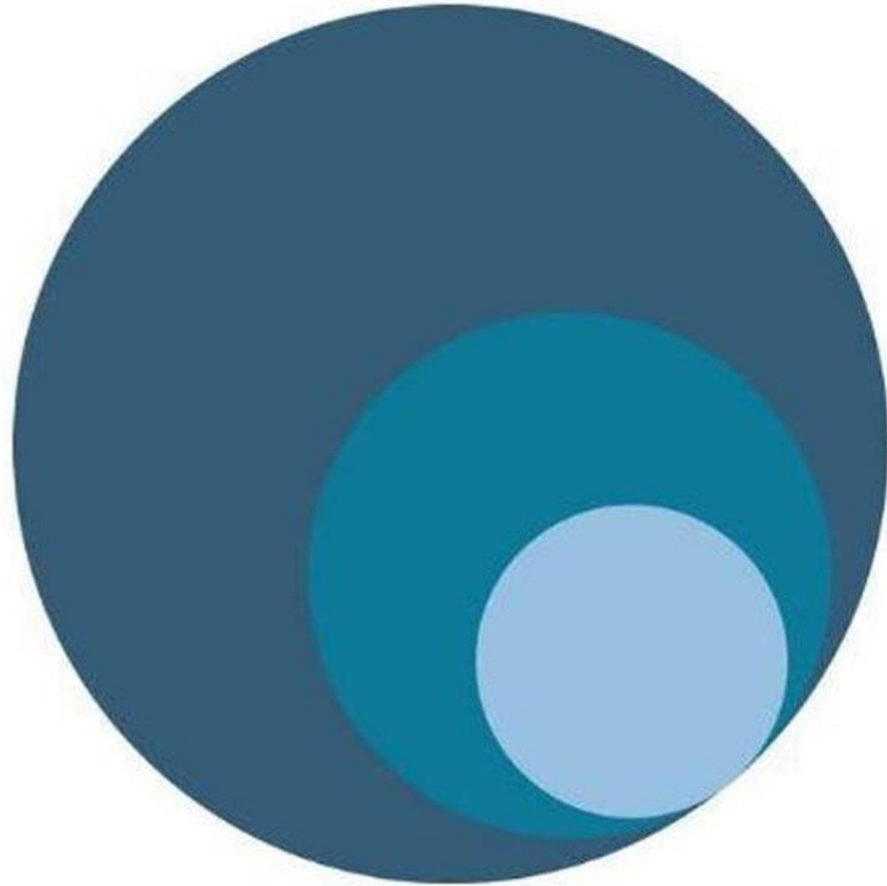
Conversion Considerations

Final Recommendations

# What is SORP all about? Transparency!



# What Does the Regulator Think?



**An Rialálaí  
Carthanas**

**Charities  
Regulator**



# Charities Sector in Ireland

## Income

Total income of REGISTERED IRISH CHARITIES **€14.5 BILLION**

Income by charity type (with an income over €10m)



Number of organisation by income



## Employment

**189,000**

people employed in REGISTERED IRISH CHARITIES



## Volunteering

**300,000**

VOLUNTEERS



DONATING AN AVERAGE OF

**226 HOURS**

PER ANNUM

**68**

MILLION HOURS DONATED



WORTH

**€649 MILLION**



## Donations

**€350 MILLION**

donated annually to REGISTERED IRISH CHARITIES



An average weekly donation of

**€3.75**

PER HOUSEHOLD



## Impact of Irish charities

Direct, indirect and induced expenditure of

**€24.98 BILLION**



Supporting **289,000** EMPLOYEES

[www.charitiesregulator.ie](http://www.charitiesregulator.ie)

# CRA Publications

## Key figures for 2022

**73%**  
of registered charities  
declare they fully comply with  
the Charities Governance Code

**11,506**  
charities on the Register  
of Charities

**6**  
guidance  
documents published

**1**  
investigation  
report published

**2**  
statutory  
investigations  
opened

**642**  
concerns raised

**566**  
concerns closed

Almost  
**124,000**  
visitors to [charitiesregulator.ie](https://charitiesregulator.ie)

