Charity Commission

Resource Accounts 2002–2003

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For the year ended 31 March 2003

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Annual Report

This Annual Report is prepared and published as part of the Charity Commission's Resource Account for 2002–03 as required by the *Resource Accounting Manual* produced by HM Treasury.

Further details of the Commission's activities, operations and performance against its targets for the year can be found in its principal, statutory Annual Report for 2002–03 published on 17 July 2003. Each year a statutory Annual Report is prepared for the Secretary of State for the Home Department pursuant to Section 1(5) of the Charities Act. It also contains details of any significant developments in the operating environment during the year as identified at the time of publication.

The statutory Annual Report for 2002–03 can be found on the Commission's website at: www.charitycommission.gov.uk

Scope

The Charity Commission is established by law as the regulator and registrar of charities in England and Wales.

As at 31 March 2003 there were 187,316 charities listed on the Commission's Central Register of Charities (of which 163,013 are "main" charities with the remainder being subsidiaries or branches of other charities). In 2002–03, the gross annual income of all registered main charities exceeded £30 billion and they had assets in excess of £70 billion.

Aim

The Commission's 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.

Objectives and Principal Activities

The Commission's business plan for the period 2002–03 to 2005–06 which includes the period covered by this Annual Report identified the following three business objectives and related principal activities:

Objective One: to ensure that charities are able to operate for their proper purposes within an effective legal, accounting, and governance framework.

- Determining the charitable status of organisations
- Taking legal decisions in order to empower transactions or change governing provisions, where doing so will improve the administration of charities or allow their resources to be used more effectively
- Working with charities, umbrella bodies and the rest of Government to develop the legal and accounting framework within which charities operate, and to develop and promote appropriate standards
- Undertaking a programme of review visits to larger charities

Objective Two: to improve the governance, accountability, efficiency, and effectiveness of charities.

- Promoting efficiency, good trusteeship and effective administration by providing trustees and others with information in the form of leaflets, presentations and - increasingly - by electronic means
- Providing guidance and advice to trustees and others on matters affecting the efficiency and proper administration of particular charities, and charities in general
- Keeping the Register of Charities up-to-date and accurate, and providing public access
- Requiring the submission of annual accounts and returns; monitoring, and pursuing the issues arising

- Publishing and monitoring compliance with regulatory reports on best practice and accountability within the sector

Objective Three: to identify and deal with abuse and poor practices.

- Evaluating, and where appropriate investigating, allegations and suspicions of maladministration or abuse
- Enforcing the submission of late annual returns and accounts

Other Sources of Performance Information

In addition to this Annual Report and the statutory Annual Report, the following two documents also provide performance information for the Charity Commission:

- The Commission's Annual Departmental Report (ADR) was published on 10 June 2003 (Cm5909). The ADR contains an overview of the Commission's structure, performance and use of resources in 2002–03 together with details of the Commission's plans and targets for the coming year (2003–04); and
- A Supplementary Performance Report, giving interim, 2003–04 performance data on the Commission's performance against key Service Delivery Agreement (SDA) targets will be published in the Autumn of 2003

Operating and Financial Review

Review of Operational Performance

A summary of the Commission's performance against key Service Delivery Agreement (SDA) targets is contained in Table 1 overleaf.

Table 1 shows that the Commission successfully achieved 12 of its 14 SDA targets and missed the remaining targets, one of which was new and previously untested, only marginally. A review of the impact of the Commission's operational performance can be found in the statutory Annual Report.

Additionally, the Commission has a Service First target of responding to 90% of correspondence within an average of 15 working days. The Commission achieved this standard during the year with 94% of correspondence receiving a reply within the target period and an overall average response time of 9 days (2001–02 89%/9 days).

The Commission also has a target of paying all non-disputed invoices within 30 days. During the year the percentage of invoices paid within this target period was 98.24% (2001–02 97.10%).

Table 1: Departmental objectives and SDA targets –31 March 2003 Outturn (31 March 2002 in parentheses)

Objective	SDA target or other measure	Performance Indicator	Target outturn	Achievement
1. To ensure that charities are able to operate for their proper purposes within an effective legal, accounting and governance framework.	To determine charitable status within an average of 95 working days of an application for registration being received.	Turnaround time (working days) for determining charitable status	**92 days** (95 days)	**85 days** (97 days)
	To undertake 3,500 cases where the Commission exerts its legal authority.	Number of cases where legal authority is exercised	**3,500** (3,500)	**4,116** (3,854)
	To increase the percentage of cases where legal authority is exercised at the Commission's instigation to 10% by 2003–04.	Number of cases where legal authority is exercised at the Commission's instigation	**325** (300)	**547** (550)
	To improve the framework within which charities operate for their proper purposes by completing at least three authoritative regulatory reports per year on issues affecting the charitable sector.	Number of regulatory reports delivered*	**3 reports** (-)	**3 reports** (-)
2. To improve the governance, accountability, efficiency and effectiveness of charities.	To undertake 23,600 cases where substantive guidance on governance and administration is given.	Number of instances of guidance being given.	**23,600** (22,700)	**24,559** (23,129)
	To initiate giving substantive guidance on governance and administration in 10% of all guidance cases.	Number of instances of guidance being given at the Commission's instigation	**2,360** (2,270)	**2,698** (2,504)
	To maintain an accurate Register by obtaining and accurately processing register check forms.	% of database entries complete and accurate (verified by independent audit)	**92%** (90%)	**99%** (99%)
	To monitor the target group of charities.	% of charities monitored by income band: Over £250k	**100%** (100%)	**96.9%** (96.5%)
		£100k-£250k	**92%** (90%)	**93.4%** (94.5%)
		£10k-£100k	**86%** (85%)	**87%** (87.6%)

Objective	SDA target or other measure	Performance Indicator	Target outturn	Achievement
3. To secure compliance with charity law and to identify and deal with abuse and poor practice.	Increase the cost-effectiveness of the use of the Commission's investigative resources so that at least 90% of all investigations undertaken lead to concerns being substantiated and rectified and carry out 315 investigations a year.	- Number of investigations carried out*	**315** (-)	**321** (-)
		- Number of investigation cases where irregularity corrected as % of all investigations carried out	**80%** (90%)	**93%** (93%)
	Charitable resources protected by investigations completed.	Sums protected by investigations	**£26m** (£24m)	**£49.7m** (£25.8m)
	Exercise the Commissioner's legal authority in 6% of charities receiving a review as a consequence of that visit, and ensure that 90% of such legal authorites are exercised within 12 months of the final report of the visit.	% of charities receiving review visits that require the exercise of legal authority as a consequence of the review visit*	**6%** (-)	**3%** (-)

**New Key Performance Indicator (KPI) targets for 2002–03.*

Financial Review

The following table contains a summary of outturn against key Estimate financial limits.

