



ACCOUNTING  
& REPORTING

# Charity Reporting and Accounting

The essentials

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 some 190,000 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 or expenditure over £10,000 must provide annual information and accounts to the Commission. The Commission has wide powers to intervene in the affairs of a charity where things have gone wrong.

# Charity Reporting and Accounting:

The essentials

## Contents

A	Foreword	2
B	The accounting framework at a glance	3
C	Introduction	5
D	Preparing the Annual Report and the accounts	8
E	Specific reporting requirements for different types of charity	11
F	External scrutiny	15
G	Further help and advice	16
H	Legal requirements for Annual Reports	17

Guidance from the Charity Commission for all who prepare charity accounts and Annual Reports.

**This guidance applies to charities with financial years beginning on or after 27 February 2007.**

**See section C4 for more about the scope of this booklet.**

# 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 recognises this by setting out a framework for accounting by charities. We have published this guide to help you apply the framework to your charity. But effective accountability is about more than complying with the law. The availability of charity accounts and reports on our website gives more immediate and wider accountability and will benefit those charities which see this as an opportunity to build trust and support by providing timely and good quality information. We would therefore urge trustees to be clear about what is required of their charity by law and to consider how they can get the most out of the exercise for their charity, its supporters and beneficiaries.

We are publishing this guidance at a time of significant, and welcome, changes to the accounting framework. For charitable companies, for example, the accounting and reporting requirements are currently complicated by the need to report both to ourselves and to Companies House. The law is being changed to remove this dual reporting requirement and to simplify the process for all but the larger charities. The process of change started with the introduction of the first provisions of the Charities Act 2006 in February 2007 – there are some further changes to be completed by early 2008. We are publishing this guidance to reflect this first round of changes and we will update it as further changes are introduced. The end result of these changes will be consistent, easy to follow accounting requirements for all registered charities.

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 booklet useful.

**Dame Suzi Leather**

**Chair of the Charity Commission**

**Andrew Hind**

**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. It is not a legal document but an overall summary of the position. It also details the deadline for submitting them 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 succeeding sections.

### Working out what requirements apply to your charity

The framework for accounting by charities sets out different requirements for different sizes and types of charity. To understand how it applies to your charity, you need to check:

- whether or not your charity is also a company;
- its income for the current financial year;
- the value of its assets; and
- whether or not it is required to be registered as a charity.

You should then establish:

- what type of accounts must be prepared;
- what information is needed in the Trustees' Annual Report;
- whether the accounts need an independent examination, accountant's report or audit; and
- what information must be sent to the Charity Commission.

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 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 annual income or expenditure exceeds £10,000.

Charities whose annual income exceeds £10,000 also have to send a completed Annual Return to us.

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 its type:

- **Receipts and payments.** This is the simpler of the two types and may be adopted where a non-company charity has a gross income of £100,000 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.
- **Accruals.** Non-company charities with gross income of over £100,000 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, 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 whose annual income or expenditure exceeds £10,000 have to file their Trustees' Annual Report 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**

Charities with a total income exceeding £10,000 will receive an Annual Return from the Commission, shortly after the end of their financial year. They are under a legal duty to complete and send the 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?**

Only charities with yearly incomes of more than £10,000 are required to have their accounts independently examined or audited – below that threshold, accounts inspection is only needed if it is required by the charity's governing document.

Precisely what type of inspection is needed 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 £10,000 and £500,000 and an audit is needed where the income exceeds £500,000. An audit will also be needed if total assets (before liabilities) exceed £2.8m, even if the charity's income is less than £500,000.

The interim situation is more complex for charitable companies; such charities should refer to section E2 of this guidance.



## 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 to other helpful information. This guidance incorporates the changes introduced by the Charities Act 2006; however further changes, for company charities only, will be brought into effect by the Companies Act 2006. A further update to this guidance will be issued when these changes take effect. The Charities Act 2006 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.

### 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 replaces the previous guidance *Charity Accounts: The framework* (CC61), last revised in December 2005.

