

ACCOUNTING
& REPORTING

Charity Reporting and Accounting: The essentials

April 2009



The Charity Commission

The Charity Commission is the independent regulator of charities in England and Wales. Its aim is to provide the best possible regulation of charities in England and Wales in order to increase charities' effectiveness and public confidence and trust. Most charities must register with the Commission, although some special types of charity do not have to register. There are over 160,000 registered charities in England and Wales. In Scotland the framework is different, and the Commission does not regulate Scottish charities.

The Commission provides a wide range of advice and guidance to charities and their trustees, and can often help with problems. Registered charities with an annual income over £10,000 must provide annual information to the Commission. The Commission has wide powers to intervene in the affairs of a charity where things have gone wrong.

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This guidance applies to both company and non-company charities for financial years ending on or after 1 April 2009 and reflects the latest financial thresholds introduced by Order. For information about the requirements for earlier accounting periods, please refer to our [threshold table](#).

A Foreword

A message from the Chair and the Chief Executive of the Charity Commission

Dear Reader,

In England and Wales we are fortunate in benefiting from a dynamic and energetic charitable sector that encompasses a huge diversity in terms of size of charity and the activities they undertake. Retaining and enhancing the high reputation of the sector is a responsibility that we all share and effective accountability is a vital factor in achieving this.

The law sets out a framework for reporting and accounting by charities which is supplemented by the Charities SORP. We have published this guide to help you apply that framework to your charity. But effective accountability is about more than complying with the law. The availability of charity reports and accounts on our website gives more immediate and wider accountability. This will benefit those charities that use financial reporting by providing relevant, timely and quality information which, in turn, provides an opportunity to build trust. We would encourage all trustees to use their Annual Reports and accounts to communicate with stakeholders and the wider public about their work – explaining the work their charities do and the achievements that result.

We are publishing this guidance at a time of significant, and welcome, changes to the accounting framework. The long awaited harmonisation of the scrutiny regimes has been delivered by the Charities Act 2006 and now charities however constituted are audited or examined based on the same thresholds. In particular, the independent examination, a scrutiny regime designed specifically for charities, is an option for small charitable companies. In addition, a legal framework now exists for the preparation of charity group accounts giving a legal basis to established sector practice.

This version includes changes made by order to the financial thresholds applying to financial years ending on or after 1 April 2009. This guidance will be maintained to reflect any future changes to thresholds, for example, that might result from the undertaking made to Parliament that the implementation of the Act would be reviewed within five years.

We want to help you in your efforts to provide an open, accurate and timely picture of your charity's performance over the last year, and aspirations for the year ahead. To that end, we hope you find this guidance useful.

Dame Suzi Leather
Chair of the Charity Commission

Sam Younger
Chief Executive

B. The accounting framework at a glance

This section summarises the main requirements for charities to produce a Trustees' Annual Report, a set of accounts and an Annual Return. This guidance is not a legal document but an overall summary of the reporting and accounting framework for charities. It also details the deadline for submitting accounts and returns to us, and when independent examination or professional audit of a charity's accounts is required. More details about these requirements are given in the sections which follow.

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, or audit; and
- what information must be sent to the Charity Commission.

If you do have to send your charity's Trustees' Annual Report and accounts to us, you must do so within 10 months of the end of your charity's financial year, although we would encourage you to do so much sooner than this in order to give an up-to-date and current picture of your charity.

The information that follows in this summary provides more detail of the different requirements.

Reports, accounts and Returns

All charities must prepare accounts and make them available on request. The duty to file accounts and the Trustees' Annual Report with the Charity Commission applies to all registered charities whose gross income exceeds £25,000.

Charities whose gross income exceeds £10,000 must send a completed Annual Return to us which can be completed online.

These documents must be sent to us within 10 months of the end of the financial year.

Types of accounts

Charity accounts may be prepared either on the receipts and payments basis or the accruals basis. Which of these is needed will depend on the income of the charity and whether or not it has been set up as a company:

Receipts and payments. This is the simpler of the two methods of preparation and may be adopted where a non-company charity has a gross income of £250,000 or less during the year. It consists of an account summarising all money received and paid out by the charity in the financial year, and a statement giving details of its assets and liabilities at the end of the year. Charitable companies are not allowed by company law to adopt this method.

Accruals. Non-company charities with gross income of over £250,000 during the financial year, and all charitable companies must prepare their accounts on the accruals basis in accordance with the SORP. They contain a balance sheet, a statement of financial activities and explanatory notes. These accounts are required in accountancy terms to show a 'true and fair view'.

The Trustees' Annual Report

All registered charities must prepare a Trustees' Annual Report and those with a gross income which exceeds £25,000 must file this with us.

The basic contents of the Annual Report are mandatory, though smaller charities which are not subject to statutory audit are not required to provide as much information as larger charities which are legally required to have an audit.

The Annual Return

All registered charities will be contacted by the Commission, shortly after the end of their financial year, and are required, depending on their income, to complete either an Annual Update form or an Annual Return.

