

Prior House  
6 Tilbury Place  
Brighton  
BN2 0GY

Tel. 01273 606160  
Fax. 01273 673663

e: [info@resourcecentre.org.uk](mailto:info@resourcecentre.org.uk)  
[www.resourcecentre.org.uk](http://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 January 2014

# 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 prepare publicly accessible reports of their accounts, and these must be retained for 6 years.
- Every charity with an annual income above £5,000 is required by law to register with the Charity Commission.
- Every registered charity must produce a Trustees' Annual Report and make them available on request (although it may not be necessary to send it to the Charity Commission).
- Those with an income below £10,000 are not required to submit an Annual Return but must advise the Charity Commission of changes to the charity's details including income and expenditure each year (called an Annual Update).
- Every registered charity with annual income 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 the Trustees' Annual Report and an independently examined or audited 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.
- 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

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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

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There are two forms of accounting:

1. Receipts and payments
2. 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 late 2012 a new form of charity – the CIO – is due to 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 that 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.]

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

## Scrutiny of accounts

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There are two types of external scrutiny of accounts:

- 1) Independent examination
- 2) 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.

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.
  - 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.

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.

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*Association of Charity  
Independent Examiners (ACIE),  
Association of Charity  
Independent Examiners, The  
Gatehouse, White Cross, South  
Road, Lancaster, LA1 4XQ  
Tel. 01524 34892  
email: [info@acie.org.uk](mailto:info@acie.org.uk)  
Website: [www.acie.org.uk](http://www.acie.org.uk)*

## Trustees' Annual Report

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Every charity 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. Since the financial year 2008-09 every charity has been 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 £25,000 must submit a PDF of 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.

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*The Charity Commission website has standard Annual Report forms that you can download and complete at [www.charitycommission.gov.uk](http://www.charitycommission.gov.uk). They also have examples of reports from a range of charities in their 'Charity Requirements and Guidance/ Charity accounting and reporting' section at [www.charitycommission.gov.uk](http://www.charitycommission.gov.uk)*

- 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.
- 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

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An Annual Return is an online form that must be completed each year by all registered charities with incomes over £10,000. You will receive an email reminder to prompt you to go online and fill in the form. You'll be asked 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.

In 2013 and 2014 there have been additions to the compulsory questions that are included in the Annual Return form. Annual Returns submitted for financial years ending in 2013 must include information about whether the charity is registered for gift aid, details of land and buildings owned by the charity, number of volunteers, and details of overseas spending and activities.

For financial years ending on or after 1st January 2014, Annual Returns must also include information on whether the charity:

- pays its trustees
- raises funds from the public
- works with a commercial business that raises money for the charity
- has a trading subsidiary (a company whose profits go to the charity)
- has policies for risk management, investment, safeguarding vulnerable beneficiaries, managing conflicts of interest, managing volunteers, and handling complaints.

You must return your completed Annual Return to the Charity Commission by the deadline given on the Return. It is an offence not to submit it.

Every charity with a gross income above £1m had to complete a Summary Information Return for financial years ending before 1st January 2014. This will no longer be required for financial years ending on or after 1st January 2014.

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

## Registered status to appear on documents

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

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*Accounting and Reporting by  
Charities: Statement of  
Recommended Practice (SORP  
2005) is available from  
CCH publishers for £15  
Tel. 0844 561 8166  
www.cch.com  
or on the Charity Commission  
website for free. Go to  
charitycommission.gov.uk and  
type "SORP 2005 documents"  
into the search bar.*

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*All these publications are  
available from the Charity  
Commission website. Go to  
charitycommission.gov.uk and  
type the name and number of  
the publication into the search  
bar.*

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*If you do not have access to  
the internet you can come into  
the Resource Centre and we  
will help you to find the  
information you need and  
print it out.*

### Charity Commission guidance and packs

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The Charity Commission provides lots of really useful guidance and information about how to prepare your accounts, trustees annual report and annual return.

The following Charity Commission publications are particularly useful.

- Charity Reporting and Accounting (CC15b) – guide to the accounts, annual reports and annual returns which charities are required to 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).

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**Appendix 1 - forms of accounting**

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**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.

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.