**56,698**  
searches of the  
Register of Charities

**14,640**  
contacts dealt with by  
our contact centre

**163** new charities registered

**82** charities deregistered

**6<sup>th</sup>**  
Charity Trustees' Week

**59%** charities filed their annual report on time

**58** FOI requests  
responded to

**New**  
Charity Classification  
Standard launched

**1,480**  
webinar attendees



# ANNUAL REPORT 2022



## THIRD STATEMENT OF STRATEGY 2022 - 2024



October 2021

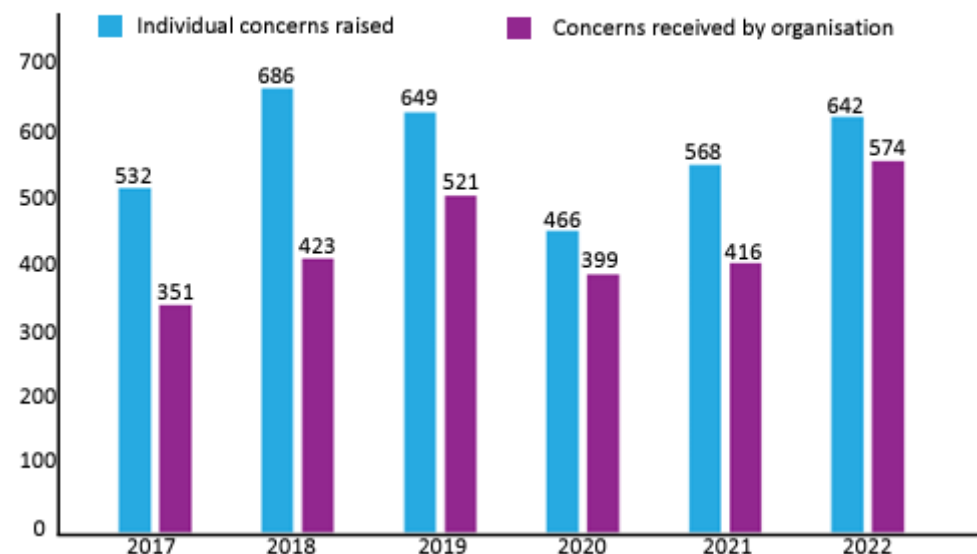
# Compliance Report 2022 - Concerns

Category	No. of Concerns 2021	% 2021	No. of Concerns 2022	% 2022	2021 - 2022 % comparison
Governance Issues	209	37%	232	36%	-1%
Legitimacy of Charity	196	35%	226	35%	0%
Financial Control and Transparency	107	19%	106	17%	-2%
Misdirected Concerns - issues outside Charities Regulator's remit	28	5%	43	7%	+2%
Harm to Beneficiaries	14	2%	13	2%	0%
Private Benefit	13	2%	13	2%	0%
Inappropriate Political Campaigning	1	0%	9	1%	+1%

Relationship with Organisation	Number 2022	% 2022	Number 2021	% 2021
None	206	32%	189	33%
Internal Charities Regulator staff	154	24%	70	22%
Not specified	74	12%	70	12%
Employee/Formal employee	38	6%	45	8%
Other	32	5%	40	7%
Director/Trustee, or Former Director/Trustee	36	6%	27	5%
Donor/Supporter	29	5%	25	4%
Volunteer/Formal volunteer	21	3%	18	3%
Beneficiary/Service user	24	4%	17	3%
Member	28	4%	10	2%
<b>Total</b>	<b>642</b>	<b>100%</b>	<b>568</b>	<b>100%</b>

Reason for Closing Concern	No.2022	% 2022	No.2021	% 2021
Case cannot be progressed – see below	132	23%	100	18%
No breach of Act or best practice apparent following assessment	102	18%	126	23%
Case manager satisfied based on assurances provided by entity	109	19%	146	27%
Issues are outside the Charities Regulator's remit	61	11%	41	8%
Unregistered organisation is engaging with registration process	12	2%	26	5%
Issues already addressed/being addressed by entity	36	6%	22	4%
Entity complied with actions requested by case manager	74	13%	54	10%
Entity now in compliance with the Charities Act 2009	17	3%	8	1%
Relevant advice/guidance issued to entity	23	4%	20	4%
<b>Total</b>	<b>566</b>		<b>543</b>	

Figure 1: Concerns raised from 2017 to 2022



# Benefits of Charities SORP?



Greater level of information and disclosures in order to provide transparency and accountability



Charity accounts prepared in a consistent format, distinguishing the different types of funds.



