

Prior House
6 Tilbury Place

Brighton

BN2 0GY

Tel. 01273 606160

Fax. 01273 673663

e: info@resourcecentre.org.uk

www.resourcecentre.org.uk

*Our information sheet **Charity Registration** gives guidance on what constitutes a charity and whether a group should register with the Charity Commission. This is available on our website or from the Resource Centre.*



Updated June 2010

Charity Reports and Accounts

This information sheet is a basic guide to the requirements for charities to produce accounts, reports and returns each year. By law, every charity must prepare a set of accounts. Most registered charities must prepare a Trustees' Annual Report, a set of accounts, and an Annual Return.

The aim of accounts and reports is to provide a clear picture of your charity's activities and financial position. Although at first sight these requirements may seem rather onerous to a small charity, they do require you to define your aims and activities clearly and to manage your finances well, both of which help to ensure that your organisation is more effective. The Trustees' Report is also an opportunity to describe your work to the public and to funding bodies.

The reporting and accounting requirements are summarised in table form, in appendix 2 for non-company charities and in appendix 3 for company charities. The terms used in the tables are all described in the information sheet itself.

Accounts, reports and returns

- ★ Every charity, even if it is not required to register with the Charity Commission, must keep accounting records. These include cash books, receipts, records of grants, etc, and must be retained for 6 years.
- ★ Every charity must prepare annual accounts and make them available on request. Every charity with an annual income above £5,000 is required by law to register with the Charity Commission and to produce a Trustees' Annual Report. (There are a few special exceptions to this rule).
- ★ Every registered charity with annual income or expenditure above £10,000 must submit an Annual Return to the Charity Commission each year. Those with a gross income over £25,000 must also submit a Trustees' Annual Report and a set of accounts. These must be sent or filed online within 10 months of the end of the financial year. A company charity must file its accounts at Companies House within 9 months.
- ★ Your constitution or other governing document will usually require you to send the annual accounts and Trustees' Annual Report (where appropriate) to members and approve them at an AGM. It is certainly good practice to do so even if you are not required to.

Charity Reports and Accounts

- ★ The type of accounts and report which a charity has to prepare depends on its legal structure, its income and the value of its assets.

Legal structure

Charities may be split into two basic categories:

1. Non-company charities
 - a. Unincorporated associations
 - b. Charitable trusts
 - c. Charitable Incorporated Organisations (CIO)
2. Company charities (previously known as charitable companies)

Accounts

There are two forms of accounting:

- a. Receipts and Payments
- b. Accruals.

A non-company charity with a gross income of £250,000 or less during the year may prepare its accounts on either the receipts and payments basis or the accruals basis. A non-company charity with a gross income of over £250,000 must adopt accruals accounts. In spring 2010 a new form of charity - the CIO - will come into existence. This too will be subject to the same accounting regulations as non-company charities.

Charity law does not specify any format for preparing receipts and payments accounts but they should be prepared in a consistent way from year to year. They must include a statement of assets and liabilities at the end of the year. The Charity Commission provides straightforward forms for charities which wish to use them for their end-of-year accounts.

A charity preparing accruals accounts must follow the Statement of Recommended Practice (Charity SORP). The Charity Commission provides packs to help a non-company charity prepare accruals accounts and meet SORP requirements.

[NB. Gross income is defined by the Charity Commission as the total recorded income excluding loans, proceeds from the sale of assets and certain other 'specialist' types of income.]

For a brief description of these forms of accounts, please see appendix 1.



Charity Reports and Accounts

Scrutiny of accounts

There are two types of external scrutiny of accounts:

- a) Independent Examination
- b) Audit

The type of scrutiny required depends on whether the charity is a company, its income and the wording in its constitution.