### C4. Scope of this booklet

The financial thresholds set out in this guidance apply for financial years beginning on or after 27 February 2007 for both company and non-company charities. For the thresholds applying to previous financial years, please refer to our guidance *Charity Accounts: The framework 2005* (CC61a) available on our website. We will be publishing a further revised version of this guidance when other legal changes are made late in 2007 or in 2008 so this version will have a short shelf life.

### C5. Using this booklet

In each section of this guidance, we ask a selection of the relevant questions that trustees or professionals 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.

### C6. Some technical terms used

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

**1993 Act:** The Charities Act 1993

**2005 Regulations:** The Charities (Accounts and Reports) Regulations 2005

**2006 Act:** The Charities Act 2006

**Accountant's report:** Also known as an audit exemption report, this is a less onerous form of scrutiny than an audit, for charitable companies, where the charity is below the audit threshold. It can only be made by qualified persons in an approved format, set out in the Auditing Practices Board's Statement of Standards for Reporting Accountants applicable to Small (Charitable) Companies. Only certain qualified persons may act as reporting accountants. For more details refer to the guidance 'Accounts and Auditing Reference Dates' available from Companies House.

**Accounting records:** The trustees' records of the administration of the charity: those 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 VI of the Charities Act 1993 or, for charities registered under the Companies Acts, section 386 of the Companies Act 2006.

**Annual Information Update:** This is a form that allows us to collect factual information about the charity to enable us to keep the Register of Charities up to date. It is mailed to relevant charities soon after their financial year end, 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 2005 Regulations set out the basic requirements and more guidance is given in SORP. The requirements of the 2005 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.

**Audit:** An audit required by Part VI of the 1993 Act, as amended by Part II of the 2006 Act, is the scrutiny of accounts by a registered auditor who, as an audit professional, will apply auditing standards issued by Auditing Practices Board. A registered auditor is one registered with a recognised supervisory body in accordance with the Companies Act 1989. 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 1985; and
- which is established for exclusively charitable purposes.

**Exempt charities:** These are charities which the 1993 and 2006 Acts exempt from a number of their 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:** This is the total recorded income of the charity in all unrestricted and restricted income funds, but not resources received as capital (endowment) funds, nor capital gains in an income fund. It also excludes the transfer of the trusteeship of charitable funds from one charity to another.

**Gross 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.

**Independent examination:** This is a less onerous form of scrutiny than an audit. Examiners report whether specific matters which are identified in the 2005 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 – CC63*). 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 2006 Act.

**Non-company charities:** These are charities which are not charitable companies (see page 6). Examples include trusts, unincorporated associations, and also corporate bodies which have been incorporated by means other than under the Companies Act 1985 (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, issued in March 2005, sets out the recommended practice for the purpose of preparing the Trustees' Annual Report and to preparing the accounts on the accruals basis. 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 1993 Act (as amended by the 2006 Act).

# D

## Preparing the Annual Report and the accounts

All charities must maintain financial records and prepare 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

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 the section below. There are also additional requirements depending on the income or expenditure of the charity – broadly speaking, the larger the charity, the greater the requirements. The precise details depend on the type of charity.

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 telephone us for further advice on 0845 300 0218.

## D2. What are the requirements for all charities?



### The short answer

All charities must keep accounting records, and prepare annual accounts which must be 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).
- Prepare annual accounts.
- 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).

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 receive an Annual Information Update form, and larger charities will also receive an Annual Return from the Commission. Although trustees of charities with an income of £10,000 or less do not have to complete and return an Annual Information Update form, by doing so they will meet their legal obligation to keep the Commission informed of any changes to the Register. Charities with a total 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 its type:

- **Receipts and payments.** This is the simpler of the two types and may be adopted where a non-company charity has a gross income of £100,000 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.
- **Accruals.** Non-company charities with gross income of over £100,000 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 in question, 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'.