Key Financial Limits	Estimate £000	Outturn £000	Surplus £000
Net Resources	25,786	24,637	1,149
Gross Administration Costs	25,395	24,340	1,055
Capital	1,909	1,772	137
Net Cash Requirement	26,795	25,851	944

The surplus of £1,149k between the Estimate Net Resources limit and the final outturn arose from three main sources:

- A planned reduction in budgeted expenditure to address the breach in the 2001–02 Administration Costs Limit (£425k, the effect of which was subsequently reduced to £260k in discussion with the Treasury) which is required to be recovered from resource allocations in the 2003–04 financial year and a reduction in the Administration Cost Limit arising from variation in outturn in 2000–01 financial year (£143k);
- A deliberate policy of retaining sufficient finances to cover the contingent liability of £560k (£261k in 2001–02) in respect of possible rent increases on the Commission's Liverpool offices (details can be found at Note 18 of the accounts); and
- Underspends in respect of Annually Managed Expenditure items, primarily depreciation (£-174k) and new provisions (£-166k).

The variance of £1,055k between the Estimate Administration Costs Limit (ACL) and the final outturn arose from the reduction in budgeted expenditure for the 2001–02 Administration Costs Limit breach and for the Liverpool rent issue mentioned above. Expenditure in year was further reduced by slippage in work for the International Outreach Project (£-192k).

The minor variance between Estimate and outturn capital investment arose through timetable adjustments to planned in-house asset development work in line with the Commission's Departmental Investment Strategy.

The surplus arising in the Commission's Net Cash Requirement is consistent with the expenditure patterns explained above allowing for non-cash expenses and working capital movements.

Employees' pension benefits are provided through the Principal Civil Service Pension Scheme (PCSPS). This is an unfunded, statutory scheme, which provides benefits on a "final salary" basis at normal retirement age of 60. From 1 October 2002, there were significant changes to the operation of the scheme. Under the original scheme benefits accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. Members pay contributions of 1.5 per cent of pensionable earnings. Under the revised arrangements, members contribute a higher rate of 3.5% of pensionable pay in order to receive a higher pension based on 1/60th of final pensionable pay together with a range of related additional benefits. All members were required to opt to remain in the old scheme or to join the new scheme or a third, intermediate scheme (retaining characteristics of the other main schemes) by Autumn 2002. Under both schemes, pensions are increased in payment in line with the Retail Prices Index. Details of the Commission's contributions to the scheme (the level of which remain unaffected by changes) and further information on benefits for officials derived from the scheme can be found in Note 2 to the Resource Accounts 2002–03.

Details of the Commission's use of financial instruments and risks arising from them can be found in Note 20 to the Resource Accounts 2002–03. It should be noted that the nature of the Commission's funding and financial operations are such that no significant risks arise from liquidity, foreign currency translations or interest rate fluctuations.

The Future

On 25 September 2002, the Cabinet Office Strategy Unit published its review of charity law and regulation entitled *"Private Action, Public Benefit"*. The review, which was put out to public consultation, made a number of recommendations, the most significant of which included:

- new objectives and performance indicators for the Commission, with a requirement to report annually its performance against those objectives;
- some changes to the Commission's governance – principally an increase in the size of the Board and the conversion of the Chief Commissioner post into separate Chair and Chief Executive posts; and
- that the Commission should become a corporate body.

The latter two recommendations would require primary legislation.

The review did not recommend any substantial changes to the nature or scope of the Commission's statutory powers in relation to charities.

One of the review's other recommendations was that the Commission should establish an office in Wales. This was accepted by the Commission, which had already applied unsuccessfully for specific funds for such an office in Spending Review 2002 (SR2002) but had made a commitment to the idea in principle and was prepared to utilise funds from elsewhere within general SR2002 allocations. A project team has now been established to take forward the implementation of the recommendation for an office in Wales.

The Commission responded formally to the review and published its response on 20 November 2002. The Commission broadly welcomed the proposals described above, subject to the need for further work looking at the detail of the Commission's future structure.

Following an analysis of the responses to the consultation on the report, the Government issued its own response, *"Charities and Not-for-Profits: A Modern Legal Framework"* on 16 July 2003 which explains how it sees the proposals being taken forward. The response is available on the Home Office's website: www.homeoffice.gov.uk.

Following the National Audit Office's value for money study of the Commission's activities (*"Giving Confidently: the Role of the Charity Commission in Regulating Charities"*) the Chief Commissioner and Director of Operations appeared before the Committee of Public Accounts, resulting in a PAC report, published on 3 July 2002. The Commission considered the report's fifteen recommendations and responded in detail via a Treasury Minute (Cmd 5600) presented to Parliament on 3 October 2002.

The Commission has commenced work on implementing the action proposed in the Treasury Minute which calls for some changes within the current core objectives and scope of the Commission which will have little risk of adverse impact on core activities and their financing. This work is progressing well with robust arrangements in place to monitor progress with the recommendations.

The Charity Commission's first three-year strategic corporate plan was published in April 2003. It contains the Commission's vision, values and strategic priorities from April 2003 to March 2006, underpinned by a clear set of principles guiding the delivery of services to the charitable sector and the wider public. The plan also sets out the Commission's annual targets and financial plans for the period.

The Corporate Plan represents a different approach to the Commission's planning process from previous years. It is a higher level corporate document that sets out the Commission's strategic priorities and targets and expresses in practical terms its drive to consolidate and improve its effectiveness as a modern regulator. The plan takes on board key recommendations in the NAO/PAC report and has significant resonance with the role envisaged for the Commission in the Strategy Unit report. The plan can be found on the Commission's website at: www.charitycommission.gov.uk

Following successful completion of a major change project last year, new arrangements have this year been established for managing change in the Commission. A new Strategy & Change Division has been created and the head of this Division will report to the Director of Policy & Strategy. A Centre of Excellence for project and programme management within the Strategy and Change Division has been created in line with the requirements of the OGC, who indicated in February that the Commission was making good progress to bring itself into line with the new central requirements for managing change.

The Commission has been reviewing its capital investment strategy. Traditionally the approach to investment in IT systems has been for the Commission to purchase and retain ownership of the infrastructure equipment, and to capitalise the development and implementation cost of bespoke software developments. An historic exception to the principle of direct ownership was the Commission's voice and data network, which was funded on the basis of a long-term managed service arrangement. Following a recent tender exercise the contract to run the service was let to a new service provider to commence by 1 March 2004. The Commission has put in place arrangements to ensure a smooth changeover between providers.

With the pace of technology change the Commission was faced with a position where the investment cycle in technology equipment was driving-down the planned asset refresh/replacement cycles to a level where equipment refresh costs were likely to become an issue. Following a review of the options the Commission has decided that it will, in future, use operating leases to source the majority of its IT equipment where the pace of change is the greatest. Following a full tender exercise, the transfer of most of the Commission's existing IT equipment assets under a sale/leaseback arrangement, which includes arrangements for replacement of older items, has been negotiated with a specialist provider and the transfer is due to be completed by the end of 2002–03. Funding of major bespoke development will, however, remain on a capital investment basis, as the expected life of these systems can be safely anticipated to outlive the initial investment in the equipment platform on which they will be delivered.

