

Charity reporting and accounts

This guide summarises the requirement for charities to produce accounts, reports and returns each year.

By law, every charity must prepare a set of accounts and a trustees' annual report.

The aim of accounts and reports is to provide a clear picture of your charity's activities and financial position. The trustees' annual report is also an opportunity to describe your work to the public and to funding bodies. Although 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.

Guidance on what constitutes a charity and whether your group should register with the Charity Commission is available in our *Charity Registration* information sheet.

For details of other organisations that can help with charity reporting requirements and charity law, see our list of links for useful information on charities and charity law¹.

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¹ <http://www.resourcecentre.org.uk/service/information-on-charities-and-charity-law/>

What does your charity need to prepare?

The type of accounts and report which a charity has to prepare depends on:

- ♦ its legal structure
- ♦ its income
- ♦ the value of its assets.

All charities

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 annual accounts (see page 3). You could also have a look at our information on Managing Money for help with this.

All charities must also prepare a trustees' annual report, detailing your work for the year (see page 7).

Irrespective of your legal obligations, your charity's constitution or other governing document may also require you to send the annual accounts and a trustees' annual report to members and approve them at an Annual General Meeting (AGM). It is certainly good practice to do so even if you are not required to by law.

Annual income of £5,000 to £25,000

All charities with an annual income above £5,000 are required by law to register with the Charity Commission. Every registered charity must produce a trustees' annual report and make it available on request.

Those with an income below £10,000 are required to submit an annual update to the Charity Commission, which includes changes to the charity's details, changes to trustee details, plus income and expenditure for the year.

Those with annual income above £10,000 (and all CIOs, regardless of income) must submit an annual return to the Charity Commission within 10 months of the end of their financial year, which includes a trustees' annual report and information from your annual accounts.

Annual income between £25,000 and £250,000

Charities with a gross annual income between £25,000 and £250,000 must have their annual accounts independently examined or audited (see page 5). These form part of the annual return, which must be submitted to the Charity Commission within 10 months of the end of the financial year with the trustees' annual report.

Annual income between £250,000 and £1m

Charities with an annual income between £250,000 and £1m (with assets worth less than £3.26m) have to keep accruals accounts, which must be either audited or independently examined by an individual who is a member of a body approved by

the Charity Commission, such as the Association of Charity Independent Examiners (ACIE)². These form part of the annual return, which must be submitted to the Charity Commission within 10 months of the end of the financial year with a trustees' annual report.

Annual income over £1m

Charities with an annual income over £1m (or an annual income over £250,000 and assets worth more than £3.26m) must keep accruals accounts, which must be audited. These form part of the annual return, which must be submitted to the Charity Commission within 10 months of the end of the financial year with a trustees' annual report.

Charitable companies

A charitable company has to comply with both company law and charity law. This means they have to submit information to the Charity Commission and Companies House. All charitable companies have to keep accruals accounts, irrespective of income or assets. Details of requirements for charitable companies are in Appendix 3 (see page 11)

Charitable Incorporated Organisations (CIOs)

All CIOs have to register with the Charity Commission, irrespective of income, and they all have to submit an annual return (see page 7). Details of requirements for accounts, reports and returns are in Appendix 2 (see page 10).

Accounts

There are two forms of accounting:

- ♦ Receipts and payments
- ♦ Accruals

The type of accounts required depends on whether the charity is a company and its income. A summary of these requirements is shown in the Appendices, starting on page 9.

Receipts and Payments Accounts

This is a simplified form of accounting which summarises the money received and paid out during the financial year. The final balance shows how much money your charity has at the end of the year.

Unincorporated charities and CIOs with gross annual income under £250,000 may choose to prepare their accounts in this way.

This type of accounting is much easier for a small charity whose financial dealings are fairly straightforward. However it does not always give a clear picture of the year's finances and can make it harder to compare one year with the next. For example, if you were to pay your annual insurance at the beginning of April and pay the

² <http://www.resourcecentre.org.uk/supplier/association-of-charity-independent-examiners-acie/>

following year's premium at the end of March, your accounts would show a large insurance bill in the first year and none in the following year.