The consistent presentation helps those who undertake comparisons between charities.



The requirements of SORP make it much easier for regulators to identify charities with serious failings.



# Audit Exempt Micro Accounts vs SORP Accounts



# Audit Exempt Micro Accounts vs SORP Accounts

## FRS 105 and Charities

- FRS 105 is applicable to Micro companies which are *Small* companies which meet 2 out of 3 of the size criteria, which are Turnover of €700k, Balance Sheet of €350k and staff of 10 or less, in the current year and the previous year
- However, the question arises whether the standard is suitable for charitable companies?
- The scope of FRS 105 does not include unincorporated entities or friendly societies
- **Charities are excluded from the definition of micro entities in the UK.** See section 384B of the Companies Act 2006
- **In ROI, Section 280D, which sets out the qualifications of a company as micro, is silent regarding charities**

# What is SORP?

- ▶ The Charities SORP is a *Statement of Recommended Practice* which sets out how charities should prepare their annual accounts and report on their finances. The SORP is an interpretation of the underlying financial reporting standards and generally accepted accounting practice.



# Structure of SORP

- ▶ Total Number of Pages 235
- ▶ 29 Chapters and 4 Appendices
- ▶ Chapter 1 - Trustees Annual Report - 12 pages
- ▶ Chapters 2 - 17 Applicable to most Charities
- ▶ Chapters 18 - 29 Not Applicable to most Charities
  
- ▶ Must, Should and May
  - ▶ Must mentioned 595 times
  - ▶ Should Mentioned 243 times
  - ▶ May Mentioned 349 times

# MUST - SHOULD - MAY

**Must** - SORP uses the term 'must' to indicate those elements that are important to the reader of the trustees' annual report that must be included within the report or to identify particular accounting treatments, disclosures or presentational requirements that are likely to affect the ability of the accounts to give a true and fair view if not applied to material transactions or items. **Where this SORP states that a recommendation is one which must be followed, non-adherence to that recommendation is a departure from this SORP.**

**Should** - SORP uses the term 'should' for an item in the trustees' annual report or the accounts for those recommendations aimed at advancing standards of financial reporting as a matter of good practice. While charities are encouraged to follow all the SORP's recommendations, **a failure to follow a 'should' recommendation with respect to the report or the accounts is not regarded as a departure from this SORP.**

**May** - SORP uses the term 'may' for an item in the trustees' annual report or an approach to a particular disclosure that a charity may choose to adopt or identifies that an alternative accounting treatment or disclosure of a transaction or event is allowed by the SORP. **Charities may choose whether such examples or alternative treatments are adopted at their discretion.**



# Charities Amendment Bill 2022

The proposed thresholds are as follows:

	Meet 2 out of 3 of Gross Income Under €25k, Balance Sheet Under €25k, No employees	Gross Income or Total Expenditure under €250k	Gross Income or Total Expenditure Exceeds €250k
No requirement to prepare financial statements (note 1)	✓		
Prepare financial statements on an Receipts & Payments basis of Accruals basis		✓	
Independent examination		✓	
Prepare financial statements on Accruals basis in accordance with Charities SORP			✓
Annual Audit			✓

Note 1 – a charity that is a company must prepare financial statements on an accruals basis under the Companies Act 2014

The Bill is expected to pass by the end of 2023 with the expected applicable dates to be accounting periods starting 01 January 2025. **This will mean mandatory Charities SORP will be applicable for year ends 31 December 2025.**