Details of the current status of the Commission's ongoing contingent liability in respect of rental payments on its Liverpool office, currently the subject of negotiations with the Treasury and the landlord (Customs & Excise), can be found in Note 18 to the Resource Accounts 2002–03.

Governance

The Charity Commission is a non-ministerial department, headed by the Chief Commissioner, who is appointed by the Home Secretary via open competition currently on a five-year warrant. This appointment can be terminated (subject to an agreed period of notice, relevant to the circumstances, given in writing) by the Chief Commissioner, by the Home Secretary or by mutual consent.

As the permanent head of the department and its Accounting Officer, the Chief Commissioner is responsible for the Commission's exercise of its statutory functions and duties.

As at the end of the financial year, three other non-executive Commissioners had been appointed by the Home Secretary via open competition, currently for 3-year fixed term appointments with the option of extension for a further 2 years. One of the three non-executive Commissioners appointed in this way is legally qualified. A fourth non-executive Commissioner post was vacant as at 31 March 2003. This post was filled by a legally qualified candidate on 18 August 2003. In the interim this position was filled by the Director of Legal Services on a temporary basis.

The Board supports the Commissioners in discharging their responsibility for the strategy and future direction of the Commission. It comprises all five Commissioners and four Directors responsible respectively for operations, policy ("policy & strategy" from 1 April 2003), legal services (from 1 October 2002) and resources.

As at 31 March 2003 the Board comprised:

Chief Commissioner	John Stoker
Non-Executive Commissioner	David Taylor FCA
Non-Executive Commissioner	Vacancy*
Non-Executive Commissioner	Julia Unwin OBE**
Non-Executive Commissioner	David Unwin QC
Director of Operations	Simon Gillespie
Director of Policy	Rosie Chapman
Director of Legal Services	Kenneth Dibble* *(from 1 October 2002)*
Director of Resources	Bill Richardson***

**Kenneth Dibble was also formally appointed as a Commissioner pending the appointment of Lindsay Driscoll from 18 August 2003 as the second non-executive legal commissioner to replace Michael Carpenter who left on 7 October 2002.*

***Left the Commission 30 April 2003 and was replaced as a non-executive Commissioner by Geraldine Peacock CBE from 1 July 2003.*

****Left the Commission 18 July 2003*

The four directors were appointed via open competition as follows:

Simon Gillespie	A fixed term contract, initially for 3 years, now extended to 5
Rosie Chapman	Appointed under permanent staff terms
Kenneth Dibble	Appointed under permanent staff terms
Bill Richardson	On permanent transfer from the Inland Revenue

Directors' contracts can be terminated (subject to an agreed period of notice, relevant to the circumstances, given in writing) by the individual Director, by the Commission or by mutual consent. The post of Director of Resources, left vacant following the departure of Bill Richardson on 18 July 2003, is currently being advertised on an open competition basis.

The remuneration of the Chief Commissioner and the other members of senior management is informed by the Senior Salaries Review Body. Details on the costs, remuneration and pension arrangements for the Commission's management and staff can be found at Note 2 to the Resource Accounts.

Charity Commission: Vision and Values

Vision

The Charity Commission's vision is to provide the best possible regulation of charitable activity in England and Wales. The Commission's vision is of a charity sector which:

- meets the needs of potential beneficiaries effectively;
- is helped in this by the legal, accounting and governance frameworks of which the Commission has stewardship;
- keeps pace confidently and competently with the pace of change in society, the economy and the needs of beneficiaries,

and in which the Commission's activities and influence:

- contribute powerfully to all the above through advice, support and effective and visible supervision;
- encourage and where necessary enforce compliance with core regulatory requirements; and
- prevent mismanagement and abuse wherever that is possible and remedy it promptly and effectively where it is not.

Values

The Commission's seven core values are as follows:

Integrity

The Commission will show impartiality, fairness, independence and honesty in everything it does.

Professionalism

The Commission will show high professional standards and provide a cost-effective service. The Commission aims to get it right first time and to be prompt, courteous and constructive in all its dealings. The Commission is committed to continuous improvement and will seek to learn both from the things it does well and the things it does less well.

Openness

The Commission is accountable to the public, Parliament and the Courts. The Commission aspires always to be open and approachable and always to present a human face.

Customer Service

The Commission is dedicated to giving an excellent service to its customers, including charities, their beneficiaries and the public. The Commission prides itself on being accessible to the community in all its diversity.

Modernising

The Commission is committed to being forward-looking, enabling and encouraging charities to modernise in step with society's needs and expectations. The Commission will exploit new technology so that its service keeps pace with changing needs.

Valuing its Employees

The Commission sees all its staff as important and values their skills, knowledge and diversity. The Commission is committed to providing leadership, keeping people informed, promoting a balance between work and home life, and developing skills.

Partnership

The Commission is committed to working together with charities, with all their and the Commission's stakeholders, with other government departments and agencies, and within the Commission.

Public Interest

Equality and Diversity

The Commission is committed to a policy which values equality and diversity. The Commission will provide not only a working environment that is free from discrimination, harassment or victimisation, where everyone will receive fair and equal treatment related to effective performance in their job, but also where the Commission harnesses the different perspectives and skills of everyone, and makes full use of them in its work. The Commission must create an ethos in which it responds to the needs of its staff and customers, where diversity is truly valued and where everyone is treated with dignity and respect.

The Commission's policies incorporate all relevant employment law, legislation and best practice to ensure that the Commission does not discriminate against anyone who works for the Commission or comes into contact with the Commission.

Employment of Disabled Persons

The Commission follows the Civil Service Code of Practice on the Employment of Disabled People. The Code aims to ensure that there is no discrimination on the grounds of disability and that access to employment and career advancement is solely based on the competencies required for the job and individual ability. The Commission is also signed up to the "two ticks" Disability Symbol programme.

Employee Relations

The Commission is committed to creating and maintaining good industrial relations, both directly between line managers and their staff, and between management and the recognised trades unions. The Commission fosters a spirit of co-operation and partnership between all concerned, in the interests of efficiency and the well being of all Commission staff. This means recognising the responsibilities of managers to manage, the need for good communications with staff and their representatives, and proper consultation wherever appropriate on issues affecting staff and their conditions of service.

Payment of Suppliers

The Commission has signed up to the CBI's Better Payment Practice Code and it is committed to paying all undisputed invoices within 30 days of the later of receipt of goods and services or receipt of the invoice.

Auditors

The Commission's accounts are audited by the National Audit Office, on behalf of the Comptroller and Auditor General.

John Stoker
Chief Commissioner 4 September 2003

Statement of Accounting Officer's Responsibilities

Under the Government Resources and Accounts Act 2000, the Charity Commission is required to prepare resource accounts for each financial year, in conformity with a Treasury direction, detailing the resources acquired, held, or disposed of during the year and the use of resources by the Commission during the year.