The Commission provides packs for receipts and payments or accruals accounting which are available through our website or in hard copy (order codes CC16 and CC17 respectively). These provide a template, for small non-company charities, to produce accounts in the required form and to meet the SORP's recommendations.

## D4. What goes into the Annual Report?



### The short answer

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 benefit to the public of the charity's activities. Its 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 benefits they bring to the community.

---

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 that really matters. Donors need to see where their money went and how it made a difference.

## 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 should 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?



#### (a) Charities where the gross income does not exceed £10,000 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 Regulations and the SORP. The Commission provides packs for receipts and payments or accrual accounting which are available through the website or in hard copy. 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). The important point to note is that this is a **Trustees' Annual Report** and is very different in its purpose and format to a directors' report prepared for company purposes.

#### Information to be sent to the Commission:

Charities with an income of £10,000 or less in their financial year receive an Annual Information Update form, which includes information forming part of the charity's entry on the Register, including trustee details. Small charities are asked to complete this form as a good way of meeting their obligation to update their Register details. Charities with an income not exceeding £10,000 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 £10,000 but not exceeding £100,000 in the relevant financial year

**Basis of preparation:** Accounts may 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 Regulations and the SORP. The Commission provides packs for receipts and payments or accrual accounting which are available through the website or in hard copy. 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 £10,000 but not exceeding £100,000 will receive an Annual Return which they are legally required to complete. 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 £100,000 but not exceeding £500,000 in the relevant financial year, and total assets not exceeding £2.8m**

**Basis of preparation:** Accounts must be prepared on the accruals basis in accordance with the Regulations and the SORP (the Commission provides a pack for accrual accounting which is available through the website or in hard copy). 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 2006 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 £100,000 but not exceeding £500,000 will receive an Annual Return which they are legally required to complete. 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 £2.8m and gross income exceeds £100,000**

**Basis of preparation:** Accounts must be prepared on the accruals basis in accordance with the 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. 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

The recommendations of the SORP apply to charitable companies.

---

### In more detail

The recommendations of the SORP apply to company charities 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 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 £10,000, the trustees must also send us an Annual Report (or a suitably modified directors' report), the accounts and its Annual Return. Our requirements for an Annual Return are the same as for non-company charities.

Charitable companies are required to have their accounts audited by a registered auditor if either of the following conditions apply:

- gross income exceeds £500,000; or
- gross assets exceed £2.8m.

However, if the gross assets are not more than £2.8m and the gross income is over £90,000 and does not exceed £500,000 then an accountant's report (or audit exemption report) may normally be prepared instead of a full audit report. If the gross assets are not more than £2.8m and gross income is £90,000 or less, no external scrutiny is required.

---

The Companies Act 2006 will introduce further provisions that will make the accounting regimes for companies and non-company charities very similar. It will mean that those company charities that qualify as small companies under the Companies Act will become subject to the Charities Act 2006 independent examination and audit regime. Our guidance will be amended once the relevant provision of the Companies Act comes into effect.

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



#### **The short answer**

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 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.

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



Exempt charities have to 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.

# 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?

#### L

#### The short answer

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.

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

### G1. Publications providing further help with preparing accounts

The following publications relating to the revised accounting regime have been produced by the Charity Commission. All are available on our website ([www.charitycommission.gov.uk](http://www.charitycommission.gov.uk)) or by phoning Charity Commission Direct on 0845 300 0218.

All are freely available on the Commission website. The accounts packs can be ordered free of charge from us, and copies of the SORP may be purchased direct from the publisher by contacting CCH customer services on 0870 777 2906.

- *Accounting and Reporting by Charities: Statement of Recommended Practice (SORP 2005)*. Single copies available from the publisher CCH at a cost of £15 per copy.
- *Independent Examination of Charity Accounts: Directions and Guidance Notes (CC63a)* (website only).
- *Receipts and Payments Accounts Pack (CC16)*.
- *Accruals Accounts Pack (CC17)*.

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](http://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.