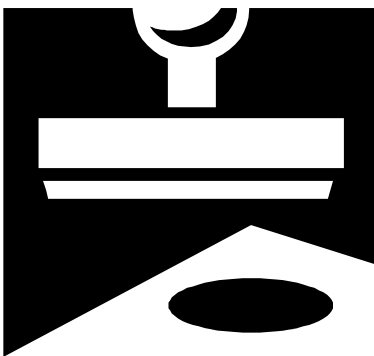
Non-company charities

- ★ A non-company charity with an income below £25,000 in the relevant financial year is not required to have an external scrutiny of its accounts, unless its constitution specifies an independent examination or audit. However it is good practice to have your accounts prepared or examined by someone independent.
- ★ A non-company charity with gross income above £25,000 but not exceeding £500,000 in the relevant financial year must have an external scrutiny of its accounts. Trustees may choose either an independent examination or an audit, unless its constitution is specific.
- ★ If the charity chooses an independent examination and its gross income exceeds £250,000, the examiner must be a member of a body specified by the Charities Act 2006. This is also a recommendation for any non-company charity with an income between £100,000 and £250,000.
- ★ A non-company charity with a gross income above £500,000 in the relevant financial year (or one whose gross assets exceed £3.26m and gross income exceeds £250,000) must have an audit.
- ★ A Charitable Incorporated Organisation is expected to be subject to the same rules as other non-company charities.

Check your constitution

If your income is below £500,000 you need to check the wording in your constitution. The Charity Commission has issued guidance that the term 'audit' is open to interpretation.

If your constitution was approved before the 1993 Charities Act, then audit will normally be taken to mean 'the appropriate external scrutiny required by the current legislation'. In this case you can have an independent examination.



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However, you will need to have an audit, or amend your constitution if:

- ★ your constitution was approved before 1993, but clearly states that a professional auditor must carry out an examination or audit, or
- ★ your constitution was approved after 1993 and refers to an audit.

Unless your constitution has the power of amendment you will need to get Charity Commission approval.

Company charities

Generally, company charities prepare accounts under company law and must also follow the Charity SORP. However, the regulations applying to small company charities have been simplified by the Charities Act 2006 and Companies Act 2006. Company charities which qualify as small companies under company law are subject to charity law provisions – they now come under the same accounting and examination regimes as non-company charities. The definition of a small company is that it meets two out of the following three criteria:

1. Annual turnover not exceeding £5.6m
 2. Assets not exceeding £2.8m
 3. Up to 50 employees
- ★ A company charity with either a gross income above £500,000 or gross assets above £3.26m must have accounts audited by a registered auditor. For a small company, the audit will be under the Charities Act.
 - ★ A company charity with gross income not exceeding £500,000 and assets not exceeding £3.26m is not required to have an audit under company law and may instead have an independent examination under charity law. If the charity's gross income exceeds £250,000, the examiner must be a member of a body specified by the Charities Act 2006. This is also a recommendation for any company charity with an income between £100,000 and £250,000.
 - ★ A company charity with an income below £25,000 in the relevant financial year is not required to have an external scrutiny of its accounts, unless its constitution specifies an independent examination or audit. However it is good practice to have accounts prepared or examined by someone independent. This exemption does not apply to company charities which have charitable or non-charitable subsidiaries – these must prepare group accounts.

Charity Reports and Accounts

- ★ Company charities must send accounts to Companies House within nine months of the end of their financial year.

Independent Examination of Accounts

This is the process of scrutinising a charity's accounts below the level of a professional audit. The procedures are defined by law and by the Directions of the Charity Commission. The independent examiner will gain an understanding of the charity, look at the accounts and supporting documents and write an independent report to accompany the accounts and Trustees' report.

The duty of the independent examiner is to give what is called 'negative assurance'. After looking at the evidence the examiner reports whether or not certain matters "have come to my attention". These include lack of accounting records and the failure of accounts to comply with the Charities Act. As well as scrutinising the accounts, the independent examiner may also help prepare the accounts in the format required and help prepare the Trustees' annual report.

An independent examiner may be a charity treasurer or finance worker or an accountant from industry or the public sector. The key is that they must have a good understanding of charity finance and the law. To carry out an independent examination of a charity with an income above £250,000 the examiner must have a professional qualification or be a member of a body specified in the Charities Act 2006, such as the Association of Charity Independent Examiners (ACIE).

When choosing an independent examiner, you should make sure that he or she is fully independent of your charity and able to carry out a proper charity independent examination. The Charity Commission gives guidance on its website and in its publications on selecting an examiner. ACIE can give you the details of local examiners who are on its register. There is however no requirement to register with ACIE and there are many unregistered examiners who fully meet Charity Commission standards.

Audit

The audit process is defined by law and is carried out by a Registered Auditor (a chartered accountant). An audit is the highest level of scrutiny of accounts and the auditor looks for positive evidence to enable the accounts to be described as a "true and fair" view.

