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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.

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Charity Reports and Accounts

This information sheet is a basic guide to the Annual Reports & Accounts which registered charities are required by law to submit to the Charity Commission within ten months of the end of the financial year.

The aim of the annual report and the accounts 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.

Requirements for Reports and Accounts

The type of annual report and accounts which a charity has to prepare depends on its legal structure, its size and the form in which it keeps its accounts.

Charities may be split into two basic categories:

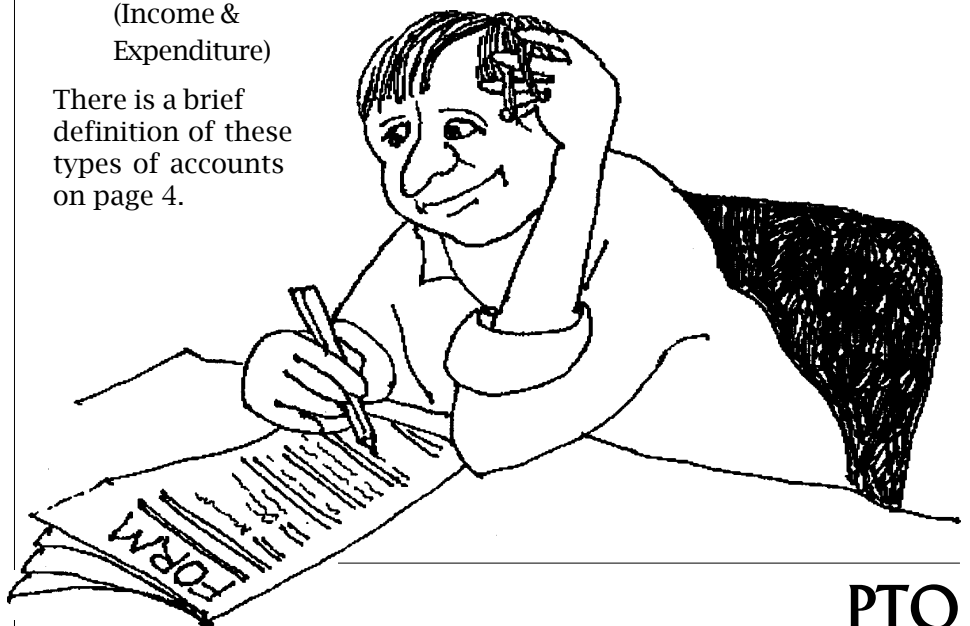
- charities which are limited companies (incorporated charities); and
- charities which are not limited companies (unincorporated charities)

Within each category, the precise reporting requirements are determined by the income level of the charity.

For charities which are not limited companies, the form of their accounts also affects the reporting requirements. There are two forms of accounts:

- Receipts & Payments accounts
- Accruals accounts
(Income & Expenditure)

There is a brief definition of these types of accounts on page 4.



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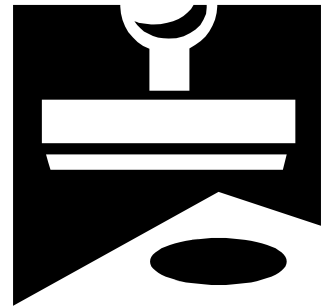
There is also a definition of the two types of annual scrutiny of accounts:

- a) Independent Examination of Accounts
- b) Audit

The two tables on pages 7 and 8 summarise the reporting requirements for both incorporated and unincorporated charities and we look at the requirements in more detail below.

1. Charities which are limited companies (charitable companies)

Charitable companies must satisfy both charity law and company law. They must prepare accruals accounts and prepare an annual report. Provided they are under a certain size financially, they qualify as a Small Entity and avoid some of the requirements of company law; for example, they may not need a full audit but a less rigorous examination known as an accounting report. Every charitable company must file full accounts at the charity commission and even very small companies are advised to get advice from a chartered accountant.



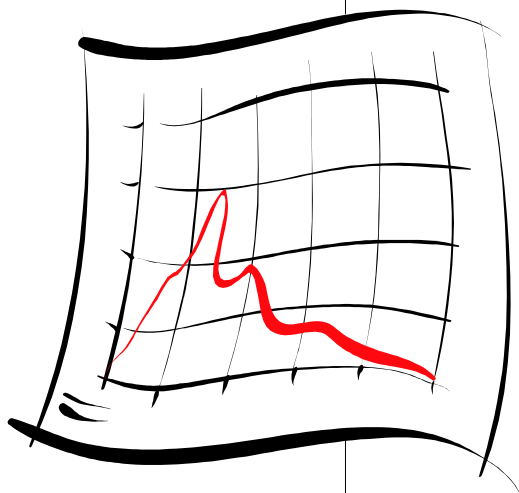
2. Charities which are not limited companies

- ★ Any charity may choose to keep accruals accounts even if the law does not require it to do so. If you do keep accruals accounts, you must have an independent examination of accounts carried out by someone experienced in charity accounting and follow Charity Commission requirements for the Trustees annual report.
- ★ Any charity whose constitution calls for an audit must keep accruals accounts regardless of its size and also have a full audit of its accounts. It may be best to seek to amend your constitution if the audit is not actually required by law, in order to avoid unnecessary work and expense.

