



**An Rialálaí  
Carthanas**

**Charities  
Regulator**

**Overview of the proposed  
Charity Financial  
Accounting Regulations  
and Charities SORP**

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# Overview of the proposed charity financial accounting regulations and Charities SORP

## 1. Introduction

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On 29 April 2022, the Minister for Rural and Community Development, Heather Humphreys TD, published the General Scheme of the Charities (Amendment) Bill 2022 (“General Scheme”). The amendments proposed will facilitate the introduction – for the first time - of much needed financial accounting regulations for registered charities in Ireland, introducing greater transparency in the way charities report on their finances and ensuring that all charities are treated equally regardless of whether they are a company or an unincorporated entity such as an association or charitable trust. This in turn will ensure that the financial statements of charities are more informative and more comparable than is currently the case.

The Charities Act 2009 currently provides for the mandatory preparation of financial statements and the audit or independent examination of those statements in accordance with regulations made by the Minister having regard to certain thresholds that are specified in the 2009 Act. A key issue with the relevant sections in the 2009 Act, is that registered charities that are companies are exempt from these requirements which means that the regulations, if made, would create an uneven playing field for registered charities based on their legal form, as they would only apply to a portion (approximately 40%) of registered charities.

A further issue is the thresholds that are specified. They are, in the opinion of the Charities Regulator and the majority of interested parties who responded to a public consultation on the thresholds back in 2016, too low, and consequently charities with relatively low income of €100,000 would be required to produce financial statements in accordance with the Charities Statement of Recommended Practice (“Charities SORP”) and have those accounts audited.

The Charities Regulator therefore welcomes those parts of the recently published General Scheme which propose to amend the relevant sections of the 2009 Act to address these two issues by extending key provisions to charities that are companies and by increasing the thresholds at which certain regulatory requirements will apply in relation to the preparation of accounts and their audit or examination.

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Under the Charities Act 2009, it will be the responsibility of the Minister for Rural and Community Development to make the required regulations introducing uniform standards for the financial statements of registered charities and associated rules relating to audit and independent examination, the latter being a relatively novel concept which forms part of the regulatory framework for charities in neighbouring jurisdictions such as Northern Ireland.

If introduced, the financial accounting regulations as proposed by the Charities Regulator will –

- (a) set out standards for financial statements entailing the application the Charities SORP to charities with income over €250,000, which meet certain criteria;
- (b) set out standards for financial statements entailing the adoption of a simplified accounting format by charities with income between €25,000 and €250,000, which meet certain other criteria;
- (c) provide an exemption from the requirement to have an audit for charities with income of up to €250,000<sup>1</sup>;
- (d) provide for independent examination of financial statements for charities with income of between €25,000 and €250,000;
- (e) provide an exemption from the requirement to prepare and submit financial statements in a particular format for all charities with income under €25,000; and
- (f) provide an exemption from independent examination of financial statements for all charities with income under €25,000.

In order to facilitate the above, in 2017 the Charities Regulator sought amendments in the Charities Act 2009 to increase the relevant thresholds from €10,000 and €100,000 to €25,000 and €250,000 respectively<sup>2</sup>. Based on the current [Register of Charities](#), the increased thresholds will lead to:

- an overall reduction in the number of registered charities that will be required to prepare their financial statements in accordance with Charities SORP;
- a reduction in the number of charities that will be required to have their financial statements audited;

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<sup>1</sup> For more information see [General Scheme of the Charities \(Amendment\) Bill 2022](#)

<sup>2</sup> See Head 14 Amendment of section 48 of Act of 2009 (Annual statement of accounts) and Head 15 Amendment of section 50 of Act of 2009 (Annual audit or examination of accounts) of the General Scheme of the Charities (Amendment) Bill 2022

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- an increase in the number of registered charities that will be exempt from submitting financial statements to the Charities Regulator as part of their annual report, and
- a reduction in the number of charities that will be required to have their accounts either audited or independently examined.

Needless to say, all charities will still be required to keep proper books of account under section 47 of the Charities Act 2009 and a failure to do so will continue to be an offence for which a charity and its trustees can be prosecuted. Regardless of the size of a charity, the need to keep proper books of account continues to be an essential legal obligation for charity trustees in order to ensure that the charity for which they are responsible remains fully accountable to donors, beneficiaries, volunteers, staff and the wider public. While Charities SORP is not currently a legal requirement in Ireland it is recommended best practice for larger charities. Some registered charities have already adopted Charities SORP or are in the process of doing so.

