

# SORP-making body's statement of drafting aims and principles

*The aims inform the development of the next SORP and the principles assist in making choices as to form and content*

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## 1. Context for the statement of drafting aims and principles

Before developing a new edition of the Statement of Recommended Practice (SORP) the SORP-making body undertakes a review of the aims and principles that will guide the drafting of the format and content of the SORP. The role of the SORP is to provide a framework for applying accounting standards to the charity sector and to promote high quality financial reporting by charities.

Each edition of the SORP is written after taking on board the recommendations of the Charities SORP Committee, the requirements of charity law, company law, and the requirements of UK-Irish Generally Accepted Accounting Practice (GAAP). The SORP development process incorporates feedback from the SORP engagement strands. The Engagement strands were established to draw into the process the distinct needs of different stakeholders in charity financial reporting. Each strand represents a distinct group of stakeholders and focuses on their particular perspective on charity financial reporting. Their feedback informs the deliberations of the SORP-making body and advisory Charities SORP Committee throughout the SORP development process.

The SORP-making body consults the SORP Committee about what the aims and objectives of the SORP drafting process should be. This is a key step in the drafting process because the aims and objectives when taken together will inform the way the SORP is written and assist in decision-making about its format and content. The aims are important broad overarching ambitions about what the SORP is intended to achieve and the drafting principles are the detailed processes setting out how those aims will be fulfilled and to guide how choices will be made.

The purpose of this statement is to set out our frame of reference for developing the next full SORP. It will assist members, working groups, the SORP committee, and SORP-making body to test the text of the next SORP against a set of aims and principles which underlie the basis for the SORP's recommendations on reporting and accounting by charities.

Our SORP Committee and SORP engagement strands were recruited from a wide background including members from: the sector, the accounting profession, academia, commentators, trustees, and practitioners. Our ambition for the SORP development process is for it to be representative and to have members from each of the charity law jurisdictions where the SORP is accepted or required by law. The appointment of a SORP Committee member or engagement strand partner can be either a corporate nominee or an individual one. The SORP Committee members and engagement strand partners bring their background, interests, and knowledge to the SORP development process.

## 2. Our four drafting aims

Firstly the SORP is to address the needs of the main users who make use of a charity's annual report and accounts who do not have the power to require specific information of a charity. We consider the main users of a charity's report and accounts to be those who fund the work of the charity to make a difference to society and those intended to benefit from that activity. These users include current and potential funders, donors and supporters of a charity who give of their money, resources or time with the intention of making a difference to a charity's service users and other beneficiaries. The statutory trustees' annual report and financial statements (accounts) are an opportunity to explain how the charity has delivered its social purpose to assist beneficiaries and preparers of the report and accounts should therefore have this purpose in mind when writing the report and compiling the accounts.

Secondly in drafting the SORP we seek to comply with Financial Reporting Council's (FRC) requirements that the: 'SORPs should be developed in line with current FRC standards and best practice. The provisions of a SORP cannot override the provisions of the law, regulatory requirements or FRC standards'. As the SORP-making body we are responsible for updating the relevant provisions within the SORP on a timely basis to bring them into line with any new legislation or FRC standards or to withdraw them as appropriate.

Thirdly we aim to promote consistency across the charity sector by recommending a preferred treatment, approach or methodology. In drafting the SORP we are required to: 'clearly indicate those areas that relate to the subject matter of FRC standards and those that relate to other information to be provided in a document containing that subject matter. A SORP should clearly indicate which recommendations provide guidance on applying FRC standards and which go beyond the application of FRC standards (for example by recommending additional disclosure)'.

Lastly, we aim to keep our recommendations relevant to the socioeconomic context in which charities operate by retaining the advice of an expert SORP Committee, convening a SORP engagement process, and by holding consultation exercises on areas for changes to the SORP.

### 3. Our drafting principles

To take forward the detailed drafting and to achieve our drafting aims, we intend to develop the next SORP with the following principles in mind. The SORP development process will strike a balance in those instances where the principles may conflict and any changes that depart from the principles will be justified with an explanation of reasons. The principles are not hierarchical or listed in importance as the context of the drafting will determine which principles will apply and be considered.

Principle 1 - the majority of preparers using the SORP are volunteers, advisors or practitioners assisting smaller charities and so in writing the SORP we will keep the needs of smaller charities in mind and seek to provide clarity to enable practitioners to understand the requirements of, and good practice recommendations made by, the SORP. As far as practicable and to the extent that accounting standards permit the SORP will be written with language and terminology that is clear and not overly technical to a practitioner who is otherwise familiar with basic accounting concepts and terms.

Principle 2 - to provide guidance to assist practitioners to prepare accounts that give a 'true and fair' view in accordance with current GAAP including addressing any charity specific matters not addressed by GAAP.

Principle 3 - when making changes to the reporting and accounting requirements to have regard to the potential impact of those changes on the public's continuing support for the legitimate charitable endeavour and to the practical challenges of addressing public perception of charities' reporting and accounting practices.

Principle 4 – to ensure that the narrative reporting requirements address the interests of the main users of the report and accounts.

Principle 5 - to innovate by introducing or changing reporting requirements where this is necessary to either assist practitioners or meet the needs of the main users of the report and accounts and to reduce the need for additional bespoke requirements by any charity law jurisdiction adopting the SORP.

Principle 6 - to disseminate good practice reporting where the SORP Committee recommends that this is in the best interests of the sector as a means of helping the wider charity sector and practitioners to meet the needs of the main users of the report and accounts.

Principle 7- to reflect the requirements of charity law and company law as they apply to reporting and accounting by charities in those jurisdictions adopting the SORP.

Principle 8 - to take account in our decision-making on any changes to the reporting and accounting requirements and recommendations of the SORP of both the potential value of the information to the user and the demands placed on the preparer of making those changes or recommendations.