Gross annual income below £10,000

- ★ A small charity with a gross income below £1,000 per year is not required to register with the Charity Commission but the law still requires it to keep proper accounts. It is very likely that its constitution or trust deed will require it to prepare annual accounts for its AGM.

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★ A charity with an annual gross income above £1,000 but below £10,000 is not required by law to provide the Charity Commission with a Trustees report or a report on its accounts. However its constitution or trust deed will almost certainly require it to prepare a brief Trustees report (groups often call this 'Chair's report') and to have the accounts inspected by someone from outside the organisation prior to the AGM. It is good practice to do both, so a charity in this income bracket is advised to follow the requirements of a charity in the income bracket above it and to have an independent inspection of accounts.

★ Every registered charity is required to complete the Charity Commission Annual Return. This is separate from the charity's Annual Report & Accounts. The return asks for some financial information from the accounts. Therefore even a very small charity needs to prepare some form of annual accounts whether or not its constitution requires it.

Gross annual income above £10,000 and below £100,000

- ★ A charity in this income bracket may opt to keep receipts & payments accounts and must have an independent examination. There are statutory requirements for both the Trustees annual report and the examiner's report.
- ★ A charity may choose to keep accruals accounts, in which case its independent examination should be carried out by someone experienced in charity accounting. If the charity is quite complex it will be expected to move to accruals accounts even if under the £100,000 threshold.

Gross annual income above £100,000

- ★ An unincorporated charity with a gross income or total expenditure above £100,000 and below £250,000 must prepare accruals accounts and have an independent examination of accounts. It is strongly recommended by the Charity Commission that this is carried out by a qualified accountant or person with qualifications in charity finance.
- ★ Any charity with a gross income or total expenditure above £250,000 must keep accruals accounts and have a full audit.

Charity Reports and Accounts

For details see Reporting the Activities and Achievements of Charities in Trustees' Annual Reports (CC59) at www.charitycommission.gov.uk/publications/cc59.asp. Copies of Account Packs and Annual Report pro-formas are held in the Resource Centre.

Any charity with a gross income or total expenditure above £250,000 must follow new guidelines from the Charity Commission on the preparation of Trustees' annual reports. The guidance says six key points should be included:

- ★ explanation of the charity's objectives;
- ★ the charity's strategy to achieve the objectives;
- ★ the main activities undertaken to achieve the objectives;
- ★ achievements in relation to the objectives set;
- ★ future plans;
- ★ how all this relates to the accounts.



Smaller charities are expected to explain their activities in the Trustees' report, but they may not need to give as much detail. However, this is a useful guide for charities in the £100,000 - £250,000 bracket.

3. 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.

4. Types of accounts

Receipts & Payments Accounts

The receipts & payments basis is a simplified form of accounting. It summarises the movements of money during the financial year; entries are only made in the cash book at the time that cash or a cheque is received or a payment is made. The final balance does not take into account debtors (ie. money owing) or creditors (ie. money which you owe) - it simply shows how much your group has at the end of the year.

The law does not specify any format for preparing Receipts & Payments accounts but they should be prepared in a consistent way

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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 & Payments accounts, you must also provide a statement listing assets and liabilities at the end of the year; this includes debtors, creditors and the value of equipment, land and buildings.

This type of accounts is much easier for a small charity. It is adequate for a charity with an annual income below £100,000 so long as its financial dealings are straightforward. 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 group to complete the annual accounts required.

Accruals Accounts

The accruals basis is a method of accounting which adjusts the receipts and payments by including debtors, creditors and charges for depreciation to arrive at the income and expenditure account. Accruals accounts report the value of all the resources of the charity and the balance sheet provides a 'snapshot' at the beginning and end of the year.

Every charitable company must use the accruals basis. An unincorporated charity with an annual income below £100,000 may choose either receipts & payments or accruals accounts; above that income threshold it is required to adopt accruals accounts.