Charity law does not specify any format for preparing receipts and payments accounts but they should be prepared in a consistent way from year to year. If you present receipts and payments accounts, you must also provide a statement listing assets and liabilities at the end of the year.

Charity Commission pack CC16³ gives guidance on the preparation of receipts and payments accounts.

Accruals Accounts

When the financial structure of the charity becomes more complicated, it may be better to adopt accruals accounting. You may need to get professional advice if you move over to accruals accounting in order to ensure that you make the change smoothly and keep the right sort of records during the year to enable your charity to complete the annual accounts required.

All charitable companies must prepare accruals accounts. Unincorporated charities and CIOs must prepare accruals accounts if their annual income is over £250,000.

Accruals accounts present a clearer picture of the charity's finances during the year. They show income and expenditure as these relate to the year in question, rather than simply recording money received and paid out. The balance sheet gives a 'snapshot' of the charity's financial position at the end of the year.

Accruals accounts adjust for debtors (anyone who owes you money), creditors (those you owe money to) and accruals (money you owe for services such as electricity, gas and telephone but which you have not yet been invoiced for).

Accruals accounts also show the value of assets (equipment, land and buildings) in a different way. For example, the full cost of equipment above a certain price is not shown as expenditure. It is an asset to the charity as it has a resale value, although this declines over time. This equipment (known as capital equipment) is therefore depreciated over a period of, say, 4 years and the annual charge for depreciation is shown as expenditure. The current value of the equipment is shown on the balance sheet as an asset, together with the value of all the other resources of the charity.

A charity preparing accruals accounts must follow the Statement of Recommended Practice (Charities SORP). The report and accounts must consist of a balance sheet, a statement of financial activities (SOFA) showing incoming resources and how they were used, and explanatory notes. Use the Charity SORP website⁴ to help you find the right guidelines for your charity.

³ <https://www.gov.uk/government/publications/charity-accounting-templates-receipts-and-payments-accounts>

⁴ <http://www.charitiessorp.org/>

Scrutiny of accounts

There are two types of external scrutiny of accounts:

- ♦ Independent examination
- ♦ Audit

All charities with an annual income above £25,000 are required to have either an independent examination or accounts or an audit. All charities with an annual income above £1m (or with an income over £250,000 and assets above £3.26m) are required to have an audit.

For other charities, the type of scrutiny required depends on a charity's legal structure, income, and the wording in its constitution.

- ♦ For unincorporated charities, see Appendix 1 (page 9)
- ♦ For Charitable Incorporated Organisations, see Appendix 2 (page 10)
- ♦ For charitable companies, see Appendix 3 (page 11)

Independent examination of accounts

This is the process of scrutinising a charity's accounts below the level of a professional audit. The procedures are defined by law and by the Directions of the Charity Commission. The independent examiner will gain an understanding of the charity, look at the accounts and supporting documents and write an independent report to accompany the accounts and trustees' annual 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.

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. An independent examiner may be, for example, 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.

For charities with an income above £250,000 the examiner must have a professional qualification or be a member of a body specified in the Charities Act 2006, such as the Association of Charity Independent Examiners (ACIE)⁵.

The Charity Commission guidance for trustees on independent examinations (CC31)⁶ includes a section on 'How to select your examiner', and ACIE can give you the details of local examiners who are on its register.

For more information, see our sheet *Examinations of accounts*.

⁵ <http://www.resourcecentre.org.uk/supplier/association-of-charity-independent-examiners-acie/>

⁶ <https://www.gov.uk/government/publications/independent-examination-of-charity-accounts-trustees-cc31>

Audit

The audit process is defined by law and is carried out by a registered auditor (a chartered accountant). An audit is the highest level of scrutiny of accounts and the auditor looks for positive evidence to enable the accounts to be described as a “true and fair” view.