Charities with a total income exceeding £10,000 are required to complete and submit their Annual Return. Paper copies of the Annual Return are available on request. Trustees are under a legal duty to complete and submit an Annual Return form to the Commission, so that we can ensure that the details on the Register of Charities are as complete and accurate as possible. The Annual Return gives us basic financial details, and details of contacts, trustees, activities and of the charity's classification.

Audit or independent examination?

Except for NHS charities, only those charities with gross income of more than £25,000 in their financial year are required to have their accounts independently examined or audited – below that threshold, an external scrutiny of accounts is only needed if it is required by the charity's governing document.

Precisely what type of scrutiny is needed depends on the income and assets of the charity. Broadly speaking, an independent examination is needed if gross income is between £25,000 and £500,000 and an audit is needed where the gross income exceeds £500,000. An audit will also be needed if total assets (before liabilities) exceed £3.26m, and the charity's gross income is more than £250,000.

C. Introduction

C1. What is this guidance about?

This guidance is aimed primarily at charity trustees and sets out what charities are required to do, in terms of preparing Annual Reports, accounts, and Annual Returns. It also signposts trustees to other helpful information. This guidance incorporates the changes introduced by the Charities Act 2006 (now the Charities Act 2011) and changes, for charitable companies, brought into effect by the Companies Act 2006 with effect for financial years beginning on or after 1 April 2008. This version of the guidance has been updated for the changes to the thresholds implemented by the 2009 Regulations. The Charities Act provisions enabling charities to incorporate as Charitable Incorporated Organisations have not been brought into effect. However, it is anticipated that the thresholds applying to non-company charities will apply to the Charitable Incorporated Organisation as will the accounting and reporting framework provided by the Charities Act.

C2. 'Must' and 'should': what we mean

In this guidance, where we use the word **'must'**, we mean that the Commission's understanding is that there is a specific legal or regulatory requirement affecting trustees or a charity. To help you easily identify those sections which contain a legal or regulatory requirement we have used the **L** symbol next to the short answer in that section.

We use **'should'** for items we regard as minimum good practice, but for which there is no specific legal requirement. Trustees should follow the good practice guidance unless there's a good reason not to.

C3. Previous guidance

This guidance updates the previous guidance *Charity Reporting and Accounting: The essentials* (CC15a), last revised in April 2008.

C4. Scope of this guidance

This guidance applies to both company and non-company charities for financial years ending on or after 1 April 2009.

C5. Future changes

Following an undertaking to Parliament when the Charities Act 2006 was passed, the financial thresholds will be reviewed in 2011. It is recommended that readers of this guidance refer to the Charity Commission website to confirm the thresholds that apply if using this guide for financial years ending in or after 2011.

C6. Using this guidance

In each section of this guidance, we ask a selection of the relevant questions that trustees or their advisers may ask about the accounting and reporting requirements. Generally we give a concise summary answer ('The short answer') and then give more background ('In more detail').

We would suggest you read section D to find out which general requirements apply to all charities; section E will tell you which other requirements apply specifically to your charity.

C7. Some technical terms used

The following terms are used throughout this document, and should be interpreted as having the specific meanings given below.

2008 Regulations The Charities (Accounts and Reports) Regulations 2008.

2009 Order The Charities Acts 1992 and 1993 (Substitution of Sums) Order 2009 (SI 2009 No. 508)

Accounting records The trustees' records of the financial transactions undertaken by the charity from which the annual statements of account are required to be prepared for each financial year. The term covers any books (including computer records) in which transactions and events from day to day are entered, together with all the relevant invoices, receipts, other vouchers and other associated documentation.

All charities must maintain accounting records as required by Part 8 of the Charities Act or, for charities registered under the Companies Acts, section 386 of the Companies Act 2006.

Annual Update Form This is a form that allows us to collect factual information about charities, particularly those not required to complete an Annual Return, to enable us to keep the Register of Charities up to date and is a convenient way for trustees to discharge their obligation to keep the Commission informed of changes to their Register details.

Annual Report This is a concise but comprehensive review of the activities of the charity prepared by the trustees for each accounting year. The 2008 Regulations set out the basic legal requirements and more guidance is given in SORP. The requirements of the 2008 Regulations, including simplifications for charities which are not required to have a statutory audit, are set out in section H.

Annual Return This must be completed and submitted to the Commission by trustees of registered charities with a gross income for the year of over £10,000. It helps us to monitor individual charities and provides information about the sector as a whole. Registered charities below this threshold are asked to complete an Annual Update form.

Audit An audit required by Part 8 of the Charities Act, is the scrutiny of accounts by a registered auditor who, as an audit professional, will apply auditing standards issued by the Auditing Practices Board. A registered auditor is one registered with a recognised supervisory body in accordance with the Companies Act 2006. In some charities, eg those connected with the NHS or local authorities, alternative auditing arrangements may be possible.

Charitable company This means a company:

- formed and registered under the Companies Act 2006; and
- which is established for exclusively charitable purposes.

Exempt charities These are charities which the Charities Act exempts from a number of its provisions, including registration with the Commission. An exempt charity will often follow specific accounting and reporting requirements directed by, or under, some statutory provision which specifically relates to it.

