

Charity



# Charity Reporting and Accounts

A guide for clients



## **Introduction**

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. Larger charities must also include a Strategic Report.

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.
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- 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 it 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. This must be filed online within 10 months of the end of the charity's financial 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 charity's financial year. A company charity must file its accounts at Companies House within 9 months.
  - A charitable incorporated organisation must always file its Trustees' Annual Report and accounts with the Charity Commission, there is no income exemption available.
  - 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 £1,000,000 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 £1,000,000 in the relevant financial year (or one whose gross assets exceed £3.26m and gross income exceeds £250,000) must have an audit.

## **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 £6.5m (£10.2m from January 2016)
  2. Assets not exceeding £3.26m (£5.1m from January 2016)
  3. Up to 50 employees
- A company charity with either a gross income above £1,000,000 or gross assets above £3.26m and gross income above £250,000 must have accounts audited by a registered auditor.

- A company charity with gross income not exceeding £1,000,000 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.

## The new SORP

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.

One of the key changes is that the new SORP is in a modular form and the starting point is to assess which of the 29 different modules for disclosure requirements are most likely to apply the charity. There is a dedicated microsite provided by the Charity Commission detailing these modules which also now has example sets of new format accounts available to view: [www.charitysorp.org](http://www.charitysorp.org)

The impact of the change will vary from charity to charity, from very little to significant depending for example on the nature and extent of the activities carried on!

## **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. 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.

- 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 £1,000,000 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 £1,000,000 (or whose gross assets exceed £3.26m and gross income exceeds £250,000) must complete a full annual report.
- 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

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 recent years there have been additions to the compulsory questions that are included in the Annual Return form, buildings owned by the charity, number of volunteers, and details of overseas spending and activities for example Annual Returns must also include information on whether the charity claims:

- gift aid
- owns land and buildings
- has any volunteers
- 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, conflicts of interest, volunteer management, handling complaints, and paying staff.

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.

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 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](#).



## **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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