The resource accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the department, the net resource outturn, resources applied to objectives, recognised gains and losses, and cash flows for the financial year.

HM Treasury has appointed the Chief Commissioner as Accounting Officer of the Charity Commission, with responsibility for preparing the Commission's accounts and for transmitting them to the Comptroller and Auditor General.

In preparing the accounts, the Accounting Officer is required to comply with the *Resource Accounting Manual* prepared by HM Treasury, and in particular to:

a observe the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;

b make judgements and estimates on a reasonable basis;

c state whether applicable accounting standards, as set out in the *Resource Accounting Manual*, have been followed, and disclose and explain any material departures in the accounts;

d prepare the accounts on a going-concern basis.

The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which an Accounting Officer is answerable, for keeping proper records and for safeguarding the Commission's assets, are set out in the Accounting Officers' Memorandum issued by HM Treasury and published in *Government Accounting.*

Statement on Internal Control

Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the Charity Commission's policies, aims and objectives, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting.

The primary aim of the Charity Commission is to provide the best possible regulation of charities in England and Wales in order to increase charities' effectiveness and public confidence and trust. The Charity Commission's accountability to Parliament rests with Home Office Ministers for whom I provide briefings on internal control and other matters. This includes policy and operational matters, where I judge that the risks are sufficiently important to warrant referring them for attention.

Corporate governance arrangements in the Commission are set out in a statement agreed by the Board and recently detailed in the Commission's Corporate Plan for 2003-06. A key element of this is a Board that I chair, which meets on a monthly basis to consider the plans and strategic direction of the department. The Board comprises the Chief Commissioner, four non-executive Commissioners including a full-time legal Commissioner, and four Directors. The work of the Board is also informed by other senior committees including the Audit Committee, Executive Group, the Operational Management Group, the Resources Group and the Policy & Strategy Group.

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of departmental policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in the Charity Commission for the year ended 31 March 2003 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

Capacity to handle risk

The Charity Commission's policy on risk management clearly defines the role and responsibilities of key managers and Committees within the governance structure enabling leadership to be given to the Commission's approach to risk management. This includes the role of the Board, Audit Committee and other groups including the Executive Group. Additionally the policy sets out the specific responsibilities which the Commission's Directors have for the effective management of risk. This is cascaded through the owners of risk registers, within which key managers have designated responsibility for actions designed to improve controls and to minimise the impact of risks which do mature. This approach allows me to ensure that staff at all levels are aware of the importance of risk management and that appropriate actions are being taken to manage risks.

The Charity Commission has this year successfully piloted an enhanced risk management system. The pilot was launched in October 2002 with a programme of awareness sessions for key managers with designated responsibilities within the new arrangements and generally for other staff. To support the managers during the pilot, a guidance pack was produced setting out the Commission's policy and how the system would operate, including the proposed monitoring and reporting arrangements.

This exercise trialled all the new arrangements from monitoring of risk at operational level, through to consideration and review of strategic issues by the Board. This has established satisfactory processes and a good understanding of the requirements at all levels as a sound basis for effective risk management in the Commission. There have been regular reviews throughout the pilot to identify good practice and areas for improvement and the key system documents are being refined and updated to reflect this.

The risk & control framework

In the Charity Commission, the main processes which we have in place for identifying, evaluating, and managing risk are as follows.

The Charity Commission's risk policy and strategy supports our risk-focused approach to targeting resources on the regulation and enablement of charities. It encourages Commission staff to actively identify and manage risks in the conduct of day to day business. The risk management system also provides a framework within which new risks can be identified or existing risks refined as appropriate. Our strategy encourages an innovative approach to solutions where the risks are understood and actively managed. The Commission's appetite for risk is generally determined in relation to the matter under consideration, and will be further considered by the Board as the scene is set for the next business planning cycle.

At the heart of the Commission's risk management system is a series of detailed risk registers covering all main business functions. These registers have designated register owners who are responsible for maintaining the registers and for overseeing the effective management of identified risks including monitoring progress on the development of additional controls where the need for this has been identified. The registers which are published on our Intranet, are reviewed and updated regularly.

These registers are supplemented by a set of top priority risks which are those risks which are expected to have the greatest impact on Commission business if they matured. These risks, which will be released onto the Commission's Intranet early next year, are monitored and reviewed regularly by the Board and the Audit Committee.

The top level in the system, is the published risk framework document which sets out the ten enduring risks to successful delivery of Commission business. This framework is published on the Charity Commission's Website. It is reviewed and updated in response to major business changes and developments. The risks are grouped into two main categories: those where maturity of risks could have an external impact such as registration of an inappropriate organisation; and internally facing risks, such as ineffective governance arrangements.

The monitoring and reporting system which has been established within the Commission is designed to ensure that timely reports can be made to the Audit Committee and Board, on the extent to which risks are being managed effectively. These mechanisms allow timely identification of the potential maturity of high priority risks which could have a major impact on the successful delivery of Commission business. This approach allows me to consider with the Board as appropriate what corrective actions may be needed to redress the situation and who will take responsibility for this.

Our management of risk is embedded in policymaking, planning and delivery in a number of ways and includes formal assessment of risks for all issues considered by the Board and also by the Executive Group. Risk management is a standing agenda item for Audit Committee business. Risk issues are also regularly considered by the other groups in the governance structure. Change projects also require formal assessment of risk issues.

Review of effectiveness

As Accounting Officer, I also have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the department who have responsibility for the development and maintenance of the internal control framework[1], and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Board and the Audit Committee.

[1] This includes internal reports from business stream mangers and independent assurance from central teams within the Commission. These form a key component of the Commission's quality control mechanisms.

During the year there have been regular meetings of the Audit Committee, which has considered individual internal audit reports and management responses; progress on implementation of previous audit recommendations; the Chief Internal Auditors annual report and opinion on the adequacy of our internal control system; NAO audit reports and recommendations; and development of the Commission's approach to risk management.

On risk there have been :

- periodic reviews of the policy, framework and system being established to ensure effective identification and management of risk;
- reviews of risk registers on the extent to which risk management is being embedded in management processes within the Commission;
- use of risk registers in internal audit reviews;
- review of progress with the internal auditors;
- inclusion of a section on risk in all Board and Executive Group papers; and
- reviews of business risks in production of the Commission's statement on its regulatory stance and Corporate Plan.

At the end of the financial year letters of assurance have been provided by owners of risk registers confirming the adequacy of internal control and risk management arrangements for which they are responsible.

During the year the Board have maintained strategic oversight and review of internal control and developing risk management arrangements through regular reports by Directors on their areas of responsibility and through specific papers for discussion at Board meetings.

Significant internal control problems (if applicable)

During the financial year action has been taken where appropriate to address internal control issues and recommendations made by the Commission's auditors, Audit Committee and Board. This has included action required to improve resource accounting systems as agreed with the NAO following their 2001-02 audit.