Excepted charities These are charities which do not have to register with us, but in most other respects are fully within our jurisdiction. The normal registration threshold is a gross income of £5,000 per year, unless the charity is otherwise excepted by Order or Regulation or a registered place of worship.

Gross income The Charities Act defines gross income to mean the gross recorded income from all sources including special trusts. For accounts prepared on a receipts and payments basis gross income is simply the total receipts recorded in the statement from all sources excluding the receipt of any endowment loans and proceeds from sale of investments or fixed assets. For accounts prepared on an accruals basis gross income is the total incoming resources as shown in the Statement of Financial Activities (prepared in accordance with the SORP) for all funds but excluding the receipt of any endowment and including any amount transferred to income funds during the year from endowment funds in order to be available for spending. For further information, refer to the glossary and supporting information relating to your charity's Annual Return.

Gross (Total) assets The aggregate amount of assets of a charity, before the deduction of liabilities, as at the balance sheet date, ie at the close of the last day of the charity's financial year.

Group accounts Group accounts are the accounts prepared by the reporting 'parent' charity which controls or exercises dominant influence over one or more charitable or non-charitable subsidiaries. Group accounts are prepared in accordance with legal requirements and UK accounting standards and present the results of the whole group on a consolidated basis with the Annual Report and accounts submitted by the 'parent' charity including the financial results of the whole group.

Independent examination This is a less onerous form of scrutiny than an audit. Examiners report whether specific matters which are identified in the 2008 Regulations have come to their attention. We have issued guidance to trustees on the selection of examiners and directions for examiners on carrying out an examination (**Independent Examination of Charity Accounts: Directions and Guidance Notes – CC31**). Where the charity is not required to have an audit but gross income exceeds £250,000, an independent examiner must qualify by being a member of an approved professional organisation specified under the Charities Act.

Non-company charities These are charities which are not charitable companies. Examples include trusts, unincorporated associations, and also corporate bodies which have been incorporated by means other than under the Companies Act 2006 (eg by Royal Charter).

Permanent endowment Property of the charity which the trustees may not spend as if it were income. Sometimes it is used in furthering the charity's purposes, sometimes to produce an income for the charity. The trustees cannot normally spend permanent endowment without our authority. The terms of the endowment may permit assets to be sold and reinvested, or may provide that some or all of the assets are retained indefinitely (eg a particular building).

SORP The Statement of Recommended Practice - Accounting and Reporting by Charities, issued in March 2005, sets out the recommended practice for the purpose of preparing the Trustees' Annual Report and for preparing the accounts on the accruals basis. The accounting recommendations of SORP supplement accounting standards. The Charities (Accounts and Reports) Regulations 2008 require the methods and principles of SORP to be followed when accounts are prepared under the Charities Act. However, charities where a more specific SORP applies, for example Common Investment Funds, Registered Social Landlords or Higher and Further Education establishments should follow the more specific SORP instead. The accounting recommendations of the SORP do not apply to charities preparing receipts and payments accounts.

Statutory audit This means an audit which is required by an Act of Parliament ('statute') as opposed to one which is required by a charity's governing document or funder. This guidance describes when a statutory audit is required by the Charities Act.

Subsidiaries A subsidiary is a non-charitable or charitable company which is controlled by the reporting 'parent' charity or subject to the dominant influence of the reporting 'parent' charity.

The Charities Act This means the Charities Act 2011.

D. Preparing the Annual Report and the accounts

All charities must maintain accounting records and prepare accounts. Most charities must also prepare an Annual Report to accompany their accounts. This section explains the varying requirements for charities which fall within different bands of income and expenditure. Where these documents are required to be submitted to us, this must be done within 10 months of the end of the financial year to which they refer, although we would encourage charities to file well before the deadline.

D1. What do I have to do?

The short answer **L**

While some basic requirements apply to all charities, exactly what is needed will depend on a number of factors such as the income, gross assets or constitution of the charity.

In more detail

Some basic requirements apply to all charities. These are set out in section D2. There are also additional requirements depending on the income of the charity – broadly speaking, the larger the charity, the greater the requirements.

In addition, there are special requirements for certain types of charity, especially:

- non-company charities required to register with the Commission (see E1);
- registered charitable companies (see E2);
- excepted charities (see E3); and
- exempt charities (see E4).

If you are unsure which of the above applies to your charity, or if it is a special case not covered by this guidance, please contact us for further advice.

D2. What are the requirements for all charities?

The short answer **L**

All charities must keep accounting records, and prepare annual accounts which must be made available to the public on request.

In more detail

All charities must:

- Keep accounting records. These records (eg cash books, invoices, receipts, Gift Aid records etc) must be retained for at least 6 years (or at least 3 years in the case of charitable companies). Where Gift Aid payments are received records will need to be maintained for 6 years with details of any substantial donors maintained in accordance with HMRC guidance.

- Make the accounts available to the public on request. This is important for public accountability, and must be complied with in all cases. It is open to trustees to make a reasonable charge to cover the costs of complying with the request (eg photocopying and postage).
- Make the Annual Report available to the public on request where one is required to be prepared.