Every charity with an annual income above £1 million (or with an income over £250,000 and assets above £3.26m) is required to have an audit. Other charities need to have an audit only if this is specified in their governing document (e.g. constitution or trust deed). See below for details of what to look for.

Funding and other bodies may ask inappropriately for a copy of your audited accounts, as the term ‘audit’ is often used very loosely. If your charity is not required to have an audit, point this out and send them your annual accounts together with the independent examiner’s report.

Check your governing document

Even if your charity is not required by law to have your accounts externally scrutinised in any particular way, your governing document (constitution or trust deed) may require you to do so anyway.

Confusingly, the term “audit”, when written in a governing document, doesn’t always mean a full audit.

- ♦ If your constitution says your accounts should be independently examined, you can have an independent examination of accounts if your income is under £1m (or under £250,000 and assets worth more than £3.26m).
- ♦ If your constitution was approved before 1993 and refers to an “audit”, you can still have an independent examination of accounts if your income is under £1m (or under £250,000 and assets worth more than £3.26m). This is because, before the 1993 Charities Act, then ‘audit’ meant ‘the appropriate external scrutiny required by the current legislation’.
- ♦ If your constitution was approved before 1993 and says that your accounts should be audited by a professional auditor, you do need to have an audit, irrespective of your charity’s income.
- ♦ If your constitution was approved after 1993 and refers to an “audit”, you do need to have an audit, irrespective of your charity’s income.

If your constitution requires you to have an audit and you don’t want to, you could consider changing your constitution. You will need to get Charity Commission approval to do this unless your constitution includes the power of amendment. For help with this, look at the Charity Commission’s guidance on changing your charity’s governing document (CC36)⁷.

⁷ <https://www.gov.uk/government/publications/changing-your-charitys-governing-document-cc36/changing-your-charitys-governing-document-cc36#33>

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 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. Charities with an income under £1m (or under £250,000 and assets under £3.26m) only need to prepare a simplified trustees' annual report, including the charity's aims and achievements, names of trustees, the structure of the charity and a brief financial review. There is guidance on what to include on the Charity Commission webpage "Prepare a charity trustees' annual report"⁸.

You can choose to include extra information if you want to. You may find it useful to look at the report of a charity similar to your own. There are many charities that will make one available. The Charity Commission also publish a range of sample reports⁹.

Annual return

An annual return is an online form that must be completed each year by registered charities with annual income over £10,000 and all Charitable Incorporated Organisations. You must return your completed annual return to the Charity Commission by the deadline given on the return, which will be 10 months after the end of your financial year.

Registered charities with a gross income below £10,000 (and which are not CIOs) have to complete an annual update, in order to keep their entry on the charity register up to date.

Charities required to complete an annual return will receive an email reminder. Most of the information you need for your annual return will be in your accounts or your trustees' annual report.

If your charity has an income of £25,000 or more, you must state if any serious incidents took place in the last year, such as fraud, or risk to beneficiaries.

Before completing an annual return, registered charities are also required by law to update their charity's details on the Charity Commission website¹⁰.

⁸ <https://www.gov.uk/guidance/prepare-a-charity-trustees-annual-report>

⁹ <https://www.gov.uk/government/publications/example-trustees-annual-reports-and-accounts-for-charities>

¹⁰ <https://www.gov.uk/change-your-charitys-details>

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.

Charity Commission guidance and packs

The Charity Commission provides useful guidance and information to help you prepare your accounts, trustees' annual report and annual return.

The following publications are particularly useful.

*Charity Reporting and Accounting: the essentials (CC15c)*¹¹ – guide to the accounts, annual reports and annual returns which charities are required to prepare from accounting years beginning on or after 31st March 2015.

*Charities SORP*¹² – full details of the 'Statement of Recommended Practice' which defines the type and content of accounts and trustees' annual reports. This is relevant to every charity, and is essential for charities preparing accruals accounts.