To my knowledge and based on the advice I have received from those managers with designated responsibilities for managing risks and the risk management system, I am unaware of any significant internal control problems for 2002-03, based on the definition of significant internal control problems set out in paragraph 8 of the draft DAO letter accompanying Treasury letter dated 24 April.

John Stoker
Chief Commissioner

4 September 2003

The Certificate and Report of the Comptroller and Auditor General to the House of Commons

I certify that I have audited the financial statements on pages 19 to 35 under the Government Resources and Accounts Act 2000. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 25 to 26.

Respective responsibilities of the Accounting Officer and Auditor

As described on page 13, the Accounting Officer is responsible for the preparation of the financial statements in accordance with the Government Resources and Accounts Act 2000 and Treasury directions made thereunder and for ensuring the regularity of financial transactions. The Accounting Officer is also responsible for the preparation of the other contents of the Accounts. My responsibilities, as independent auditor, are established by statute and guided by the Auditing Practices Board and the auditing profession's ethical guidance.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Government Resources and Accounts Act 2000 and Treasury directions made thereunder, and whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report if, in my opinion, the Annual Report is not consistent with the financial statements, if the Charity Commission has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I read the other information contained in the Accounts, and consider whether it is consistent with the audited financial statements. I consider the implications for my certificate if I become aware of any apparent misstatements or material inconsistencies with the financial statements.

I review whether the statement on pages 14 to 16 reflects the Charity Commission's compliance with Treasury's guidance Corporate Governance: Statement on Internal Control. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements.

Basis of audit opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Charity Commission in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Charity Commission's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by error, or by fraud or other irregularity and that, in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I have also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In my opinion:

- The financial statements give a true and fair view of the state of affairs of the Charity Commission at 31 March 2003 and of the net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the year then ended, and have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by Treasury; and
- In all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.

John Bourn
Comptroller and Auditor General

National Audit Office
157–197 Buckingham Palace Road
Victoria
London SW1W 9SP

16 September 2003

SCHEDULE 1

Summary of Resource Outturn
for the year ended 31 March 2003

	2002–03 Estimate			2002–03 Outturn				2001–02
	Gross expenditure 1	*AinA* 2	*Net total* 3	*Gross expenditure* 4	*AinA* 5	*Net total* 6	*Net total outturn compared with Estimate saving/ (excess)* 7	*Prior-year outturn* 8
	£000	£000	£000	£000	£000	£000	£000	£000
Request for Resources 1 (Note 4)	26,075	(289)	25,786	24,732	(95)	24,637	1,149	23,061
Total Resources	**26,075**	**(289)**	**25,786**	**24,732**	**(95)**	**24,637**	**1,149**	**23,061**
Non-Operating-Cost AinA	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Net Cash Requirement	**—**	**—**	**26,795**	**—**	**—**	**25,851**	**944**	**22,867**

Reconciliation of resources to Net Cash Requirement

	Note	£000	£000	£000	£000
Net Total Resources		**25,786**	**24,637**	**1,149**	**23,061**
Capital:					
Acquisition of Fixed Assets	7	1,909	1,772	137	759
Investments		—	—	—	—
Non-Operating-Cost AinA		—	—	—	—
Accruals adjustments:					
Non-cash items	3	(900)	(595)	(305)	(729)
Changes in working capital other than cash	8	(100)	(105)	5	(389)
Changes in creditors falling due after one year		—	—	—	—
Use of provision	12	100	142	(42)	165
Net Cash Requirement (Schedule 4)		**26,795**	**25,851**	**944**	**22,867**

Analysis of income payable to the Consolidated Fund
In addition to appropriations-in-aid, the following income relates to the Charity Commission and is payable to the Consolidated Fund (cash receipts being shown in italics):

		2002–03 Forecast		2002–03 Outturn	
		Income	**Receipts**	**Income**	**Receipts**
	Note	£000	*£000*	£000	*£000*
Operating income and receipts—excess AinA	4	—	—	—	—
Non-operating income and receipts—excess AinA	4	—	—	—	—
Subtotal		—	—	—	—
Other operating income and receipts not classified as AinA	4	—	—	6	*6*
Other non-operating income and receipts not classified as AinA	4	—	—	—	—
Other amounts collectable on behalf of the Consolidated Fund	4	—	—	—	—
Total		—	—	**6**	*6*

The actual value of other operating income and receipts not classified as A-in-A was *£6,121.46*, surrenderable to the Consolidated Fund.

Continued overleaf

Actual outturn – resources:

Actual amount net resources outturn £24,636,760.63. Actual amount of savings in resources over Estimate £1,149,239.37.

Explanation of the variation between Estimate and Outturn (net resources):

The variance of £1,149k arises from : a reduction in budgeted spending arising from the need to fund the impact of the £425k breach in the 2001–02 Administration Costs Limit; a deliberate policy to provide financial cover for the contingent liability of £560k (note 18) should the Commission become liable for payment; and as a result of slippage in the International Outreach Project seminar schedule.

Actual outturn – cash:

Net cash requirement: Outturn net requirement £25,850,931.41 which is £944,068.59 less than Estimate.

Explanation of the variation between Estimate and Outturn (net cash requirement):

The variance of £944k arises from the reductions in planned resource expenditure above and deferred income receipts from the Foreign & Commonwealth Office in respect of the International Outreach Project.

The notes on pages 25 to 35 form part of these accounts.

SCHEDULE 2

Operating Cost Statement
for the year ended 31 March 2003

	Note	2002–03 £000	2001–02 As restated £000
Administration Costs			
Staff costs	2	15,457	14,304
Other administration costs	3	9,275	8,774
Gross administration costs		**24,732**	**23,078**
Operating income	4	(101)	(260)
Net administration costs		**24,631**	**22,818**
Net Operating Cost	6	**24,631**	**22,818**
Net Resource Outturn	6	**24,637**	**23,061**

All income and expenditure are derived from continuing operations.

Statement of Recognised Gains and Losses
for the year ended 31 March 2003

	Note	2002–03 £ 000	2001–02 £ 000
Receipts of donated assets	14	2	—
Prior period adjustment to General Fund	7	—	(82)
The reduction in the revaluation of fixed assets has been recognised in the Operating Cost Statement	—	—	—
Total recognised gains and losses for the financial year		**2**	**(82)**

The notes on pages 25 to 35 form part of these accounts.

SCHEDULE 3

Balance Sheet
as at 31 March 2003

	Note	31 March 2003 £000	31 March 2003 £000	31 March 2002 £000	31 March 2002 £000
Fixed assets					
Tangible assets	7		**2,465**		**1,129**
Debtors (falling due after more than one year)	9		**126**		**177**
Current Assets					
Debtors	9	1,183		1,017	
Cash at bank and in hand	10	950		768	
		2,133		1,785	
Creditors (amounts falling due within one year)	11	(1,514)		(1,122)	
		(1,514)		(1,122)	
Net Current Assets			**619**		**663**
Total Assets less Current Liabilities			**3,210**		**1,969**
Provisions for liabilities and charges	12		**(281)**		**(429)**
			2,929		**1,540**
Taxpayers' Equity					
General Fund Surplus	13		2,925		1,536
Donated asset reserve	14		4		4
			2,929		**1,540**

John Stoker
Chief Commissioner

4 September 2003

The notes on pages 25 to 35 form part of these accounts.