# Before Applying SORP

- ▶ Before applying this SORP, the following sections should be read which explain the scope and application of this SORP:
  - ▶ the intended user of the SORP;
  - ▶ objectives of the SORP;
  - ▶ the intended user of the trustees' annual report and accounts;
  - ▶ scope of the SORP;
  - ▶ the effective date of commencement;
  - ▶ transitional arrangements for charities reporting under FRS 102 for the first time;
  - ▶ choice of accounts preparation methods;
  - ▶ how to use the modular SORP;
  - ▶ use of the terms 'must', 'should' and 'may'

# NO Major Changes to Accounts Structure

## The structure of the annual report

- Trustees' Annual Report
- Auditor's Report
- Financial Statements
  - Statement of Financial Activities (SOFA)
  - Statement of Cash Flows
  - Balance Sheet
  - Notes



# Trustee Report



# Examples of SORP Accounts with Trustee Reports



Visit: [www.goodgovernanceawards.ie](http://www.goodgovernanceawards.ie)



# Trustee Report Examples

Barretstown - 18 pages (Total Annual Report 86 pages) - Income €5m

Trócaire - 28 pages (Total Annual Report 118 pages) - Income €62m

Jigsaw - 61 pages (Total Annual Report 106 pages) - Income €11m

The Care Trust - 30 pages (Total Annual Report 99 pages) - Income €4.7m

Childrens Rights Alliance - 31 pages (Total Annual Report 65 pages) - Income €0.7m

Helium Arts - 33 pages (Total Annual Report 63 pages) - Income €0.225m

# Trustee Report Structure Must Include!

- ▶ See SORP For Specific Details of Inclusion
- ▶ Objectives & Activities
- ▶ Achievement & Performance
- ▶ Financial Review
- ▶ Plans for the Future
- ▶ Structure, Governance & Management
- ▶ Reference to Administrative Details
  
- ▶ Directors Report Still Required - But it has been merged
- ▶ Charities Trustees Responsible for approving text

# Statement Of Financial Activities - SOFA



# SOFA - Income & Expenditure

- ▶ 5 Separate Income Headers - 22 Types of Allocation
  - ▶ Income from donations and legacies - 5
  - ▶ Income from charitable activities - 5
  - ▶ Income from other trading activities - 6
  - ▶ Investment Income - 1
  - ▶ Other Income - 5
- ▶ Income must be split between Restricted and Unrestricted
- ▶ Expenses must be split between Restricted and Unrestricted
  - ▶ Raising Funds
  - ▶ Charitable Activities
  - ▶ Other

# Unrestricted vs Restricted - Per SORP

**Unrestricted funds** are spent or applied at the discretion of the trustees to further any of the charity's purposes. Unrestricted funds can be used to supplement expenditure made from restricted funds. For example, a restricted grant may have provided part of the funding needed for a specific project. In this case unrestricted funds may be used to meet any funding shortfall for that project.

**Restricted Funds** held on specific trusts under charity law are classed as restricted funds. The specific trusts may be declared by the donor when making the gift or may result from the terms of an appeal for funds. The specific trusts establish the purpose for which a charity can lawfully use the restricted funds. It is possible that a charity may have several individual restricted funds, each for a particular purpose of the charity.

**Endowment funds** are restricted funds which either cannot be spent (permanent endowment) or where there is no actual requirement to spend or apply the capital unless, or until, the trustees decide to spend it (expendable endowment).



# Expenditure

## Charities SORP - Expenditure activities in SFA

### Expenditure on raising funds

- seeking donations, grants and legacies;
- operating membership schemes and social lotteries;
- staging events, including the performance fees, licence fees and other related costs;
- contracting with agents to raise funds on behalf of the charity;
- operating charity shops selling donated and/ or bought-in goods;
- operating a trading company undertaking non-charitable trading activities;
- advertising, marketing and direct mail materials, including publicity costs not associated with educational material
- designed wholly or mainly to further the charity's purposes; and investment management costs.

# Expenditure

## Charities SORP - Expenditure activities in SOFA

### Expenditure on Charitable Activities

- Costs incurred by a charity in undertaking activities that further its charitable aims for the benefit of its beneficiaries;
- Support costs and costs relating to the governance of the charity apportioned to charitable activities;
- Costs involved in negotiating contracts or grants that require the charity to provide specific charitable services; and
- Additional sub-headings should be added to the analysis of charitable activities to identify the significant charitable activities undertaken which have been reviewed in the trustees' annual report.

