Charity Reporting and Accounting Requirements

Key to abbreviations used in this document

SORP	Statement of Recommended Practice
CC	Charity Commission for England & Wales
OSCR	Office of the Scottish Charity Regulator

Introduction

All UK charities are legally required to maintain accounting records and prepare accounts. Registered charities must also prepare a trustees' annual report to accompany their accounts. Additionally, most charities are required to subject their accounts to some description of external scrutiny and make them available to the public via the charity regulator.

All these tasks must be completed within prescribed deadlines and it is the duty of trustees to ensure these requirements are met in full.

This document has been created to set out and explain the key rules and requirements in this area. The information contained is broadly relevant to dioceses within the UK, albeit in some minor respects Scotland departs from this. Dioceses in the province of All Ireland should refer to local guidance.

Please note that this document is current as at August 2017. Laws that govern charity reporting can and do change frequently. It is important that you look at the latest information to ensure you adhere to up to date laws that govern charities where you are registered:

Charity Commission for England and Wales
https://www.gov.uk/government/organisations/charity-commission

Office of the Scottish Charity Regulator
https://www.oscr.org.uk/

Charities Regulator (Republic of Ireland)
https://www.charitiesregulator.ie/en

Summary of Key Requirements

You might think that determining the reporting requirements of a charity should be simple. Unfortunately reality does not live up to expectations in that regard.
There are different requirements for different sizes and types of charity. To understand what applies to your charity, you need to know the following:

- whether or not your charity is also a company (registered with Companies House and the Charity Commission) or charitable incorporated organisation solely registered with the Commission
- your charity's income for the current financial year
- the value of your charity's assets
- whether or not your charity is of a size that is required to be registered as a charity.

For dioceses in Scotland, please refer to:
https://www.oscr.org.uk/guidance-and-forms/a-guide-to-charity-accounts/
For dioceses in All Ireland, please refer to:
https://www.charitiesregulator.ie/en/information-for-charities/annual-reporting

Summary for Unincorporated Charities and Charities Incorporated by Royal Charter in England & Wales

<table>
<tr><th>Gross income or total expenditure in current year</th><th>Filing Annual Report, Annual Accounts and Annual Return</th><th>Basis of accounts</th><th>Minimum External Scrutiny</th></tr>
<tr><td>Less than£25,000</td><td>Annual Report (simplified) and accounts must be prepared but need not be submitted to CC.</td><td rowspan="2">Choice of Receipts & Payments basis or Accruals basis (in accordance with SORP 2015)</td><td>None unless required by governing document</td></tr>
<tr><td>Between £25,001 and £250,000</td><td>Annual Report(simplified), Annual Accounts & Annual Return (submitted within 10 months)</td><td>Independent examination unless audit is required by constitution or governing document</td></tr>
<tr><td>Income over £250,000 (but less than £1m) and gross assets less than £3.26m</td><td>Annual Report (simplified), Annual Accounts & Annual Return (submitted within 10 months)</td><td rowspan="2">Accrual basis (in accordance with SORP 2015)</td><td>Independent examination by a body specified in the 1993 Act unless an audit is required by constitution or governing document</td></tr>
<tr><td>Income above £1,000,000 (includes subsidiary income) or gross assets exceed £3.26m and income over £250,000</td><td>Full Annual Report, Annual Accounts & Annual Return (submitted within 10 months)</td><td>Statutory audit by registered auditor</td></tr>
</table>

Notes:

1. This is a guide only. The Charity Commission can require an audit even if the law does not. The threshold is based on gross income, and should include branch income, but can exclude transactions between the charity and its branches or between branch and branch i.e. where the income to one is an expense to the other. These are defined in the Charity Commission publication Accounting & Reporting by Charities, Statement of Recommended Practice.

If your constitution or other governing document requires you to have an audit, then you have no option but to present your Annual Account on the accruals basis and have a full audit. If using accrual basis, Annual Accounts must be prepared in accordance with SORP 2015. If you are below the £1,000,000 threshold, you can ask the Charity Commission to allow an amendment to your constitution to remove the requirement for an audit.