*Receipts and Payments accounts pack (CC16)*¹³ – templates for charities preparing receipts and payments accounts and forms for completing the accounts and the trustees' annual report.

*Accruals accounts pack (CC17)*¹⁴ – templates for non-company charities preparing accruals accounts and forms for completing the accounts and the trustees' annual report.

*Charities and Public Benefit*¹⁵ – Advice on how to report on the public benefit of your charity.

*Independent Examination of Charity Accounts: Trustees (CC31)*¹⁶ – Advice about independent examinations of accounts.

*Prepare a charity annual return*¹⁷ – Advice about preparing an annual return.

¹¹ <https://www.gov.uk/government/publications/charity-reporting-and-accounting-the-essentials-march-2015-cc15c>

¹² <http://www.charitiessorp.org/>

¹³ <https://www.gov.uk/government/collections/receipts-and-payments-accounts-pack-cc16>

¹⁴ <https://www.gov.uk/government/collections/accruals-accounts-pack-cc17-sorp-frs-102>

¹⁵ <https://www.gov.uk/government/publications/public-benefit-reporting-pb3>

¹⁶ <https://www.gov.uk/government/publications/independent-examination-of-charity-accounts-trustees-cc31>

¹⁷ <https://www.gov.uk/guidance/prepare-a-charity-annual-return>

Appendices

Appendix 1: summary of requirements for unincorporated charities

These requirements apply to unincorporated charities, including unincorporated associations and charitable trusts.						
Accounting Requirements	Gross income up to £5,000	Gross income £5,000 to £10,000	Gross income £10,000 to £25,000	Gross income £25,000 to £250,000	Gross income £250,000 to £1m18	Gross income above £1m19
Register with Charity Commission	Not required	Yes	Yes	Yes	Yes	Yes
Type of Accounts	Receipts and payments. May choose accruals	Receipts and payments. May choose accruals	Receipts and payments. May choose accruals	Receipts and payments. May choose accruals	Accruals	Accruals
Scrutiny of Accounts	No independent examination of accounts or audit required, unless stated in constitution	No independent examination of accounts or audit required, unless stated in constitution	No independent examination of accounts or audit required, unless stated in constitution	Either independent examination of accounts or audit, unless specified in constitution. ²⁰	Either independent examination of accounts or audit, unless specified in constitution. ²¹	Full audit
Trustees' Annual Report	Not required by Charity Commission but must be available to public on request.	Not required by Charity Commission but must be available to public on request	Not required by Charity Commission but must be available to public on request	Simplified annual report.	Simplified annual report.	Full annual report
Filing of Annual Report and Accounts	Filing not required. Keep accounts available for inspection.	Filing not required. Keep accounts available for inspection	Only if requested by Charity Commission	File with Charity Commission within 10 months	File with Charity Commission within 10 months	File with Charity Commission within 10 months
Annual Return	Not required unless charity is registered with Charity Commission, in which case annual update only.	No. Fill in annual update only	Complete return within 10 months of end of financial year	Complete return within 10 months of end of financial year	Complete return within 10 months of end of financial year	Complete return within 10 months of end of financial year

¹⁸ and gross assets under £3.26m

¹⁹ Or gross assets above £3.26m (and income above £250,000).

²⁰ It is strongly recommended that any non-company charity with an income between £100,000 and £250,000 uses an examiner that is a member of a body specified by the Charities Act 2006.

²¹ . If a charity with a gross income above £250,000 chooses an independent examination, the examiner must be member of a body specified by Charities Act 2006.