All charities unless exempt or excepted from registration must:

- Prepare an Annual Report and make it available to the public on request.

All registered charities will be contacted by the Commission, shortly after the end of their financial year, and required, depending on their income, to complete either an Annual Update form or an Annual Return. Charities may complete these online or request a paper copy for completion and submission. Charities with a gross income exceeding £10,000 are under a legal duty to complete and return the Annual Return form to the Commission.

D3. How do I prepare the accounts?

The short answer

There are two bases on which charity accounts may be prepared: the receipts and payments basis and the accruals basis.

In more detail

Charity accounts must be prepared either on the receipts and payments basis or the accruals basis. Which of these is needed will depend on the income of the charity and whether or not the charity is a company:

- **Receipts and payments.** This is the simpler of the two methods and may be adopted where a non-company charity has a gross income of £250,000 or less during the year. It consists of an account summarising all money received and paid out by the charity in the year in question, and a statement giving details of its assets and liabilities at the end of the year. A charitable company cannot under company law prepare its accounts on this basis.
- **Accruals.** Non-company charities with gross income of over £250,000 during the year, and all charitable companies must prepare their accounts on the accruals basis in accordance with the SORP. They contain a balance sheet showing the charity's financial position at the end of the year, a statement of financial activities (SoFA) and explanatory notes. The SoFA should show all incoming resources, and resources expended during the year (and for company charities only, an income and expenditure account, except where the SoFA incorporates the income and expenditure account). These accounts are required, in accountancy terms, to show a 'true and fair view'.

For non-company charities, the Commission provides packs for receipts and payments or accruals accounting which are available through our website. These provide a template, for small non-company charities, to produce accounts in the required form and to meet the requirements of the law and the SORP's recommendations.

D4. What goes into the Annual Report?

The short answer **L**

There are some basic contents of the Annual Report which are mandatory. Otherwise, what is required will depend on the size of the charity. The legal requirements are set out in section H. But to aid transparency and accountability, trustees are encouraged to adopt a spirit of full disclosure.

In more detail

The basic contents of the Annual Report are mandatory. However, smaller charities which are not subject to statutory audit are not required to provide as much information as larger charities which are legally required to have an audit. The legal requirements are set out in section H. That section is divided between matters which all charities must report, matters that smaller charities report, and matters that larger charities report. The SORP also provides best practice recommendations for annual reporting that are consistent with the legal framework.

The Annual Report is an important milestone in a charity's life, a chance to take stock of how the year compared to the trustees' plans and aspirations, a time to celebrate successes and achievements, and to reflect on difficulties and challenges. The Annual Report is also an opportunity to highlight the main activities or significant activities undertaken in order to carry out the charity's purposes for the public benefit. The report's audience is not just trustees and members, funders, donors and beneficiaries, but also the wider public who have an interest in what charities do and what they achieve.

The Annual Report need not be lengthy. A good Annual Report explains the charity's aims and how it is going about achieving them. It meets all the legal requirements and provides a balanced view of the charity's structure, aims, objectives, activities and performance. Importantly, it brings the charity to life and for those charities that rely on voluntary income as their primary source of funding provides donors with the opportunity to understand how their money was spent and the difference it has made.

E. Specific reporting requirements for different types of charity

Different legal requirements apply depending on whether the charity is a company or not, and into which income category it falls. This section explains the differences in what must be submitted for company and non-company charities, and what type, if any, of external scrutiny of the charity's accounts is needed.

E1. Which reporting requirements apply to non-company charities which have to register with the Commission? **L**

(a) Charities where the gross income does not exceed £25,000 in the relevant financial year

Basis of preparation: Accounts must be prepared either on the receipts and payments or the accruals basis. If on an accruals basis, they must be prepared in accordance with the 2008 Regulations and the SORP. The Commission provides packs for receipts and payments or accrual accounting which are available through the website. These provide a template to produce accounts in the required form.

External scrutiny: There is no requirement to have the accounts independently examined or audited, unless the charity's governing document stipulates it, but we do have the power to require an audit in exceptional circumstances.

Type of Annual Report: An Annual Report must be prepared (unless excepted from registration) but it may be simplified (see section H).

Information to be sent to the Commission: Charities with an income of £10,000 or less in their financial year do not have to send their accounts and trustees' annual report into the Commission but in order to keep the charity's entry on our Register up to date they will be asked to complete an Annual Update form. This Annual Update form includes trustee details. Charities with an income which is £10,000 or more must complete an Annual Return. The named contact on our records will receive an Annual Return notification which requests submission of the Annual Return online. A paper form is available on request. However, charities with an income of £25,000 or less should not send us a copy of their Annual Report and accounts unless we ask for them.

(b) Charities with a gross income of over £25,000 but not exceeding £250,000 in the relevant financial year

Basis of preparation: Accounts must be prepared either on the receipts and payments or the accruals basis; if on an accruals basis, they must be prepared in accordance with the 2008 Regulations and the SORP. The Commission provides packs for receipts and payments or accrual accounting which are available through the website. These provide a template to produce accounts in the required form.