2. If you present a Receipts & Payments account, it must be accompanied by a Statement of Assets & Liabilities.

Summary for Charitable Incorporated Organisations (CIO's)

Gross income or total expenditure in current year	**Filing Annual Report, Annual Accounts and Annual Return**	**Basis of accounts**	**Minimum External Scrutiny**
Less than£25,000	Full Annual Report, Annual Accounts (within 10 months) & Annual Return	Receipts & Payments or Accrual Basis (in accordance with regulations and 2015 SORP)	None unless required by governing document
Between £25,001 and £250,000	Full Annual Report, Annual Accounts (within 10 months) & Annual Return		Independent examination unless audit is required by constitution or a governing document
Income over £250,000 (but less than £1m) and gross assets less than £3.26m	Full Annual Report, Annual Accounts (within 10 months) & Annual Return	Accrual Basis (in accordance with 2015 SORP)	Independent examination by a body specified in the 1993 Act unless an audit is required by constitution or governing document
Income above £1,000,000 (includes subsidiary income) or gross assets exceed £3.26m and income over £250,000	Full Annual Report, Annual Accounts (within 10 months) & Annual Return. Summary Information Return if Income exceeds £1 m for charity or group.		Statutory audit by registered auditor

Summary: Charitable companies that qualify as small companies under company law

<table>
<tr><th>Size of company</th><th>Filing Annual Report, Annual Accounts and Annual Return</th><th>Accounts to be filed with the Charity Commission</th><th>Minimum External Scrutiny</th></tr>
<tr><td>Less than £25,000</td><td>Annual Report (simplified). Annual Information Return</td><td rowspan="4">Accrual Basis (in accordance with SORP 2015).</td><td>None unless required by governing document</td></tr>
<tr><td>Between £25,001 and £500,000 and where income exceeds £250,000 aggregate assets less than £3.26m</td><td>Annual Report (simplified), Annual Accounts (within 10 months) & Annual Return</td><td>Independent Examination or audit unless Constitution require audit</td></tr>
<tr><td>Income over £250,000 (but less than £1m) and gross assets less than £3.26m</td><td>Full Annual Report, Annual Accounts (within 10 months) & Annual Return.</td><td>Independent examination by a body specified in the 1993 Act unless an audit is required by constitution or governing document</td></tr>
<tr><td>Income above £1,000,000 (includes subsidiary income) or gross assets exceed £3.26m and income over £250,000</td><td>Full Report</td><td>Statutory audit</td></tr>
</table>

Notes

1. This is a guide only. The threshold is based on gross income. For limited companies that are charities both Charity and/or Company Law can dictate reporting and filing requirements.
2. A charitable company must file its full Annual Accounts at the Charity Commission even if it files abbreviated Annual Accounts at Companies House (under the 'small company' rules).
3. An audit may be required
   (a) by the memorandum & articles (Constitution) or by decisions of the members of the company, or
   (b) because the company goes outside the criteria of a `small company'.

Requirements for Annual Reports and Accounts

The basic aim of the Annual Report and the Annual Accounts is to provide a clear picture of the activities and financial position of the charity to those who have an interest.

The requirements set out may seem onerous to a small charity run by volunteers, however, accentuating the positive, they require a charity to define its aims and activities clearly and to manage its finances well, which help to ensure that your organisation is more effective and its resources are used for their intended purpose.

As shown in the tables above, the type of Annual Report and Annual Accounts which an organisation has to prepare depends on its legal structure, its income and the value of its assets.

Annual Accounts – Basis of Preparation

The key point to determine is the form in which you wish to prepare your accounts.

As shown in the summary tables above, all charities have the right to prepare their accounts on an “Accruals” basis and larger charities are obligated to do so.

Smaller charities also have the right to choose to prepare their accounts on what is known as a “Receipts and Payments” basis.

