



Charity Reporting and Accounts

A guide for clients



Understanding Charity 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.

Working out what requirements apply to your charity

The framework for accounting by charities sets out different requirements for different sizes and types of charity. To understand how it applies to your charity, you need to check:

- whether or not your charity is also a company;
- its income for the current financial year;
- the value of its assets; and
- whether or not it is required to be registered as a charity.

You should then establish:

- what type of accounts must be prepared;
- what information is needed in the Trustees' Annual Report;
- whether the accounts need an independent examination, accountant's report or audit; and
- what information must be sent to the Charity Commission.

- 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

Charities may be split into two basic categories:

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

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.

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.

Trustees' Annual Report

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.

- 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.

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. The Charity Commission also has a useful section on their website called Trustees' annual report: how to prepare, which includes example Trustees' Annual Reports and a standard Annual Report form that you can use to help you write your report.

Annual Return

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.

Types of charity financial statements

Accounts prepared on an accruals basis

The accruals concept requires the effects of transactions to be reflected as far as possible for the period in which they occur, which is not necessarily the period in which cash is received or paid. An example is reporting the cost of electricity consumed during the financial year which can differ from electricity paid for during the financial year.

The *Statement of Recommended Practice: Accounting and Reporting for Charities* (SORP) sets out recommended practice for preparing the Trustee's Annual Report and the accounts of a charity on an accruals accounts basis. Financial statements prepared in accordance with the Charity SORP normally include:

- a statement of financial activities (SOFA) which shows the results of operations and activities for the year,
- a balance sheet, which shows assets, liabilities and funds held at year end,
- a cash flow statement (not required for small charities) which provides an analysis of cash movements,
- notes to financial statements, which are an integral part of financial statements, providing additional explanations and details on financial statement items.

Accounts should be prepared in line with accounting policies adopted by the charity, which enable the accounts to give a true and fair view and are consistent with accounting standards and the accounting concepts of accruals and going concern.

Receipts and payments accounts

Receipts and payments accounts are based on cash accounting rather than accrual accounting. Smaller charities¹ which are not registered companies can opt to prepare accounts on a receipts and payments basis. They provide a summary of money transactions during the year (money received and money paid) as well as information on the charity's assets and liabilities at year end. Financial statements prepared on a receipts and payments basis normally include:

- a receipts and payments account
- a statement of assets and liabilities (in Scotland this is called a statement of balances)

Preparation of financial statements

It is the trustee's responsibility to ensure financial statements are produced. Management may be delegated to carry this out. In some cases, charities without financial expertise may engage the services of others outside of the organisation, including qualified accountants, to prepare financial statements on their behalf.

What type of accounts should be prepared?

The charity's gross income for a given financial year will determine the type of accounts to be prepared for that particular year. However, if:

- the charity's constitution says it should prepare accrued accounts
- the charity trustees have taken a decision to prepare accrued accounts
- any enactment says that the organisation should prepare accrued accounts.

then accrued accounts must be prepared even if the charity's gross income would otherwise allow accounts to be produced on the receipts & payments basis.

Group accounts

Any parent charity where the gross income of the group (the parent charity and its subsidiaries) is £500,000 or more after consolidation adjustments, must prepare group accounts. Please read the Accounting and Reporting by Charities: Statement of Recommended Practice (the SORP 2005) for further details.

Types of report on charity financial statements

Reports on the financial statements will indicate the type and degree of work done and the level of assurance provided by the report in respect of the financial statements. Reports produced on charity accounts fall in to two types:

- Audit
- Independent Examination

See our Audit & Independent Examination Factsheet via www.bwm.co.uk/wp-content/uploads/2013/10/Audit-and-Independent-Examinations-Factsheet.pdf

FOR GENERAL INFORMATION ONLY

Please note that this guide is not intended to give specific technical advice and it should not be construed as doing so. It is designed to alert clients to some of the issues. It is not intended to give exhaustive coverage of the topic.

Professional advice should always be sought before action is either taken or refrained from as a result of information contained herein.

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