SCHEDULE 4

Cash Flow Statement
for the year ended 31 March 2003

	2002–03	2001–02
	£000	£000
Net cash outflow from operating activities[a]	**(24,073)**	**(21,865)**
Capital expenditure[b]	**(1,772)**	**(759)**
Payments of amounts due to the Consolidated Fund	**(106)**	**(328)**
Financing[c]	**26,133**	**23,316**
Increase/(decrease) in cash in the period	**182**	**364**

Notes
[a] *See the table below giving a reconciliation of operating cost to operating cash flows.*
[b] *See the table below giving an analysis of capital expenditure and financial investment.*
[c] *See the table below giving an analysis of financing and a reconciliation to the net cash requirement.*

Reconciliation of operating cost to operating cash flows

Net Operating Cost (Schedule 2)	**24,631**	**22,818**
Adjust for non-cash transactions (see Note 3)	(595)	(729)
Adjust for movements in working capital other than cash (see Note 8)	(105)	(389)
Use of provision (see Note 12)	142	165
Net cash outflow from operating activities	**24,073**	**21,865**

Analysis of capital expenditure and financial investment

Tangible fixed asset additions (*see* Note 7)	1,772	759
Net cash outflow from investing activities	**1,772**	**759**

Analysis of financing and reconciliation to the net cash requirement

From Consolidated Fund (Supply) – current year	26,795	23,560
Prior year surplus	(662)	(244)
Prior year undrawn grant	—	—
Net financing	26,133	23,316
(Increase)/decrease in cash	(182)	(364)
Net cash flows other than financing	**25,951**	**22,952**
Adjustments for payments and receipts not related to supply:		
Current year Consolidated Fund Extra Receipts not paid over	6	106
Prior year Consolidated Fund Extra Receipts paid over	(106)	(191)
Net cash requirement (Schedule 1)	**25,851**	**22,867**

Amount of grant actually issued to support the net cash requirement = £26,101,786.68 (being the net financing shown less the transitional Consolidated Fund creditor adjustment of £30,193.78 - see Notes 11 and 13).

The notes on pages 25 to 35 form part of these accounts.

SCHEDULE 5

Resources by Departmental Aim and Objectives
for the year ended 31 March 2003

	2002–03			2001–02		
	Gross	**Income**	**Net**	**Gross**	**Income**	**Net**
	£000	£000	£000	£000	£000	£000
Aim: to give the public confidence in the integrity of charity						
Objective 1: to ensure that charities are able to operate for their proper purposes within an effective legal, accounting and governance framework.	6,925	(28)	6,897	7,616	(86)	7,530
Objective 2: to improve the governance, accountability, efficiency and effectiveness of charities	13,355	(55)	13,300	11,539	(130)	11,409
Objective 3: to identify and deal with abuse and poor practices	4,452	(18)	4,434	3,923	(44)	3,879
Net Operating Costs	**24,732**	**(101)**	**24,631**	**23,078**	**(260)**	**22,818**

See note 15.

The notes on pages 25 to 35 form part of these accounts.

Notes to the Accounts

1. Statement of accounting policies

The financial statements have been prepared in accordance with the 2002–03 Resource Accounting Manual (RAM) issued by HM Treasury. The accounting policies contained in the RAM follow UK generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector. Where the RAM permits a choice of accounting policy, the accounting policy, which has been judged to be most appropriate to the particular circumstances of the Commission for the purpose of giving a true and fair view has been selected. The Commission's accounting policies have been applied consistently in dealing with items considered material in relation to the accounts.

1.1 Accounting convention

These accounts have been prepared under the historical cost convention modified to account for the revaluation of fixed assets, at their value to the business by reference to their current costs.

1.2 Tangible fixed assets

Tangible fixed assets are stated at the lower of replacement cost and recoverable amount. Expenditure on tangible fixed assets of over £1,000 is capitalised. On initial recognition they are measured at cost including any costs such as installation directly attributable to bringing them into working condition. All tangible fixed assets are restated to current value each year, using indices published by the Office for National Statistics (ONS) appropriate to the category of asset to estimate value.

1.3 Depreciation

Tangible fixed assets are depreciated at rates calculated to write them down to estimated residual value on a straight-line basis over their estimated useful lives. Assets in the course of construction are depreciated from the point at which the asset is brought into use.

Asset Lives are normally in the following ranges:

IT Equipment	5–7 years
Office Equipment	5–7 years
IT Databases	7 years

1.4 Donated assets

Donated tangible fixed assets are capitalised at their current value on receipt, and this value is credited to the donated asset reserve. Subsequent revaluations are also taken to this reserve. Each year, an amount equal to the depreciation charge on the asset is released from the Donated Asset Reserve to the Operating Cost Statement.

1.5 Relifed assets

Assets which have reached the end of their useful economic life, but are still in service, have been "relifed" ie credited with a nominal value, to acknowledge their continued existence. The relifed assets are not subject to depreciation or revaluation.

1.6 Stocks

The Commission has no stocks of significant value. The Commission expenses the costs of its publications provided free or at minimal charge to charities and others in the year of production.

1.7 Operating income

Operating income is income which relates directly to the operating activities of the Commission. It includes not only income appropriated in aid of the Estimate but also income to the Consolidated Fund, which in accordance with RAM is treated as operating income. Operating income is accounted for on a receivable basis and is stated net of VAT.

1.8 Administration expenditure

Administration costs reflect the costs of running the Commission. These include both those administrative costs controlled under the administration cost-control regime during the RAB 1 implementation phase (through the Departmental Expenditure Limits) and those which are in the Annually Managed Expenditure (capital charges and all other non-cash items), together with associated operating income. Income is analysed in the notes between that which, under the regime, is allowed to be offset against gross administrative costs in determining the outturn against the administration cost limit, and that operating income which is not.

1.9 Capital charge

A charge, reflecting the cost of capital utilised by the Commission, is included in operating costs. The charge is calculated at the government's standard rate of 6 per cent in real terms on all assets less liabilities, except for donated assets and cash balances with the Office of the Paymaster General, where the charge is nil.

1.10 Pensions

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS) which is a defined benefit scheme and is unfunded and non-contributory. The Commission recognises the expected cost of providing pensions on a systematic and rational basis over the period during which it benefits from employees' services by payment to the PCSPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS.

1.11 Leases and Non-operating Income from Minor Occupiers

At present, all leases held by the Commission are operating leases and the rentals are charged to the Operating Cost Statement on a straight-line basis over the term of the lease. Under *Government Accounting* rules income received from minor occupiers is netted off against associated rental expenditure.