Every charity with an annual income above £500,000 (or with an income over £250,000 and assets above £3.26m) is required to have an audit.

*Association of Charity
Independent Examiners
(ACIE),
Bentley Resource Centre
High Street, Bentley
Doncaster DN5 0AA
Tel. 01302 828338
email: info@acie.org.uk
Website: www.acie.org.uk*

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Funding and other bodies may ask inappropriately for a copy of your audited accounts, as the term 'audit' is often used very loosely. If your charity is not required to have an audit, point this out and send them your annual accounts together with the independent examiner's report.

Trustees' Annual report

The Charity Commission website has standard Annual Report forms that you can download and complete at www.charitycommission.gov.uk/publications/cc16.asp. They also have examples of reports from a range of charities in their 'About Charities/Charities accounts and reports' section at www.charitycommission.gov.uk/investigations/sorp/sorp05extraapb.asp.

Every charity with a gross income above £5,000 must prepare a Trustees' Annual Report. The report should explain the aims of the charity and how it is achieving them. It is a chance to show the benefit to the public of the charity's work and also show funders how their money was used and what was achieved with it. From the financial year 2008-09 every charity will be required to demonstrate that its activities are for the public benefit, as set out in Charity Commission guidance. Every charity with a gross income above £10,000 must submit its Trustees' Annual Report to the Charity Commission.

There are legal requirements for the contents of the report and these depend on the type of charity and its income. There is a useful list of headings which meet these legal requirements in the Charity Commission publication CC15b (section H). The headings cover reports from a simplified report to a full report. A simplified report must give basic details such as the names of trustees, the structure of the charity and a brief financial review as well as details of its aims and activities. You may find it useful to look at the report of a charity similar to your own. There are many local charities who will make one available or you can visit the Charity Commission website which has examples of reports from a range of charities.

- ★ A charity with a gross income of £25,000 or less must prepare a simplified annual report. A charity of this size should not send its annual report and accounts to the Charity Commission unless the Commission asks for them.
- ★ A charity with a gross income of over £25,000 but not exceeding £500,000 and with total assets not exceeding £3.26m must prepare an annual report but it may be simplified. However charities are expected to provide 'full disclosure', so you should aim to give the maximum amount of detail appropriate to the size of your charity.
- ★ A charity with a gross income above £500,000 (or whose gross assets exceed £3.26m and gross income exceeds £250,000) must complete a full annual report.

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- ★ A company charity must also prepare a Directors' Report under Companies Act. In practice, this report is usually expanded to include all the information required in the Trustees' Annual Report. A company charity must file its accounts at Companies House within 9 months of the end of its financial year.
- ★ Charities are not limited by the Statement of Recommended Practice (SORP) and may also include other matters such as an environmental impact report or a chair's report.
- ★ The annual report and accounts must be sent to the Charity Commission or filed online within 10 months of the end of the financial year. It is an offence not to submit the Trustees' Annual Report and trustees can be fined.

Annual Return

Every charity with a gross income of over £10,000 will be sent an Annual Return by the Charity Commission. This asks you to update details such as name of trustees, bank account and charity classification and activities. You are also asked to confirm that there have been no serious incidents such as fraud or lack of a policy to safeguard vulnerable people (where appropriate). You must return this by the deadline given on the Return. It is an offence not to submit it.

Every charity with a gross income above £1m must also complete a Summary Information Return.

A charity with a gross income up to £10,000 does not have to complete an Annual Return. The Charity Commission will send it an Annual Information Update form which it is expected to complete in order to keep its entry on the Charity Register up-to-date.



*Charity Commission,
PO Box 1227,
Liverpool L69 3UG.
Tel 0845 300 0218 Typetalk
0845 300 0219
www.charitycommission.gov.uk*

*Accounting and Reporting by
Charities: Statement of
Recommended Practice (SORP
2005) is available from
CCH publishers.
Tel. 0870 777 2906.
www.cch.com
or on the Charity Commission
website at [http://
www.charitycommission.gov.uk/
investigations/sorp/
sorp05docs.asp](http://www.charitycommission.gov.uk/investigations/sorp/sorp05docs.asp)*

*We have a copy at the
Resource Centre of CC15b,
CC16, CC17 and CC63a which
you can look at.*

Charity Reports and Accounts

Registered status to appear on documents

A Registered charity with a gross income of £10,000 or more in the last financial year is required by law to state on a range of documents that it is a registered charity and to quote its registration number. These documents include cheques, headed notepaper, advertisements, notices, material placed on websites and any documents used for fundraising or membership purposes.