External scrutiny: Accounts must be subject to outside scrutiny but trustees may choose either independent examination or audit by a registered auditor, unless the charity's governing document stipulates one or the other. In exceptional circumstances, we have the power to require an audit.

Type of Annual Report: An Annual Report must be prepared but it may be simplified (see section H);

Information to be sent to the Commission: Charities with an income of over £25,000 but not exceeding £250,000 must complete an Annual Return. The named charity contact on our records will receive an Annual Return notification which requests submission of the Annual Return online. A paper form is available on request. The charity's Annual Report and accounts must also be sent to us, within 10 months of the end of the charity's financial year.

(c) Charities with a gross income of over £250,000 but not exceeding £500,000 in the relevant financial year, and total assets not exceeding £3.26m

Basis of preparation: Accounts must be prepared on the accruals basis in accordance with the 2008 Regulations and the SORP (the Commission provides a pack for accrual accounting which is available through the website). These provide a template to produce accounts in the required form.

External scrutiny: Accounts must be subject to outside scrutiny but trustees may choose either independent examination or audit by a registered auditor, unless the charity's governing document stipulates one or the other. If an independent examination is chosen and gross income exceeds £250,000 then the independent examiner appointed must be a member of a body specified under the Charities Act. In exceptional circumstances, we have the power to require an audit.

Type of Annual Report: An Annual Report must be prepared but it may be simplified (see section H).

Information to be sent to the Commission: Charities with an income of over £250,000 but not exceeding £500,000 must complete an Annual Return. The named charity contact on our records will receive an Annual Return notification which requests submission of the Annual Return online. A paper form is available on request. The charity's Annual Report and accounts must also be sent to us, within 10 months of the end of the charity's financial year.

(d) Charities with a gross income exceeding £500,000 in the relevant financial year, or whose gross assets exceed £3.26m and gross income exceeds £250,000

Basis of preparation: Accounts must be prepared on the accruals basis in accordance with the 2008 Regulations and the SORP.

External scrutiny: A statutory audit is required and the accounts must be audited by a registered auditor.

Type of Annual Report: A full Annual Report must be prepared (see section H).

Information to be sent to the Commission: Charities with an income over £500,000 but not exceeding £1m must complete an Annual Return. Charities with a gross income of over £1m must also complete the Summary Information Return which forms part of the Annual Return. The named charity contact on our records will receive an Annual Return notification which requests submission of the Annual Return online. The Annual Report and accounts must also be sent to us, within 10 months of the end of the charity's financial year.

(e) Charities which have either charitable or non-charitable subsidiaries must prepare group accounts where the income of the group, after eliminating intra group transactions and consolidation adjustments, exceeds £500,000.

Basis of preparation: accounts must be prepared on the accruals basis in accordance with the 2008 Regulations and the SORP.

External scrutiny: A statutory audit is required by a registered auditor.

Type of Annual Report: A full Annual report must be prepared (see section H) together with the additional disclosures required concerning the activities of subsidiaries as required by the SORP.

Information to be sent to the Commission: Charity groups with a net income over £500,000 do not complete a separate Annual Return as one must be completed by the parent charity. The Summary Information Return, which forms part of the Annual Return, is completed on a group basis by the parent charity. The Annual Report and accounts must also be sent to us, within 10 months of the end of the charity's financial year.

E2. What specific requirements apply to charitable companies?

The short answer **L**

Charitable companies prepare accounts under company law, and the recommendations of the SORP apply to charitable companies.

In more detail

The recommendations of the SORP apply to charitable companies as well as non-company charities.

- A charitable company must prepare a directors' report and accounts under the Companies Acts, and must file these with Companies House. The accounts must be prepared on an accruals basis.
- The requirements for the Annual Report are the same as those for other charities and therefore the company must comply with the Annual Report requirements set out in the 2008 Regulations. In practice, companies normally produce a directors' report and that report is expanded to contain all the information required to be included in the Annual Report.
- If the charitable company's income is over £25,000, the trustees must also send us an Annual Report (or a suitably modified directors' report) and the accounts. If the charitable company's income is over £10,000 the charity must send us its Annual Return. Our requirements for an Annual Return are the same as for non-company charities.

With effect for accounting years beginning on or after 1 April 2008, the specific audit requirements for charitable companies contained in the Companies Act have been removed. A charitable company will only require an audit under the Companies Act if it exceeds the Companies Act audit threshold. For small charitable companies and small charitable company groups, which are not required to have an audit under the Companies Act, the Charities Act scrutiny arrangements now apply and charitable companies are required to have their accounts audited by a registered auditor if either of the following conditions are met for accounting periods ending on or after 1 April 2009:

- gross income exceeds £500,000; or
- gross assets exceed £3.26 million and gross income exceeds £250,000.

Where an audit is not required under the Companies Act the directors must provide a specific statement that says that the company is exempt from the requirements for a Companies Act audit. Companies House offers guidance about the format the statement should follow.

Unless the Articles of Association specifically require an audit, charitable companies may have an independent examination instead of an audit for accounting periods ending on or after 1 April 2009 where:

- gross income does not exceed £500,000; and
- where gross income exceeds £250,000, the charity's gross assets do not exceed £3.26m.

