

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

1 Context

- 1.1 Each new Statement of Recommended Practice (SORP) is developed by the SORP-making body based upon the recommendations of the Charities SORP Committee, the requirements of charity law, and the requirements of UK-Irish Generally Accepted Accounting Practice (GAAP).
- 1.2 Our SORP Committee was recruited from a wide background including members from: the sector, the accounting profession, academia, commentators, and practitioners. Our aim is 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 member is an individual one. The SORP Committee members bring their background, interests, and knowledge to the SORP development process.
- 1.3 The purpose of our 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. These principles will underlie the basis for the SORP's recommendations on reporting and accounting by charities.

2 Our four drafting aims

- 2.1 Firstly the SORP is to address the needs of the main users 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 to be current and potential funders, donors and financial supporters of a charity who give of their money, resources or time, as the primary audience for the information contained in a charity's report and accounts. We anticipate that the primary audience give to, or fund, a charity with the intention of making a difference to a charity's service users and other beneficiaries. Preparers of the report and accounts should therefore have this purpose in mind when writing the report and compiling the accounts.
- 2.2 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.

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- 2.3 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)'.
- 2.4 Lastly we aim to keep our recommendations relevant to the socio-economic context in which charities operate by retaining the advice of an expert SORP Committee and by holding consultation exercises on areas for changes to the SORP.

3 Our drafting principles

- 3.1 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.
- 3.2 Principle 1- in writing the SORP to keep the needs of smaller charities in mind and to provide clarity to enable practitioners to understand the requirements of, and good practice recommendations made by, the SORP.
- 3.3 Principle 2- 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.
- 3.4 Principle 3- 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.
- 3.5 Principle 4- narrative reporting requirements that address the interests of the main users of the report and accounts.
- 3.6 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.

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- 3.7 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.
- 3.8 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.
- 3.9 Principle 8- to take account in our decision-making on any changes to the reporting and accounting requirements and recommendations of the SORP of the potential cost and burden of making to the sector of those changes.