A charity preparing accruals accounts, whatever its size, is required by law to follow the Statement of Recommended Practice (Charity SORP). The report and accounts must consist of:

- ★ an annual report to explain the activities and finances of the charity
- ★ a statement of financial activities showing incoming resources and how they were used
- ★ income and expenditure
- ★ a balance sheet
- ★ notes to the accounts
- ★ audit report or independent examiner's statement.

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A charity with an annual income above £250,000 is required to include statements covering its assessment of Risk Management and its Reserves policy. It is best practice for every charity using accruals-based accounts to include these statements. There are precise rules on the preparation of accruals accounts and the trustees report, and most organisations will need to get professional advice.

5. Types of examination of accounts

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 for circulation with 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 £100,000 it is expected that the examiner will be a professional accountant or someone with a qualification in charity finance.

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 selecting an examiner in Appendix 1 of Independent Examination of Charity Accounts 2001 (CC63). There is also a professional body called the Association of Charity Independent Examiners (ACIE) which can give you the details of local examiners who are registered with ACIE. There is however no requirement to register with ACIE and there are many unregistered examiners who fully meet Charity Commission standards.

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Independent Examiners
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High Street, Bentley
Doncaster DN5 0AA
Tel. 01302 828338
email: info@acie.org.uk
Website: www.acie.org.uk*

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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.

All charitable companies must have their accounts scrutinised by a registered auditor, though smaller companies may only require an ‘accounting report’ rather than a full audit. Every charity with an annual income above £250,000 is required to have an audit. Funding organisations sometimes ask for a copy of audited accounts; if your charity is not required to have an audit, point this out to the funding body and explain the legal basis of the independent examination or the accounting report (as appropriate) – funders will usually be satisfied.

6. Summary: charities which are not limited companies

Gross income or total expenditure in current year ¹	Trustees Annual Report	Basis of accounts	Minimum requirement for report on accounts
Below £1,000	None, but registered charities may be asked for summary report	Receipts & Payments	No report required or Accruals ^{2a, 2b}
Above £1,000 but below £10,000	Summary report may be requested ³	Receipts & Payments or Accruals ^{2b}	None ⁴
Above £10,000 examination ⁴ but below £100,000	Summary report	Receipts & Payments or Accruals ^{2b}	Independent
Above £100,000 examination ⁴ but below £250,000	Summary report	Accruals	Independent
Above £250,000	Full report	Accruals	Statutory audit

Notes:

- (1) This is a guide only: in some cases the threshold is based on gross income, in others on gross income or total expenditure. You should also be aware that the terms *gross income* and *total expenditure* have precise meanings under Charity rules. These are defined in the Charity Commission publication *Accounting & Reporting by Charities, Statement of Recommended Practice*.

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- (2) (a) A charity below £1,000 which has not opted to register with the Charity Commission must still keep proper accounting records. (b) (i) If you present a Receipts & Payments account, this must be accompanied by a Statement of Assets & Liabilities.
- (b) (ii) if the constitution or other governing document of your organisation requires you to have an audit, then you have no option but to present your accounts on the accruals basis and have a full audit. If you are below the £250,000 threshold it may be worth asking the Charity Commission to allow an amendment to your constitution removing the need for an audit.
- (3) A charity above £1,000 but below £10,000 may be asked to provide a Trustees Report whether or not it is yet registered with the Charity Commission.
- (4) A charity exceeding £250,000 in either of the 2 preceding financial years must have a statutory audit even if it is below the upper threshold in the current year.

7. Summary: charitable companies

Size of company ¹	Annual Report	Accounts to be filed at Charity Commission ²	Minimum requirement for report on accounts
Below £1,000	None, but registered charities may be asked for summary report	Full accounts	None ³
Above £1,000 but below £10,000	Summary report may be requested	Full accounts	None ³
Above £10,000 but below £90,000	Summary report	Full accounts	None ³
Above £90,000 but below £250,000	Summary report	Full accounts	Reporting accountant's report ³
Above £250,000	Full report	Full accounts	Audit report

Notes

- (1) This is a guide only: in some cases the threshold is based on gross income, in others on gross income or total expenditure.
- (2) A charitable company must file its full accounts at the Charity Commission even if it files abbreviated accounts at Companies House (under the 'small company' rules).

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- (3) An audit may be required (a) by the memorandum & articles or by decisions of the members of the company, or (b) because the company goes outside the criteria of a 'small company'.

Useful addresses

Charity Commission,
Harmsworth House,
13-15 Bouverie Street,
London EC4Y 8DP
Tel. 0845 3000 218
Minicom: 0845 3000 219
www.charitycommission.gov.uk

Association of Charity Independent
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