Charity Commission guidance and packs

- ★ Charity Reporting and Accounting (CC15b April 2009) – guide to the accounts, annual reports and annual returns which charities are required to prepare from accounting years beginning on after 1st April 2009. Section H contains a useful list of headings which cover the legal requirements of an annual report.
- ★ Accounting and Reporting by Charities: Statement of Recommended Practice (SORP 2005) – full details of the type and content of accounts and Trustees' Annual Reports. This publication is relevant to every charity, and is essential for charities preparing accruals accounts.
- ★ Receipts and Payments Accounts Pack (CC16) – guidance for charities preparing receipts and payments accounts and forms for completing the accounts and the Trustees' Annual Report.
- ★ Accruals Accounts Pack (CC17) – guidance for non-company charities preparing accruals accounts and forms for completing the accounts and the Trustees' Annual Report
- ★ Charities and Public Benefit – section G gives guidance on reporting on the public benefit of your charity.
- ★ Independent Examination of Charity Accounts: Directions and guidance notes (CC63a)

Charity Reports and Accounts

Appendix 1 - forms of accounting

Receipts and Payments accounts

This is a simplified form of accounting which summarises the money received and paid out during the financial year. The final balance shows how much money your charity has at the end of the year.

Charity law does not specify any format for preparing receipts and payments accounts but they should be prepared in a consistent way from year to year. The Charity Commission provides straightforward forms for charities which wish to use them as a format for their accounts. If you present receipts and payments accounts, you must also provide a statement listing assets and liabilities at the end of the year. This shows debtors (ie money owed to the charity), creditors (ie money which the charity owes) and the value of equipment, land and buildings.

This type of accounting is much easier for a very small charity. It is also adequate for a slightly larger charity so long as its financial dealings are straightforward. However it does not always give a clear picture of the year's finances and can make it harder to compare one year with the next. For example, if you were to pay your annual insurance at the beginning of April and pay the following year's premium at the end of March, your accounts would show a large insurance bill in the first year and none in the following.

When the financial structure of the charity becomes more complicated, it may be better to adopt accruals-based accounting. You may need to get professional advice if you move over to accruals accounting in order to ensure that you make the change smoothly and keep the right sort of records during the year to enable your charity to complete the annual accounts required.

Accruals Accounts

Accruals accounts present a clearer picture of the charity's income and expenditure during the year. They show income and expenditure as these relate to the year in question, rather than simply recording money received and paid out. The balance sheet gives a 'snapshot' of the charity's financial position at the end of the year.

Charity Reports and Accounts

Accruals accounts adjust for debtors, creditors and accruals (ie sums which you owe for regular use of services such as electricity, gas and telephone but which have not yet been invoiced). It also treats assets - equipment, land and buildings - in a different way from receipts and payments accounts. For example, the full cost of equipment above a certain price is not shown as expenditure. It is an asset to the charity as it has a resale value, although this declines over time. This equipment (known as capital equipment) is therefore depreciated over a period of, say, 4 years and the annual charge for depreciation is shown as expenditure. The current value of the equipment is shown on the balance sheet as an asset, together with the value of all the other resources of the charity.

A charity preparing accruals accounts must follow the Statement of Recommended Practice (Charity SORP). The report and accounts must consist of a balance sheet, a statement of financial activities (SOFA) showing incoming resources and how they were used, and explanatory notes.

The Charity Commission provides packs to help a non-company charity prepare accruals accounts and meet SORP requirements.