This guidance note provides an overview of the proposed accounting framework for registered charities that may be unfamiliar with Charities SORP and provides a high level introduction to it and to other key aspects of the proposed regulations.

Further guidance and templates will be provided in due course. The Charities Regulator will also be consulting with professional bodies, charities and the wider public in relation to the format for charity financial statements.

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## 2. What are the proposed thresholds for charity financial statements?

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Under the changes proposed a registered charity (that is not a company) will not have to prepare financial statements. Consequently, they will not be required to attach financial statements to the annual report on its activities and finances that it is required to submit to the Charities Regulator where it meets two out of the three following criteria:

- (a) its balance sheet total does not exceed €25,000;
- (b) its gross income does not exceed €25,000;
- (c) it has no employees.

Charities which cannot avail of this exemption will be required to prepare financial statements and will be required to submit those financial statements to the Charities Regulator when submitting their annual report under section 52 of the 2009 Act.

Charities with income or expenditure of less than €250,000:

- will not be required to have an audit,
- may choose to prepare simplified financial statements on a receipts and payments basis,
- may opt for an independent examination provided an audit is not required by charity law or for some other reason.

The form and content for simplified financial statements will be prescribed by the relevant financial accounting regulations.

Charities with income or expenditure of more than €250,000 will be required to have their financial statements prepared in accordance with Charities SORP, and have an annual audit.

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**Table 1 – Summary of the requirements proposed by the Charities Regulator by type and size of charity**

	Meet 2 out of 3 of - Gross Income Under €25,000; Balance Sheet Under €25,000; No employees	Gross Income or Total Expenditure Under €250,000	Gross Income or Total Expenditure Exceeds €250,000
No requirement to prepare financial statements (note 1)	✓	-	-
Prepare financial statements on Receipts & Payments basis or Accruals basis (note 1)	-	✓	-
Independent Examination	-	✓	-
Prepare financial statements on Accruals basis in accordance with Charity SORP	-	-	✓
Annual Audit	-	-	✓

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

### 3. What is Charities SORP?

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Charities SORP is a technical accountancy document that sets out best practice in the application of accounting standards when preparing financial statements for charities. Should a charity wish to apply Charities SORP in the preparation of its financial statements, given the technical nature of the document it is likely that the input of qualified accountancy professionals would be required. This is one of the reasons why the Charities Regulator welcomes the proposal to increase the threshold at which registered charities would be required to prepare their financial statements in accordance with Charities SORP. The remainder of this document is intended to explain in general terms what Charities SORP involves.

Charities SORP provides guidance on how charities are expected to apply the “Financial Reporting Standard applicable in the UK and Republic of Ireland” (FRS 102) to the particular activities and transactions of charities, and explains how charities should present and disclose their activities and funds within their financial statements. FRS 102 is an accounting standard issued by the Financial Reporting Council, as a prescribed body, in respect of its application in the United Kingdom and the Republic of Ireland. It applies to financial statements that are intended to give a true and fair view of a reporting entity’s financial position and profit or loss for a period. It applies not only to companies but also to public benefit and other types of entity.

Charities SORP includes charity-specific requirements that are additional to those of FRS 102. In particular, it sets out requirements relating to the charity trustees’ annual report, fund accounting, the format of the statement of financial activities and additional disclosures aimed at providing a high level of accountability and transparency to donors, funders, financial supporters and other stakeholders.

Charities SORP requires financial statements to provide a high level of detail compared to the financial statements for companies of a similar size which are not charities. The reporting requirements, however, does take account of the size of the charity and less information is required of smaller charities.

The SORP-making body that oversees Charities SORP is appointed by the Financial Reporting Council (the FRC) a prescribed body that also oversees FRS102. It is ultimately responsible for Charities SORP and its updating. The SORP-making body is made up of the Charity Commission for England and Wales (CCEW), the Charity Commission for Northern Ireland and the Office of the Scottish Charity Regulator (OSCR). As Charities SORP is not currently obligatory in Ireland, the Charities Regulator is not a full member of the SORP-making body, but it has observer status.