# Grant Income

Comparison	FRS 102 €	SORP €
SOFA		
Income/Endowments		500,000
Deferred Grant Released	25,000	
Depreciation	(25,000)	(25,000)
Net impact	-	475,000
<hr/>		
Balance Sheet		
Tangible Assets	475,000	475,000
Deferred Capital Grant	(475,000)	
Net Balance Sheet Impact	-	475,000

## Recognition of Grant Income

- Under the SORP FRS 102, grant income must be recognised by charities on the performance model
- This is similar to the previous 2005 SORP: "*At this point, all of the incoming resources should be recognised in the Statement of Financial Activities and not deferred over the life of the asset.*"

# SOFA - Example

## CONSOLIDATED STATEMENT OF FINANCIAL ACTIVITIES FOR THE FINANCIAL YEAR ENDED 28 FEBRUARY 2019

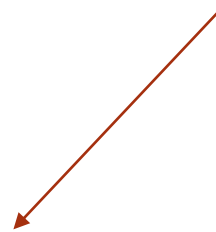
		<b>Unrestricted</b>	<b>Restricted</b>	<b>Total</b>	Unrestricted	Restricted	Total
		<b>Funds</b>	<b>Funds</b>	<b>2019</b>	Funds	Funds	2018
<i>Notes</i>		<b>€'000</b>	<b>€'000</b>	<b>€'000</b>	€'000	€'000	€'000
<b>Income from:</b>							
Donations and legacies	3.1	<b>22,013</b>	<b>1,157</b>	<b>23,170</b>	23,030	6,112	29,142
Charitable activities	3.2	-	<b>45,830</b>	<b>45,830</b>	-	45,803	45,803
Investment Income	3.3	<b>69</b>	<b>5</b>	<b>74</b>	60	-	60
		<b>22,082</b>	<b>46,992</b>	<b>69,074</b>	23,090	51,915	75,005
<b>TOTAL INCOME</b>							
<b>Expenditure on:</b>							
Raising funds	4	<b>(5,527)</b>	<b>(2)</b>	<b>(5,529)</b>	(5,602)	(88)	(5,690)
Charitable activities	5	<b>(16,392)</b>	<b>(53,329)</b>	<b>(69,721)</b>	(14,723)	(50,686)	(65,409)
		<b>(21,919)</b>	<b>(53,331)</b>	<b>(75,250)</b>	(20,325)	(50,774)	(71,099)
<b>TOTAL EXPENDITURE</b>							
<b>Net (expenditure)/income</b>		<b>163</b>	<b>(6,339)</b>	<b>(6,176)</b>	2,765	1,141	3,906

# Balance Sheet - Example

## CONSOLIDATED BALANCE SHEET AS AT 28 FEBRUARY 2019

	Notes	2019 €'000	2018 €'000
<b>FIXED ASSETS</b>			
Tangible fixed assets	8	696	867
<b>CURRENT ASSETS</b>			
Stock	9	543	324
Debtors	10	33,453	31,338
Cash at bank and in hand	11	26,668	28,690
Short term investments	12	1	1
		<u>60,665</u>	<u>60,353</u>
<b>CREDITORS</b> (Amounts falling due within one year)	13	<u>(15,871)</u>	<u>(9,560)</u>
<b>NET CURRENT ASSETS</b>		<u>44,794</u>	<u>50,793</u>
Retirement benefit scheme liability	18	<u>(1,347)</u>	<u>(2,577)</u>
<b>TOTAL NET ASSETS</b>		<u><u>44,143</u></u>	<u><u>49,083</u></u>
<b>FUNDS OF THE CHARITY</b>			
Restricted funds	15	23,998	30,312
Unrestricted funds	16	20,145	18,771
<b>TOTAL FUNDS</b>		<u><u>44,143</u></u>	<u><u>49,083</u></u>

Only Difference is the allocation of Funds / Reserves





# Notes to the Accounts



# Notes To the Accounts

## SORP note disclosures of payments

- disclosure of trustees' remuneration and benefits;
- disclosure of trustees' expenses;
- transactions with related parties that require disclosure;
- transactions with related parties that do not require disclosure;
- disclosure of related party transactions;
- disclosure of audit, independent examination and other financial service fees;
- disclosure of ex-gratia payments;
- disclosure of staff costs and employee benefits; and
- remuneration and benefits received by key management personnel.