Mother’s Union would, as a general rule, prefer for affiliated dioceses to prepare their accounts on an accrual basis but accepts that this will not always be possible given constraints on resources and relevant expertise.

Basic accounting templates are provided by the Charity Commission, OSCR and the Irish Charities Regulator. Mothers' Union specific materials will in due course be updated and issued by Mary Sumner House.

It is worth noting that, under both forms of accounting basis, charities are obliged to account separately for restricted and unrestricted funds (**known as fund accounting**) and must provide comparative figures from the previous period.

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. No adjustments are made for the timing of income and payments to bring them in line with the activities to which they relate. The final balances shown do not take into account debtors (i.e. money owing) or creditors (i.e. money which you owe.)

The law does not specify any format for preparing Receipts & Payments accounts but they should be prepared in a consistent way 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 considered adequate for a small charity and are generally felt to be easier to prepare and maintain.

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 (known as a statement of financial activities). Accruals accounts also include and reports on the value of all the assets and liabilities of the charity via a balance sheet which 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 £250,000 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 2015 (Charity SORP 2015). The Annual Report and Annual Accounts must then consist of:

1. an Annual Report to explain the activities and finances of the charity
2. a statement of financial activities showing incoming resources and how they were used
3. income and expenditure account
4. a balance sheet
5. notes to the accounts
6. audit report or independent examiner's statement.

A charity with an annual income above £250,000 is required to include statements stating how it manages its Risk and Reserves. It is best practice for every charity using accruals based accounts to include these statements.

Charities that have previously prepared accounts on a Receipts and Payments basis are able to transfer across to preparing accounts on an accruals basis at any time. If considering this move it would be advisable to consider obtaining professional advice 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.

Fund Accounting

The concept of fund accounting applies to all charities; regardless of size, regardless of legal status and regardless of whether the charity produces accruals accounts or not.

The Charity Commission makes it clear that trustees should understand their finances and must know what funds are restricted and how those funds can be used. However, beyond a small amount of direct guidance contained in CC19 which deals with charity reserves, the Charity Commission does not offer much guidance on this area.

Most guidance on this subject therefore emanates from the SORP and whilst this is largely concerned with accruals basis accounting, the general principals can be, and are, applied to Receipts and Payments basis accounting.

The SORP sets out a useful summary of fund accounting. It explains that:

Fund accounting distinguishes between two primary classes of fund:

1. Those that are unrestricted in their use, which can be spent for any charitable purposes of a charity and
2. Those that are restricted in use, which can only be lawfully used for a specific charitable purpose.

So, to be clear, unrestricted funds can be used in whatever way the charity trustees decide, so long as the expenditure is for one of the charitable purposes of the organisation. However, trustees do not have the same level of freedom for restricted funds because these funds can only be used for the purpose for which they were given. This purpose still has to be a charitable, but now it is specific. For full details of the types of restricted and unrestricted funds please refer to the SORP.

The SORP goes on to say that "the proper administration of individual charitable funds is essential if charity trustees are not to act in breach of trust". Module 2 of the SORP FRS102, sets out in some detail the characteristics and regulations which apply to the different types of fund. This module is therefore highly recommended reading for all trustees regardless of whether your charity produces accruals accounts or not. The 'fund principles' set out in the SORP apply in all cases and to all charities.

The key message to take away is that on whatever basis you prepare your accounts it is essential to keep track of income and expenditure separately for each type of fund.

Accounting software designed primarily for the charity sector normally includes functionality that makes fund accounting easier. More commercially oriented software does not handle fund accounting so well (if at all) and can cause a real headache to trustees and treasurers, especially for those charities operating with many different funds.

So, before the trustees place too many designations on unrestricted funds, or agree to accept too many different types of restricted income funds they need to be aware of the accounting issues, and have in place systems and procedures which ensure that income and expenditure relating to each fund is properly identified and captured.