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The new Charities SORP development process commenced in July 2020 following on from a governance review, which reported in June 2019 (see “[Guiding the Development of the Charities SORP](#)”). The initial stages involved the recruitment by the SORP-making body of a new sector-based expert SORP Committee. This SORP Committee plays a central advisory role in the current SORP-making process and also represents stakeholders whose views are needed to inform the process. Fourteen members, including those representing and working with charities in Ireland, have been appointed to the Committee following an open selection process carried out in 2020.

## 4. What are the current requirements?

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Irish incorporated charities are required to follow Irish company law and apply FRS 102 when preparing their financial statements. The Charities Regulator is aware that a significant number of Irish incorporated charities avail of the small company exemption under the Companies Act 2014 and file abridged financial statements in the Companies Registration Office. Abridged financial statements provide much less information than full financial statements and, therefore, do not provide the level of transparency and accountability expected from registered charities. In the interests of transparency and accountability, charities should produce unabridged (full) financial statements and make sure that these full financial statements are filed with the Companies Registration Office and that they are also made available to the general public by publishing them on a charities website.

Charities SORP is not currently a legal requirement in Ireland, however it is recommended best practice for larger charities.

The introduction of Charities SORP is intended to achieve the following:

- Improve the quality of financial reporting by charities;
  - Enhance the relevance, comparability and understandability of the information presented in charity financial statements;
  - Provide clarification, explanations and interpretation of accounting standards and their application to charities and to sector specific transactions; and
  - Assist those who are responsible for the preparation of the charity trustees’ annual report and financial statements.
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## 5. Format of Charities SORP financial statements

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The key elements of a SORP-compliant set of financial statements include:

- Charity Trustees' Annual Report;
- Statement of Financial Activities (SOFA);
- Statement of Financial Position (Balance Sheet);
- Notes to the Financial Statements.

### 5.1 Charity Trustees' Annual Report

Charities SORP requires the preparation of a Charity Trustees' Annual Report within the financial statements of a charity which provides background information about the charity and a written explanation of what the charity is trying to do and how it goes about it. The Charity Trustees' Annual Report within the financial statements (which is separate and distinct from the annual report that registered charities are required to submit to the Charities Regulator each year under section 52 of the 2009 Act) should contain the following headings:

- Objectives and activities;
- Achievements and performance;
- Financial review;
- Structure, governance and management;
- Reference and administrative details;
- Exemptions from disclosure; and
- Funds held as custodian trustee on behalf of others.

For further details on the content required under each heading please see [Module 1: Trustees' Annual Report of Charities SORP](#).

### 5.2 Statement of Financial Activities (SOFA)

Charities SORP requires a Statement of Financial Activities ("SOFA") (or a Statement of Comprehensive Income as it is known under the FRS102). The SOFA records all the incoming resources (income) and resources expended (expenditure) by the charity in the financial year. Charities SORP requires the split of current year figures between restricted

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income funds, which may only be spent for a particular purpose, and unrestricted funds, which can be spent on any of its purposes and endowment funds. 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 charity trustees decide to spend it (expendable endowment).

**Table 2 - The structure, format and heading of the SOFA required by Charities SORP are included within Module 4: Statement of Financial Activities of Charities SORP**

	Unrestricted funds	Restricted funds	Endowment funds	Total funds	Prior period Total funds
	€	€	€	€	€
<b>Income and endowments from:</b>					
Donations and legacies					
Charitable activities					
Other trading activities					
Investments					
Other					
<b>Total</b>					
<b>Expenditure on:</b>					
Raising funds					
Charitable activities					
Other					
<b>Total</b>					
Net gains/(losses) on investments					
<b>Net income/(expenditure)</b>					
<b>Transfers between funds</b>					
<b>Other recognised gains/(losses):</b>					
Gains/(losses) on revaluation of fixed assets					
Actuarial gains/(losses) on defined benefit pension schemes					
Other gains/(losses)					
<b>Net movement in funds</b>					
<b>Reconciliation of funds:</b>					
Total funds brought forward					
<b>Total funds carried forward</b>					

### 5.3 Statement of Financial Position (Balance Sheet)

The Balance Sheet provides a snapshot statement of a charity's assets and liabilities at the financial year end. The different classes of funds held by a charity are analysed at the end of the Balance Sheet to show the amounts held in each of the endowment, restricted, designated and general funds.