If the income exceeds £10,000 an Annual Return must be completed and if the income exceeds £1m then a Summary Information Return must also be completed.

The Companies Act 2006 introduced provisions that harmonise the accounting and independent examination regimes for company and non-company charities. In particular, small charitable companies and groups, as defined by the Companies Act 2006, are subject to the external scrutiny provisions of the Charities Act.

Charitable companies which have either charitable or non-charitable subsidiaries must prepare group accounts under the Charities Act where the aggregate income of the group, after the elimination of all group transactions from income for the year exceeds £500,000 and those group accounts will be subject to audit under charity law. Where the group income exceeds the small company thresholds, group accounts must be prepared and audited under company law.

Unless the charitable company or charitable group is subject to the small companies regime, the charity must also prepare a business review as required by company law as part of its director's report.

E3. What specific requirements apply to charities excepted from registration?

The short answer **L**

Excepted charities must keep accounting records, prepare annual accounts and make copies of those accounts available to the public on request.

In more detail

If the trustees have registered the charity voluntarily, they will have to fulfil the same accounting and reporting requirements as any other registered charity.

If they do not register, they must still produce annual accounts in the same way as a registered charity of the same income or type (company or non-company). Excepted charities must also provide copies of their accounts to members of the public on request, but should not send them to us unless we ask for them.

Excepted charities, unless they choose to register, are not required by law to prepare an Annual Report but it is good practice to do so and the Commission has the right to direct the trustees to prepare and submit a report in exceptional circumstances. Accounts must be provided to members of the public on request, but should not be sent to us unless we ask for them.

Only excepted charities with incomes of more than £25,000 are required to have their accounts independently examined or audited – below that threshold, an external scrutiny of the accounts is only needed if it is required by the charity's governing document.

As with other charities, precisely what type of external scrutiny is required depends on the income and assets of the charity and whether or not the charity is a company. Broadly speaking, an independent examination is needed if income is between £25,000 and £500,000 and an audit is needed where the income exceeds £500,000. An audit will also be required if total assets (before liabilities) exceed £3.26m, and the charity's income exceeds £250,000.

E4. What specific requirements apply to charities exempt from registration? L

Exempt charities must keep proper accounting records and prepare accounts. Where they are required to prepare accounts giving a true and fair view, they should follow the SORP in the preparation of their accounts, unless a more specialised SORP applies.

Exempt charities are not required by law to prepare an Annual Report but it is good practice to do so. They must also provide copies of their accounts to members of the public on request.

The legal requirements applying to the audit of exempt charities depend on how the charity is constituted and the regulatory regime under which they operate.

F. External scrutiny

There are statutory thresholds which determine the type of external scrutiny which is needed for a charity's accounts. However, any specific provision in the charity's governing document overrides the statutory provisions, if it demands a higher standard of scrutiny. This section explains the various requirements.

F1. What determines the need for an audit or other external scrutiny?

The short answer **L**

In addition to statutory thresholds, the governing document of any charity may contain specific provisions about the external scrutiny of the charity's accounts. In such cases the charity must follow the higher standard of scrutiny required by either the statutory framework or the governing document.

In more detail

In governing documents, the word 'audit' might be intended to cover a range of different types of external scrutiny from full audit by a registered auditor to an independent check by a non-accountant.

Trustees will need to interpret the precise wording of their governing document. For instance, 'audit by a bank manager' would not normally mean a full statutory audit. On the other hand 'audit by a qualified accountant' suggests that a statutory audit by a registered auditor is required, even if the charity is small and not required to have an audit by legislation.

Trustees of charitable companies can amend their Articles of Association to change any specific provisions which might exceed the statutory provisions. The Charities Act gives trustees of non-company charities the power to make similar amendments. The Commission should be notified of such changes.

We recommend that trustees keep a record of how they interpret the charity's governing document, and, if in doubt, consult the Commission regarding their interpretation.

G. Further help and advice

The following Charity Commission guidance relating to the revised accounting regime is freely available on our website.

- Independent Examination of Charity Accounts: Trustees' Guide (CC31)
- Independent Examination of Charity Accounts: Examiners' Guide (CC32)
- Receipts and Payments Accounts Pack (CC16)
- Accruals Accounts Pack (CC17)

There are also example accounts on our website.

Copies of the SORP (Accounting and Reporting by Charities: Statement of Recommended Practice - SORP 2005) can be downloaded from our website or copies may be purchased at a cost of £15 per copy from the publisher by contacting CCH customer services on 0844 561 8166.

Another useful source of information for those involved in the preparation of financial information is the Charities Aid Foundation's online accounts awards at www.cafonline.org. These awards are given to charities who publish Trustees' Annual Reports and accounts online. They aim to award best practice in financial accounting, raise the standard of web-based Annual Reports and encourage more charities to display their financial information online.