Trustees Report

Large charities, all CIO's and all Charitable Companies are required to complete and submit a full trustees report alongside their annual accounts. The full requirements of this can be found in the SORP FRS102

Small charities that are not CIO's or registered companies may be entitled to file a simplified Trustees Report including as a minimum:

- Charity name and registered number
- Names of all trustees who served during the period
- Address of principal office
- The structure of the charity including:
  - Particulars of the governing document
  - Methods adopted for recruitment and training of trustees
- A brief financial review including a policy on reserves
- A statement confirming the trustees have complied with their duty to have due regard to the guidance on public benefit published by the commission
- A summary of the objectives of the charity and the main charitable activities carried out
- A brief summary of achievements and performance

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 SORP.

External Scrutiny

Most charities, other than the very smallest, must subject their annual accounts to some form of external scrutiny.

There are two types of external scrutiny, Independent Examination and Statutory Audit.

The required level of scrutiny depends on the type of charity, the level of turnover and assets and the requirements of a charity's governing document. See the summary tables above for full details.

You will note from the thresholds above that it would be unusual for a Mothers' Union diocese to require anything more than an independent examination unless this is explicitly required in your governing document.

Independent Examination of Accounts

This is the process of scrutinising a charity's Annual Accounts below the level of a full statutory audit. The procedures are defined by law and by the direction of the Charity Commission.

The Independent Examiner will gain an understanding of the charity, look at the Annual Accounts and supporting documents and write an independent report for circulation with the Annual 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 Annual Accounts to comply with the Charities Act.

As well as scrutinising the Annual Accounts, the independent examiner may also help prepare the Annual 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. 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 £250,000 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 an independent examination of all aspects of the charity's work. The Charity Commission gives limited guidance on this via their website. 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's standards.

If you do not have the skills to produce a full set of Annual Accounts complying with charity law, most Independent Examiners will help with preparing accounts in addition to examining them. They may also provide assistance with preparation of the Trustees' Annual Report.

When approaching someone to act as your Independent Examiner, do make clear what you are seeking. As a general rule, preparing and examining accounts involves at least three times as much work as an Independent Examination of Annual Accounts already produced.

If you are going to prepare the Annual Accounts yourselves, you must have a proper understanding of the legal requirements.

Statutory Audit

The audit process is defined by law and is carried out by a Registered Auditor (a Chartered or Chartered Certified accountant). An audit is the highest level of scrutiny of Annual Accounts and the auditor looks for positive evidence to enable the Annual Accounts to be described as representing 'a true and fair' view of the financial statements presented.

Every charity with an annual income above £1,000,000 is required to have an audit as are those with income over £250,000 and a large asset base.
Funding organisations sometimes ask for a copy of audited Annual 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.

Accounting for Branches within Diocesan Accounts

A common issue relevant to the Mothers' Union is that of how branches are treated from a legal and accounting perspective.

In Mothers' Union, branches of a diocese are generally not separate legal entities. Instead they are an integral part of diocese, therefore their financial activities (and assets and liabilities, when accruals accounting) should be part of the parent charity, which is the registered charity.

The following section sets out the regulations that govern branch accounting. To increase the simplicity of the accounts production process branches should always follow the same accounting period as the parent charity.

What is a Branch?

(taken from Charity Commission website)

The latest Charity SORP carries a definition of 'branch' in order to clarify the status of organisations for accounting purposes. The definition is designed to ensure that all funds that are either legally part of a reporting charity or are legally part of a charity that is linked to a reporting charity, are covered by the accounts of the reporting charity. The SORP is trying to distinguish these funds from funds which are part of entities which are reporting charities in their own right, even though they may be known as 'branches'. The exact status of 'branches' in the SORP sense, and their relationship with the reporting charity, determines whether or not they are treated as entirely separate organisations.