Appendix 2: summary of requirements for CIOs

These requirements apply to Charitable Incorporated Organisations (CIOs)						
Accounting Requirements	Gross income up to £5,000	Gross income £5,000 to £10,000	Gross income £10,000 to £25,000	Gross income £25,000 to £250,000	Gross income £250,000 to £1m ²²	Gross income above £1m ²³
Register with Charity Commission	Yes	Yes	Yes	Yes	Yes	Yes
Type of Accounts	Receipts and payments. May choose accruals	Accruals	Accruals			
Scrutiny of Accounts	No independent examination of accounts or full audit required, unless stated in constitution	No independent examination of accounts or full audit required, unless stated in constitution	No independent examination of accounts or full audit required, unless stated in constitution	Either independent examination of accounts or full audit, unless specified in constitution. ²⁴	Full audit. If gross assets are below £3.26m an independent examination is sufficient. ²⁵	Full audit
Trustees' Annual Report	File with Charity Commission within 10 months	File with Charity Commission within 10 months	File with Charity Commission within 10 months			
Filing of Annual Report and Accounts	File with Charity Commission within 10 months	File with Charity Commission within 10 months	File with Charity Commission within 10 months			
Annual Return	Complete return within 10 months of end of financial year	Complete return within 10 months of end of financial year	Complete return within 10 months of end of financial year	Complete return within 10 months of end of financial year	Complete return within 10 months of end of financial year	Complete return within 10 months of end of financial year

²² and gross assets under £3.26m

²³ or gross assets above £3.26m (and income above £250,000).

²⁴ It is strongly recommended that any non-company charity with an income between £100,000 and £250,000 uses an examiner that is a member of a body specified by the Charities Act 2006.

²⁵ If a charity with a gross income above £250,000 chooses an independent examination, the examiner must be member of a body specified by Charities Act 2006.

Appendix 3: summary of requirements for small charitable companies

These requirements apply to charitable companies which qualify as "small companies". ²⁶						
Accounting Requirements	Gross income up to £5,000	Gross income £5,000 to £10,000	Gross income £10,000 to £25,000	Gross income £25,000 to £250,000 ²⁷	Gross income £250,000 to £1m ²⁸	Gross income above £1m
Register with Charity Commission	Not required	Yes	Yes	Yes	Yes	Yes
Type of Accounts	Accruals	Accruals	Accruals	Accruals	Accruals	Accruals
Scrutiny of Accounts	No independent examination of accounts or full audit required unless specified in the Articles of Association.	No independent examination of accounts or full audit required unless specified in the Articles of Association.	No independent examination of accounts or full audit required unless specified in the Articles of Association	Either independent examination of accounts or full audit, unless specified in Articles of Association. ²⁹	Either independent examination of accounts or full audit, unless audit specified in Articles of Association. ³⁰	Full audit
Trustees' Annual Report and Directors' Report	Directors' report combined with simplified trustees' report	Directors' report combined with simplified trustees' report	Directors' report combined with simplified trustees' report	Directors' report combined with simplified trustees' report	Directors' report combined with simplified trustees' report	Directors' report combined with full trustees' report
Filing Annual Report and Accounts	File with Companies House within 9 months. Only file with Charity Commission if requested	File with Companies House within 9 months. Only file with Charity Commission if requested	File with Companies House within 9 months. Only file with Charity Commission if requested	File with Companies House within 9 months and with Charity Commission within 10 months	File with Companies House within 9 months and with Charity Commission within 10 months	File with Companies House within 9 months and with Charity Commission within 10 months
Annual Returns to Charity Commission and Companies House (sent to the charity by each body)	Complete Companies House return. For Charity Commission, fill in annual update only	Complete Companies House return. For Charity Commission, fill in annual update only	Complete both returns by dates specified on the returns	Complete both returns by dates specified on the returns	Complete both returns by dates specified on the returns	Complete both returns by dates specified on the returns

²⁶ A small company is one which meets two of the following criteria: annual turnover below £6.5m; gross assets below £3.26m; up to 50 employees.

²⁷ and gross assets under £3.26m

²⁸ or gross assets above £3.26m (and income above £250,000)

²⁹ It is strongly recommended that any non-company charity with an income between £100,000 and £250,000 uses an examiner that is a member of a body specified by the Charities Act 2006.

³⁰ If a charity with a gross income above £250,000 chooses an independent examination, the examiner must be member of a body specified by Charities Act 2006.