**Table 3 - The structure, format and heading of the Balance Sheet required by Charities SORP are included with Module 10: Balance Sheet of Charities SORP**

Note ref.		Total funds	Prior year funds
		€	€
	<b>Fixed assets:</b>		
	Intangible assets		
	Tangible assets		
	Heritage assets		
	Investments		
	Total fixed assets		
	<b>Current assets:</b>		
	Stocks		
	Debtors		
	Investments		
	Cash at bank and in hand		
	Total current assets		
	<b>Liabilities:</b>		
	Creditors: Amounts falling due within one year		
	Net current assets or liabilities		
	Total assets less current liabilities		
	Creditors: Amounts falling due after more than one year		
	Provisions for liabilities		
	<i>Net asset or liabilities excluding pension asset or liability</i>		
	Defined benefit pension scheme asset or liability		
	<b>Total net assets or liabilities</b>		
	<b>The funds of the charity:</b>		
	Endowment funds		
	Restricted income funds		
	Unrestricted funds		
	Revaluation reserve		
	Pension reserve		
	Total unrestricted funds		
	<b>Total charity funds</b>		

## 5.4 Notes to the financial statements

Every set of company financial statements requires notes which explain:

- The basis on which the financial statements have been prepared;
- The accounting policies that have been adopted which explain when assets and liabilities, income and expenditure are included in the financial statements and at what value.
- Other information required to provide more details of what the financial statements contain and to ensure that they provide a 'true and fair' view.

There are several additional disclosure requirements under Charities SORP in order to provide greater transparency and accountability which are not specifically required by FRS102.

Some of the key items include disclosure of transactions involving charity trustees, related parties, staff remuneration and ex-gratia payments.

This helps donors and the public to understand the aims and objectives of the charity, the resources available to it and how these resources have been used.

## 6. What are receipts and payments accounts?

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Many smaller non-company charities will have an option to prepare receipts and payments accounts rather than accrual accounts (see Table 2 above). Receipts and payments accounts involve simple cash accounting and are different to accrual accounts.

Accrual accounts are prepared on a 'true and fair' basis in accordance with accounting standards and the methods and principles of the applicable Statement of Recommended Practice (SORP). In contrast to receipts and payments accounts, where income and expenditure is accounted for only when the money is received or paid out, accrual accounts record the income of a particular activity when there is entitlement or probability about income, and expenses, when the liability is incurred. This is not necessarily the same date on which money is received or paid out.

Currently, there is no prescribed statutory format for receipts and payments accounts in Ireland. The Charities Regulator will provide further guidance and templates which will be designed to meet the minimum recommended levels of transparency and accountability in due course.

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## 7. What is an independent examination?

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To maintain public trust and confidence in the work of charities, charity law will require registered charities which meet the specified criteria as outlined in Table 1 above to have external scrutiny of their accounts. The aim of external scrutiny is to give stakeholders confidence in the information and figures presented in the accounts and to confirm that they have been prepared in accordance with the relevant legislation.

There are two main types of external scrutiny to which charity's accounts are subject to:

- independent examination
- audit

Smaller charities preparing receipts and payments accounts are likely to choose to have an independent examination of their accounts instead of an audit.

An independent examination provides an external check on the financial statements by an accountant. It is a simpler form of scrutiny than an audit but it still provides charity trustees, funders, beneficiaries, the public and other stakeholders with an assurance that the charity's money has been properly accounted for and accounting records kept. For many smaller charities independent examination will be appropriate. The Charities Regulator will provide further guidance and templates for charities and independent examiners in due course.

An audit is a detailed examination of the financial statements of an organisation by a registered auditor in order to obtain reasonable assurance in relation to their accuracy. Auditors are required to comply with International Standards on Auditing and they are also required to comply with ethical and quality control standards. Due to the level of information required by an auditor, an audit may require significant input in terms of time and resources from the entity being audited.

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## 8. Conclusion

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This guidance note provides an overview of the proposed accounting framework for registered charities which aim to increase transparency in the way charities report. Research by Amárach for the Charities Regulator demonstrates a strong link between greater transparency and accountability by charities and public trust in the sector.

The Charities Regulator intends to consult further on its proposals and looks forward to engaging with interested parties to see how greater transparency and accountability can be introduced through the introduction of standards of financial statements for charities and mandatory audits or examinations which are proportionate to the aims sought to be achieved.

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Charities Regulator  
3 George's Dock  
IFSC Dublin 1  
D01 X5X0

Telephone: 01 633 1500

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

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