1.12 Provisions

The Commission provides for legal or constructive obligations, which are of uncertain timing, or amount at the balance sheet date, on the basis of the best estimate of the expenditure required to settle the obligation. Where the effect of the time value of money is significant, the estimated risk-adjusted cash flows are discounted using the Treasury discount rate of 6 per cent in real terms.

1.13 Value Added Tax

Most of the activities of the Commission are outside the scope of VAT and, in general, output tax does not apply and input tax on purchases is not recoverable. Irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase cost of fixed assets. Where output VAT is charged or input VAT is recoverable, the amounts are stated net of VAT.

1.14 Contingent Liabilities

In addition to contingent liabilities disclosed in accordance with FRS 12, the Commission discloses for parliamentary reporting and accountability purposes, certain contingent liabilities where the likelihood of a transfer of economic benefit is remote. These comprise all items which are required by the Resource Accounting Manual to be noted in the resource accounts. Contingent liabilities that are not required to be disclosed by FRS 12 are stated at the amounts reported to Parliament.

2. Staff numbers and costs

Staff costs comprise:

	2002–03	2001–02 As restated
	£000	£000
Wages and Salaries	12,629	11,564
Social Security Costs	831	782
Other Pension Costs	1,678	1,513
Agency Staff	432	502
Total	15,570	14,361
Less recoveries in respect of outward secondments	(39)	(57)
TOTAL NET COSTS[a]	**15,531**	**14,304**

[a] Of the total, £74k has been charged to capital.

The PCSPS is an unfunded multi-employer defined benefit scheme but the Charity Commission is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out at 31 March 2000 and details can be found in the separate scheme statement of the PCSPS.

For 2002–03, employer's contributions of £1,677,804.62 were payable to the PCSPS (2001–02 £1,512,811) at one of four rates in the range 12 to 18.5 per cent of pensionable pay, based on salary bands. Rates will remain the same next year, subject to revalorisation of the salary bands. Employer contributions are to be reviewed every four years following a full scheme valuation by the Government Actuary. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred; and they reflect past experience of the scheme.

As at 31 March 2003 no Commission employees had opted for a stakeholder pension.

The average number of whole-time equivalent persons, including senior management, employed during the year, was as follows:

	2002–03 No.	2001–02 No.
Objective 1	154	183
Objective 2	316	282
Objective 3	105	91
TOTAL	**575**	**556**

2. Staff numbers and costs *(continued)*

The senior management and non-executive directors of the Commission were as follows:

	Age	Salary[a]		Real increase in pension at age 60[b]		Total accrued pension at age 60 at 31 March	
	Yrs	2002–03 £000	*2001–02 £000*	2002–03 £000	*2001–02 £000*	2002–03 £000	*2001–02 £000*
J Stoker *Chief Commissioner*	52	95–100	*90–95*	2.5–5.0	*0.0–2.5*	35–40	*30–35*
S Gillespie *Director*	43	65–70	*65–70*	0.0–2.5	*0.0–2.5*	0–5	*0–5*
W A Richardson *Director*	50	75–80	*75–80*	0.0–2.5	*0.0–2.5*	30–35	*30–35*
R Chapman *Director*	42	55–60	*55–60*	0.0–2.5	*0.0–2.5*	0–5	*0–5*
K Dibble *Director*	56	75–80	—	2.5–5.0	—	30–35	—
M Carpenter *Commissioner*	60	85–90	*80–85*	0.0–2.5	*0.0–2.5*	5–10	*0–5*
J Unwin *Commissioner (non- executive)*	46	30–35	*30–35*	0.0–2.5	*0.0–2.5*	0–5	*0–5*
D Taylor *Commissioner (non- executive)*	67	25–30	*25–30*	0.0–2.5	*0.0–2.5*	0–5	*0–5*
D Unwin *Commissioner (non- executive)*	55	25–30	*25–30*	0.0–2.5	*0.0–2.5*	0–5	*10–15*

* *During the year, there were the following senior staff changes:*
M Carpenter left the Commission on 6th October 2002
K Dibble joined the Board on 1st October 2002

Other Notes:

a) "Salary" includes gross salary; performance pay or bonuses; overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances; private office allowances and any other allowance to the extent that it is subject to UK taxation. None of the above received benefits in kind.

b) Officials' pension benefits are provided through the Principal Civil Service Pension Scheme (PCSPS). This is a statutory scheme which provides benefits on a "final salary" basis at normal retirement age of 60. From 1 October 2002, there were significant changes to the operation of the scheme. Under the original scheme benefits accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. Members pay contributions of 1.5 per cent of pensionable earnings. Under the revised arrangements, members contribute a higher rate of 3.5 per cent of pensionable pay in order to receive a higher pension based on 1/60th of final pensionable pay together with a range of related additional benefits. All members were required to opt to remain in the old scheme or to join the new scheme or a third, intermediate scheme (retaining characteristics of the other main schemes) by Autumn 2002. Under both schemes, pensions are increased in payment in line with the Retail Prices Index.

On death, pensions are payable to the surviving spouse at a rate of half the member's pension. On death in service, the scheme pays a lump-sum benefit of twice pensionable pay and also provides a service enhancement on computing the spouse's pension. The enhancement depends on length of service and cannot exceed 10 years.

Medical retirement is possible in the event of serious ill-health. In this case, pensions are brought into payment immediately without actuarial reduction and with service enhanced as for widow(er) pensions.

3. Other administration costs

	2002–03	2001–02 As restated
	£000	£000
Rentals under operating leases:		
Hire of plant and machinery	455	455
Other operating leases	2,280	2,324
Non cash items:		
Depreciation of fixed assets	326	255
Impairment of assets	98	133
Loss on disposal of fixed assets	14	24
Cost of capital charge	133	119
Capitalisation of prior year staff costs	(22)	—
Auditor's remuneration and expenses	70	70
Provisions		
(reversed)/provided in year	(6)	131
unwinding of discount on provisions	(18)	(3)
	3,330	3,508
Other expenditure	5,945	5,266
	9,275	**8,774**

4. Income and Appropriations-in-Aid

Operating income

Operating income not appropriated in aid (i.e. transferred to the Consolidated Fund) is analysed for resource budget purposes between that which is included in public expenditure and that which is not (see note 6). In 2002–03 all operating income not classified as A-in-A was within public expenditure.