### G2. Further advice

If you need further advice, you can call Charity Commission Direct, between 08:00 and 20:00 weekdays and 09:00 and 13:00 Saturdays (0845 300 0218; Typetalk 0845 300 0219).

# 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 2005. The headings used in this section are taken from the SORP, however trustees may choose how they lay out the Annual Report, provided all the legal requirements are met. Each requirement is cross referenced to the relevant paragraph in the SORP.

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
2 Structure, governance and management	44
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.	
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).	
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).	

<b>A Matters that all charities must report</b>	<b>SORP Para</b>
<b>3 A financial review containing:</b>	<b>55 &amp; 56</b>
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.	
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.	
<b>4 Funds held as custodian trustee on behalf of others</b>	<b>59</b>
Where a charity is or its trustees are, acting as custodian trustees, the following matters should be disclosed in the report:	
a A description of the assets which they hold in this capacity;	
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;	
c Details of the arrangements for safe custody and segregation of such assets from the charity's own assets.	

<b>B Matters that smaller charities, not subject to statutory audit, must also report</b>	<b>SORP Para</b>
<b>1 Objectives and activities</b>	<b>47 &amp; 52</b>
Charities that are not subject to a statutory audit requirement may limit their disclosures within this section to a summary of the charity's objects as set out in its governing document and to providing a brief summary of the main activities undertaken in relation to those objects.	
<b>2 Achievements and performance</b>	<b>53 &amp; 54</b>
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.	

<b>C Matters that charities subject to statutory audit must also report</b>	<b>SORP Para</b>
<b>1 The report should provide the following additional reference and administrative information about the charity, its trustees and advisers</b>	<b>41</b>
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 or reporting accountant) and investment or other principal advisers.	

C Matters that charities subject to statutory audit must also report	SORP Para
<b>2 The report should provide the following additional information about the structure, governance and management of the charity</b>	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.	
<b>3 Objectives and activities</b>	47
<b>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:</b>	
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 Details of significant activities (including its main programmes, projects or services provided) that contribute to the achievement of the stated objectives. 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.	49
Where social or programme-related investment activities are material in the context of the charitable activities undertaken, the investment policies should be explained.	50
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.	51

C Matters that charities subject to statutory audit must also report	SORP Para
<p><b>4 Achievements and performance</b></p>	<p>53</p>
<p>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:</p>	
<p>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.</p>	
<p>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.</p>	
<p>c Where significant investments are held, details of the investment performance achieved against the investment objectives set.</p>	
<p>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.</p>	
<p><b>5 Financial review</b></p>	
<p><b>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:</b></p>	
<p>a Principal funding sources and how expenditure in the year under review has supported the key objectives of the charity.</p>	
<p>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.</p>	
<p><b>6 Plans for future periods</b></p>	
<p>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.</p>	

We want our publications to be as useful and easy to read as possible. If you have any comments or suggestions, please write to:

Print and Publishing Manager  
Charity Commission  
PO Box 1227  
Liverpool  
L69 3UG

Email: [publications@charitycommission.gsi.gov.uk](mailto:publications@charitycommission.gsi.gov.uk)

This publication can also be accessed at the Charity Commission's website: [www.charitycommission.gov.uk](http://www.charitycommission.gov.uk)

© Crown copyright 2007. This publication (excluding the Royal Arms and departmental logos) may be reproduced free of charge in any format or medium provided that it is reproduced accurately and not used in a misleading context. The material must be acknowledged as Crown copyright and the title of the publication specified.

This publication is printed on paper obtained only from sustainable resources and is totally chlorine free.

Supplied by Linney Group  
xxxx xx/2007

**You can obtain large-print versions  
of this publication from the Charity  
Commission on 0845 300 0218**

**Charity Commission**

Telephone: **0845 300 0218**

Typetalk: **0845 300 0219**

By post: **Charity Commission Direct**

PO Box 1227

Liverpool

L69 3UG

Website: **[www.charitycommission.gov.uk](http://www.charitycommission.gov.uk)**