Non-company charities

Income or expenditure in relevant financial year	Gross income up to £5,000	Gross income above £5,000 and up to £10,000	Gross income above £10,000 and up to £25,000	Gross income above £25,000 and up to £250,000	Gross income above £250,000 and up to £500,000 and gross assets up to £3.26m	Either gross income above £500,000 or gross assets above £3.26m (and income above £250,000)
Register with Charity Commission	Not required	Yes	Yes	Yes	Yes	Yes
Type of Accounts	Receipts and Payments. May choose Accruals	Receipts and Payments. May choose Accruals	Receipts and Payments. May choose Accruals	Receipts and Payments. May choose Accruals	Accruals	Accruals
Scrutiny of Accounts	No independent examination of accounts or full audit required, unless stated in constitution	No independent examination of accounts or full audit required, unless stated in constitution	No independent examination of accounts or full audit required, unless stated in constitution	Either Independent examination of accounts or full audit, unless specified in constitution See note 1 below	Either Independent examination of accounts or full audit, unless specified in constitution. See note 2 below	Full Audit
Trustees' Annual Report	Not required by Charity Commission but must be available to public on request	Not required by Charity Commission but must be available to public on request	Not required by Charity Commission but must be available to public on request	Simplified Annual Report See Note 3 below	Simplified Annual Report See Note 3 below	Full Annual Report
Filing of Annual Report and Accounts	Filing not required. Keep accounts available for inspection	Filing not required. Keep accounts available for inspection	Only if requested by Charity Commission	File with Charity Commission within 10 months	File with Charity Commission within 10 months	File with Charity Commission within 10 months
Annual Return (sent by Charity Commission)	No	No. Fill in Annual Update only	Complete Return by date specified on return	Complete Return by date specified on return	Complete Return by date specified on return	Complete Return by date specified on return

Note 1. It is strongly recommended that any non-company charity with an income between £100,000 and £250,000 uses and examiner that is a member of a body specified by the Charities Act 2006.

Note 2. If a charity with a gross income above £250,000 chooses independent examination, the examiner must be member of a body specified by Charities Act 2006.

Note 3. The report should give the maximum amount of detail which you consider appropriate to the size of your charity.

Company charities

which qualify as small companies (note 1)

Income or expenditure in relevant financial year	Gross income below £5,000	Gross income above £5,000 but not exceeding £10,000	Gross income above £10,000 but not exceeding £25,000	Gross income above £25,000 but not exceeding £500,000 and with assets up to £3.26m	Either income above £500,000 or assets above £3.26m (and gross income exceeds £250,000)
Register with Charity Commission	Not required	Yes	Yes	Yes	Yes
Type of Accounts	Accruals	Accruals	Accruals	Accruals	Accruals
Scrutiny of Accounts	No independent examination of accounts or full audit required unless specified in the Articles of Association. See note 2 below.	No independent examination of accounts or full audit required unless specified in the Articles of Association. See note 2 below.	No independent examination of accounts or full audit required unless specified in the Articles of Association. See note 2 below.	Either independent examination of accounts or full audit, unless specified in Articles of Association. See note 3 below	Full Audit by registered auditor
Trustees' Annual Report and Directors' Report	Directors' Report combined with simplified Trustees' Report	Directors' Report combined with simplified Trustees' Report	Directors' Report combined with simplified Trustees' Report	Directors' Report combined with simplified Trustees' Report, but with 'full disclosure' See note 4 below	Directors' Report combined with detailed Trustees' Report
Filing Annual Report and Accounts	File with Companies House within 9 months. Only file with Charity Commission if requested	File with Companies House within 9 months. Only file with Charity Commission if requested	File with Companies House within 9 months. Only file with Charity Commission if requested	File with Companies House within 9 months and with Charity Commission within 10 months	File with Companies House within 9 months and with Charity Commission within 10 months
Annual Returns to Charity Commission and Companies House (sent to the charity by each body)	Complete Companies House return. For Charity Commission, fill in Annual Information Update only	Complete Companies House return. For Charity Commission, fill in Annual Information Update only	Complete both returns by dates specified on the returns	Complete both returns by dates specified on the returns	Complete both returns by dates specified on the returns

Note 1. A small company is one which meets 2 of the following criteria: annual turnover below £5.6m; gross assets below £2.8m; up to 50 employees.

Note 2. Where there is no independent examination of accounts or full audit, it is good practice to have accounts prepared or examined by a person independent of your charity.

Note 3. If a charity with a gross income above £250,000 chooses independent examination, the examiner must be member of a body specified by Charities Act 2006. This is also a strong recommendation for any company charity with an income between £10,000 and £250,000.

Note 4. The report should give the maximum amount of detail which you consider appropriate to the size of your charity.