H. Legal requirements for Annual Reports

The detailed legal requirements for the Trustees' Annual Report are set out in The Charities (Accounts and Reports) Regulations 2008 which provide the legal underpinning for the recommendations made in the Charities SORP. The headings used in this section are taken from the SORP, however trustees may choose how they lay out their Annual Report, provided all the legal requirements are met.

Small charities, whether preparing receipts and payments accounts or accruals accounts have identical Annual Reporting requirements under the 2008 Regulations and should follow sections A and B. Large charities, which are subject to statutory audit, must follow sections A and C. All charities preparing accounts on an accruals basis, whether small or large should also refer to the SORP.

For the minority of charities preparing group accounts there are some additional reporting requirements and these are set out in section D

The regulations require that the Annual Report is dated and signed by one or more trustees, each of whom has been authorised to do so.

A MATTERS THAT ALL CHARITIES MUST REPORT	SORP Para.
1. Reference and administrative details of the charity, its trustees and advisers	41
a The charity's name, which in the case of a registered charity means the name under which it is registered. Any other name which a charity uses should also be given.	
b The charity registration number, and if applicable, the company registration number.	
c The address of the principal office of the charity, and in the case of a charitable company, the address of its registered office.	
d The names of all those who were the charity's trustees or custodian trustees on the date the report was approved. Where there are more than 50 trustees, the names of at least 50 of the trustees (including all the officers of the charity, eg chair, treasurer etc). Where the trustee is a body corporate, the names of any person who is a director of the body corporate are given.	
e The name of any other person who served as a charity trustee or custodian trustee in the financial year in question.	
Where the disclosure of the names of any charity trustees, custodian trustees, senior staff member, or persons with power of appointment, or of the charity's principal address could lead to that person being placed in personal danger (for example in the case of a women's refuge), the charity trustees may dispense with the disclosure provided that the Charity Commission has given them authority to do so.	42

A MATTERS THAT ALL CHARITIES MUST REPORT	SORP Para.
2. Structure, governance and management	44
<p>The Annual Report should provide the reader with an understanding of how the charity is constituted, its organisational structure and how its trustees are appointed and trained and assist the reader to understand how the charity’s decision-making processes work. The level of detail provided may well depend on the size and complexity of the charity and be proportionate to the needs of the report’s readers.</p>	
<p>a Particulars, including the date if known, and the nature of the governing document (eg trust deed, memorandum and articles of association etc) and how the charity is (or its trustees are) constituted (eg limited company, unincorporated association etc).</p>	
<p>b The methods adopted for the recruitment and appointment of new trustees, including details of any constitutional provisions relating to appointments, for example, election to post. Where any other person or body external to the charity is entitled to appoint one or more of the trustees this should be explained together with the name of that person or body (subject to section 1 above if permission not to disclose has been obtained).</p>	
3. A financial review containing:	55 & 56
<p>a Policy on reserves stating the level of reserves held and why they are held. Where material funds have been designated, the reserves policy statement should quantify and explain the purposes of these designations, and where set aside for future expenditure, the likely timing of the expenditure. Where no reserves policy is in place, a statement should be made to that effect.</p>	
<p>b Where any fund is materially in deficit, the circumstances giving rise to the deficit and details of the steps being taken to eliminate the deficit.</p>	
4. Funds held as custodian trustee on behalf of others	59
<p>Where a charity is or its trustees are, acting as custodian trustees, the following matters should be disclosed in the report:</p>	
<p>a A description of the assets which they hold in this capacity.</p>	
<p>b The name and objects of the charity (or charities) on whose behalf the assets are held and how this activity falls within their own objects.</p>	
<p>c Details of the arrangements for safe custody and segregation of such assets from the charity’s own assets.</p>	
5. Public benefit statement	
<p>A statement confirming whether the charity trustees have complied with their duty to have due regard to the guidance on public benefit published by the Commission in exercising their powers or duties.</p>	

B MATTERS THAT SMALLER CHARITIES, NOT SUBJECT TO STATUTORY AUDIT, MUST ALSO REPORT	
1. Objectives and activities	47 & 52
Charities that are not subject to a statutory audit requirement may limit their disclosures within this section to a summary description of the purposes of the charity (its objects) and the main activities undertaken by the charity to further its charitable purposes for the public benefit.	
2. Achievements and performance	53 & 54
Charities that are not subject to a statutory audit requirement may limit their disclosures within this section to a brief summary of the achievements of the charity during the year in relation to its objects.	

C MATTERS THAT CHARITIES SUBJECT TO STATUTORY AUDIT MUST ALSO REPORT	
1. The report should provide the following additional reference and administrative information about the charity, its trustees and advisers	41
a The name of any chief executive officer or other senior staff members to whom day-to-day management of the charity is delegated by the trustees.	
b The names and addresses of any other relevant organisations or persons. This should include the names and addresses of those acting as bankers, solicitors, auditor (or independent examiner) and investment or other principal advisers.	
2. The report should provide the following additional information about the structure, governance and management of the charity	44
a The policies and procedures adopted for the induction and training of trustees and, where no such policies have been adopted, a statement to that effect.	
b The organisational structure of the charity and how decisions are made. For example, which types of decision are taken by the trustees and which are delegated to staff.	
c Where the charity is part of a wider network (eg charities affiliated within an umbrella group), then any impact this has on the charity's operating policies should be explained.	
d The relationships between the charity and related parties, including its subsidiaries, and with any other charities and organisations with which it co-operates in pursuit of its charitable objectives.	
e A statement confirming that the major risks to which the charity is exposed, as identified by the trustees, have been reviewed, and systems or procedures have been established to manage those risks.	