The SORP gives the following definition of 'branch':
"Branches (which may also be known as supporters' groups, friends' groups, members' groups, communities or parishes which are part of a common trust, etc) are entities or administrative bodies set up, for example, to conduct a particular aspect of the business of the reporting charity, or to conduct the business of the reporting charity in a particular geographical area. They may or may not be legal entities which are separate from the reporting charity."
Accounting and Reporting by Charities: Statement of Recommended Practice (revised 2015) Appendix 1 Glossary

A branch in terms of the SORP definition will be therefore be one of the following:

1. part of the administrative machinery of the reporting charity;
2. a special trust or restricted fund of the reporting charity;
3. a distinct charity not falling within (b) which we have united by a direction under section 96(5) or section 96(6) of the 1993 Act providing for it to be treated as linked to the reporting charity for accounting purposes.

These are fairly limited definitions, but the SORP goes on to list some characteristics which may indicate that the entity is a branch for accounting purposes. It may:

- use the name of the reporting charity within its title;
- exclusively raise funds for the reporting charity and/or for its own local activities;
- use the reporting charity's registration number to receive tax relief on its activities;
- be perceived by the public to be the reporting charity's local representative or its representative for a particular purpose;
- receive support from the reporting charity through advice, publicity materials, etc.

If the branch exists to carry out the primary objects of the reporting charity, typically it will receive funds from it to carry out its work, and may be staffed by employees of the reporting charity.

How should a Charity account for its branches?
The activities of a branch of a charity, as defined by the Charities SORP 2015, are part of the activities of the charity administering the branch and must be included within that charity's Annual Accounts. Similarly, if the branch is not a separate legal entity, all funds held by the branch will be the legal property of the reporting charity, whether or not the branch has a separate bank account. This would be the case where the local group is run by committees who are wholly answerable to the parent body's trustees, and do not have any independence or accountability separately from their responsibility to these parent trustees.

Therefore branches must be consolidated into the main accounts

Where a branch is separate legal entity (charity or company) the law requires each entity to prepare its own Annual Accounts.

Where the branches are distinct charities - and treated as separate accounting entities controlled by the parent charity - the parent entity may then, subject to meeting the test of control and benefit set out in financial reporting standards, consolidate its subsidiary branches into its group accounts.

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 ten months after the end of your financial year (nine months for charities in Scotland and six months for charities in the Isle of Man).

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. You'll be asked to update details including:
- name of trustees,
- bank details
- charity classification and activities
- details of land and buildings owned by the charity
- number of volunteers
- details of overseas spending and activities

You will also need to declare whether the charity:
- is registered for Gift Aid
- pays its trustees
- raises funds from the public
- works with a commercial business that raises money for the charity
- has a trading subsidiary (a company whose profits go to the charity)
- has policies for risk management, investment, safeguarding vulnerable beneficiaries, managing conflicts of interest, managing volunteers, and handling complaints
- has a policy on paying its staff
- has reviewed its financial controls
- has received income from local or central government, either through contracts or as grants, and how much was received

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.

The Charity Commission provides full details of what you will need to include in your annual return, so you can prepare the information before you complete it online.

Registered status to appear on documents

A registered charity with a gross income of £10,000 or more in the 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 the accounts, cheques, headed notepaper, advertisements, notices, material placed on websites and any documents used for fundraising or membership purposes.

Useful Links

Regulatory Bodies

Charity Commission
https://www.gov.uk/government/organisations/charity-commission
Office of Scottish Charity Regulator
https://www.oscr.org.uk/
Irish Charity Regulator
https://www/charitiesregulator.ie/en

Other useful Documents and Links

Useful publications by the Charity Commission:
Charity reporting and accounting : the essentials November 2016 (CC15d) provides more details about the purpose and content of Annual Reports.

Receipts and Payments accounts pack (CC16) for charities looking to prepare receipts and payments accounts.

Accruals accounts pack (CC17) for charities looking to prepare SORP compliant accruals accounts.

Independent examination of charity accounts: guidance for trustees (CC31) for charities who need to provide such a report.

The current Statement of Recommended Practice
http://www.charitysorp.org