*Don't forget the Companies Act disclosures of these items for incorporated charities*

# Notes To the Accounts

## SORP note disclosures of payments

Charities must disclose in the notes to the accounts the amounts payable to their auditor or independent examiner, analysed between fees payable for:

- statutory **audit** or independent examination;
- assurance services other than audit or independent examination;
- tax advisory services; and
- other financial services, for example consultancy, financial advice or **accountancy services**.

# Notes To the Accounts

## SORP note disclosures of payments

This SORP also requires that all charities must disclose:

- the fact that there are no employees who received employee benefits (excluding employer pension costs) of more than £60,000 (€70,000); or
- the number of employees whose total employee benefits (excluding employer pension costs) for the reporting period fell within each band of £10,000 (€10,000) from £60,000 (€70,000) upwards.

# Audit Issues - High Level



# Audit Considerations of SORP

## Other Information in the Financial Statements - ISA (Ireland) 720

- Distinguish between "Other information" and "Statutory Other Information"
- For an incorporated charity, part of the Trustee's Report may be the statutory Directors' Report.
- **The auditor reads all of the other information included in the charity's annual report and considers whether there is a material inconsistency between the other information and both the financial statements or the auditor's knowledge obtained in the audit.**
- If the SORP becomes a statutory requirement for charities, then the Trustees Report will be Statutory Other Information.

# Conversion Considerations Recap





# Conversion Considerations

- ❑ Understanding your Financial Statements
  - ❑ Income sources
    - ❑ Grants
    - ❑ Donations
    - ❑ Services in kind
- ❑ Are they restricted or unrestricted in use???
- ❑ Expenditure sources
  - ❑ Matching expenses to income
  - ❑ Allocation of support & governance costs per project (policy driven)
- ❑ Performing same for the comparative year
- ❑ Ensuring adjustments are completed for any deferred grants, (may require once off prior year adjustment)

# Conversion Considerations

- ❑ **Updating Accounting Policies (to include)**
  - ❑ Restricted Funds
  - ❑ Unrestricted Funds
  - ❑ Income
  - ❑ Expenditure
  - ❑ Raising funds
- ❑ **Additional notes (including but not limited to)**
  - ❑ Breakdown of income & expenditure per SOFA
  - ❑ Salary bands breakdown
  - ❑ Details of state funding
  - ❑ Analysis of movement in funds
- ❑ **Preparation of the Trustee/Director Report**

# Conversion Considerations

- ❑ Making adjustments to your accounting framework and your bookkeeping software incorporating
  - ❑ Project sub accounting
  
- ❑ **Auditors** - Remember your auditor is not one responsible for ensuring the allocations are correctly posted. It is up to the Charity to ensure allocations are correctly completed and the auditor verifies that position.
  
- ❑ **Cost** - We estimate there will be an additional 2 - 3 days of professional time in year 1 - Supplemental to the Existing Audit Fee
  
- ❑ **Time** - Are you under time constraints to complete the audit

# Final Recommendations



# Recommendations / Takeaways

Adopt SORP for 2023 Accounts -  
“Bite the Bullet!!”

Start the re-analysis of 2021 & 2022 financials and work forward

Redesign Management Accounts and Accounting system to align with SORP

Advise your Auditor, find out if there is a cost implication

Does your Auditor have the right experience? If Not seek professional advice

Start scoping out the Trustee Report - Structure, Content, etc.

Discuss adoption of SORP with Funders & Stakeholders

Don't File Audit Exempt / Micro / Abridged Accounts

# Any Questions?

- ▶ Contact Details
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- ▶ Thank you for your time!