C MATTERS THAT CHARITIES SUBJECT TO STATUTORY AUDIT MUST ALSO REPORT	
3. Objectives and activities	47
<p>The Annual Report should help the reader understand the aims and objectives set by the charity, and the strategies and activities undertaken to achieve them. The report may also, where relevant, explain how the objectives set for the year relate to longer term strategies and objectives set by the charity. Where significant activities take place through subsidiary undertakings, these should be explained in the report. In particular, the report should provide:</p>	
a A summary of the objects of the charity as set out in its governing document.	
b An explanation of the charity’s aims including the changes or differences it seeks to make through its activities.	
c An explanation of the charity’s main objectives for the year.	
d An explanation of the charity’s strategies for achieving the stated objectives.	
e A review of the significant activities (including its main programmes, projects or services provided) undertaken by the charity to further its charitable purposes for the public benefit. The details provided should focus on the activities that the trustees consider significant in terms of the charity as a whole. The Annual Report should, as a minimum, explain the objectives, activities, projects or services identified within the analysis note accompanying the charitable activities set out in the Statement of Financial Activities (SoFA).	
Where the charity conducts a significant amount of its activities through grantmaking, a statement should be provided setting out its grantmaking policies.	
Where social or programme-related investment activities are material in the context of the charitable activities undertaken, the investment policies should be explained.	
Where a charity uses volunteers to a significant extent in its charitable or income-generating activities, this should be noted. Unpaid voluntary contributions are not included in the SoFA, because of the difficulties in attributing a monetary value to them, but it is important that readers of the report are able to understand the role and contribution of volunteers. The information may therefore explain the activities with which volunteers help, quantify their contribution in terms of hours or paid staff equivalents, and may present an indicative value of their contribution.	

C MATTERS THAT CHARITIES SUBJECT TO STATUTORY AUDIT MUST ALSO REPORT	
4. Achievements and performance	53
The report should contain information that enables the reader to understand and assess the achievements of the charity and its subsidiary undertakings during the year. It should review its performance against objectives that have been set. It is likely to contain both quantitative and qualitative performance to explain achievement and performance, and it would be helpful to identify any indicators, milestones and benchmarks against which the charity assesses the achievement of its objectives. In particular, the report should contain:	
a A review of charitable activities undertaken that explains the performance achieved against the objectives set. Where qualitative or quantitative information is used to assess the outcome of activities, a summary of the measures or indicators used to assess achievement should be included.	
b Where significant fundraising activities are undertaken, details of the performance achieved against fundraising objectives set, commenting on any material expenditure which might enhance future income generation, and explaining the effect on the current period's fundraising return.	
c Where significant investments are held, details of the investment performance achieved against the investment objectives set.	
d Commentary on factors within and outside the charity's control which are relevant to the achievement of its objectives; these might include relationship with employees, users, beneficiaries, funders and the charity's position in the wider community.	
5. Financial review	55
The Annual Report should provide the following additional financial review information about the charity, including a review of the financial position of the charity and its subsidiaries, and a statement of the principal financial management policies in force during the year:	
a Principal funding sources and how expenditure in the year under review has supported the key objectives of the charity.	
b Where material investments are held, the investment policy and objectives, including the extent to which social, ethical or environmental considerations are taken into account.	
6. Plans for future periods	57
The report should explain the charity's plans for the future including the aims and key objectives it has set for future periods together with details of any activities planned to achieve them.	

D ADDITIONAL REPORTING REQUIREMENTS WHERE GROUP ACCOUNTS ARE PREPARED	
1. Where group accounts are prepared on a voluntary basis there are no additional disclosures required by the Regulations, however the SORP requires that where group accounts are prepared the Annual Report includes:	
a The relationship between the charity and related parties, including its subsidiaries.	44
b When considering the objectives and activities, and the strategies and activities undertaken to achieve them, where significant activities are undertaken through subsidiary undertakings these should be explained.	47
c When setting out the achievements and performance of the charity and the group, the information provided enables the reader to understand and assess the achievements of the charity and its subsidiary undertakings in the year.	53
d When setting out the financial review, the review is of the financial position of the charity and its subsidiaries.	55
2. Where group accounts must be prepared because the income of the group exceeds the threshold for preparing group accounts, all the items set out in section D1 should be covered and the Regulations require the Annual Report to consider both the parent charity and its subsidiary undertakings together. When applying the SORP recommendations particular attention is paid to:	44, 47, 53 & 55
a aims and objectives;	
b strategies and achievements;	
c principal sources of income;	
d consideration of major risks;	
e organisational structure;	
f investment policy and performance; and	
g reserves.	

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Created and produced by: Design, Charity Commission

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