	2002–03			
	Resource Outturn		**Operating Cost Statement**	
	Netted off gross expenditure in Subhead	**Appropriated-in-Aid**	**Payable to Consolidated Fund**	**Income included in Operating Cost Statement**
	£000	£000	£000	£000
Operating income analysed by classification and activity is as follows:				
Administration income:				
–allowable within admin cost limit	—	78	—	78
–other				
fees and charges to external customers	—	17	6	23
	—	**95**	**6**	**101**

	2001–02			
	Resource Outturn		**Operating Cost Statement**	
	Netted off gross expenditure in Subhead	**Appropriated-in-Aid**	**Payable to Consolidated Fund**	**Income included in Operating Cost Statement**
	£000	£000	£000	£000
	—	**17**	**243**	**260**

5. Administration cost limit

The outturn within the administration costs control regime shown against the limit is as follows:

	2002-03		**2001-02**	
	Outturn	Limit	Outturn	Limit
	£000	£000	£000	£000
Request for Resources 1 (Gross limit)	24,340	25,395	22,608	22,183

The variance of £1,055k was mainly due to: the need to fund the impact of the £425k breach in the 2001–02 Administration Costs Limit (subsequently reduced to £260k by agreement with the Treasury); the provision of financial cover for the contingent liability of c£560k (see note 18), should the Commission become liable for payment; and slippage in the International Outreach Project seminar schedule.

6. Reconciliation of net operating cost to the control total and net resource outturn

	2002–03	**2001–02**
	£000	£000
Net operating cost	24,631	22,818
add: income scored as Consolidated Fund Extra Receipts	6	243
Net resource outturn	24,637	23,061

Net operating cost is the total of expenditure and income appearing in the operating cost statement (Schedule 2). Net resource outturn is the total of those elements of expenditure and income that are subject to parliamentary approval and included in the Commission's Supply Estimate. The outturn against the Estimate is shown in the summary of resource outturn (Schedule 1).

7. Tangible fixed assets *(see also notes 1.1–1.5)*

	IT Equipment	IT Databases	Office Equipment	Assets under Construction	Total
	£000	£000	£000	£000	£000
Cost or Valuation					
At 1 April 2002	1,481	—	216	401	2,098
additions	97	—	14	1,661	1,772
donations	2	—	—	—	2
relifed assets	5	—	—	—	5
disposals	(192)	—	(6)	—	(198)
transfers	(44)	664	—	(619)	1
revaluation	(80)	(48)	(11)	—	(139)
At 31 March 2003	**1,269**	**616**	**213**	**1,443**	**3,541**
Depreciation					
At 1 April 2002	837	—	132	—	969
charged in year[a]	212	88	28	—	328
disposals	(182)	—	(4)	—	(186)
revaluation	(31)	—	(4)	—	(35)
At 31 March 2003	**836**	**88**	**152**	**0**	**1,076**
Net book value					
At 31 March 2003	**433**	**528**	**61**	**1,443**	**2,465**
At 31 March 2002	**644**	**0**	**84**	**401**	**1,129**

a) Depreciation charged in year includes £2k in respect of donated assets which was subsequently released from the Donated Asset Reserve (see note 14).

8. Movements in working capital other than cash

	2002–03	2001–02
	£000	£000
(Decrease)/increase in debtors	115	(329)
(Increase)/decrease in creditors	(392)	(60)
	(277)	**(389)**
Adjustment: Movement in working capital not related to net operating costs	172	—
	(105)	**(389)**

9. Debtors

	2002–03	2001–02
	£000	£000
Amounts falling due within one year:		
VAT	231	227
Deposits and advances	59	68
Other Debtors	135	96
Prepayments and accrued income	758	626
	1,183	1,017
Amounts falling due after more than one year:		
Prepayments	126	177
	1,309	**1,194**

10. Cash at Bank and in Hand

	2002–03	2001–02
	£000	£000
Balance at 1 April	768	405
Net Cash Inflow/(Outflow)	182	363
Balance at 31 March	**950**	**768**
The following balances at 31 March are held at:		
Office of HM Paymaster General	949	767
Cash in hand	1	1
	950	**768**
The balance at 31 March comprises:		
Amounts issued from the Consolidated Fund for supply but not spent at year end	944	662
Consolidated Fund extra receipts received and due to be paid to the Consolidated Fund	6	106
	950	**768**

11. Creditors: amounts falling due within one year

	2002–03	2001–02
	£000	£000
Trade creditors	69	43
Other creditors	61	111
Accruals and deferred income	434	200
Amounts issued from the Consolidated Fund for supply but not spent at year end	974	662
Transitional adjustment[a]	(30)	—
Consolidate Fund extra receipts received and receivable due to be paid to the Consolidated Fund	6	106
	1,514	**1,122**

a) Adjustment to opening balances as a result of implementing resource-based Supply:
The amount due to the Consolidated Fund at 31 March 2001 was based on cash-based conventions, a transitional adjustment to this creditor was required in 2001–02 to reflect the adoption of conventions for resource-based Supply during the year. The working capital adjustment required from this movement resulted in the book surplus of £974k being reduced to the final cash surplus of £944k shown in Schedule 1 and Note 10.

12. Provisions for Liabilities and Charges *(see also Note 1.12)*

	2002–03 Early departure costs
	£000
Balance at 1 April 2002	429
Increase/(decrease) in provision	(6)
Amounts utilised in year	(142)
Balance at 31 March 2003	**281**

The Commission meets the additional cost of benefits beyond the normal PCSPS benefits in respect of employees who retire early by paying the required amounts annually to the PCSPS over the period between early departure and normal retirement date. The Commission provides in full for this when the early retirement programme becomes binding on them, by establishing a provision for the estimated payments discounted by the Treasury discount rate of 6 per cent in real terms.
In past years the Commission paid in advance some of its liability for early retirement by making a payment to the Paymaster General's account at the Bank of England for the credit of the Civil Superannuation Vote. The balance remaining is treated as a prepayment.

13. Reconciliation of net operating cost to changes in general fund

	2002–03	2001–02
	£000	£000
Net operating cost for the year (Schedule 2)	(24,631)	(22,818)
Income not appropriated in aid payable to Consolidated Fund	(6)	(177)
	(24,637)	**(22,995)**
Net parliamentary funding	26,133	23,316
Consolidated Fund creditor for cash unspent[a]	(974)	(662)
Settlement of previous year Consolidated Fund creditor for cash unspent[a]	662	—
Non-cash Charges:		
Cost of Capital	133	119
Auditor Remuneration	70	70
Miscellaneous	2	—
Net increase/(decrease) in general fund	**1,389**	**(152)**
General fund at 1 April 2002	1,536	1,688
General fund at 31 March 2003 (Schedule 3)	**2,925**	**1,536**

a) Adjustment to opening balances as a result of implementing resource-based Supply:

The opening balance of amounts due to the Consolidated Fund as at 1 April 2001 was adjusted to bring it into line with the amount assessed as due at 31 March 2001 on the basis of the 2000–01 Appropriation Accounts rather than on the basis of what was recorded as due in the Commission's 2000–01 Resource Accounts. Whereas the latter reflected the accounting conventions adopted for resource–based Supply, this was for illustrative purposes, and the amount actually due was assessed on the basis of the former. This is a transitional adjustment because Resource-based Supply was implemented in 2001–02. The amount of the adjustment was a decrease of £31k in the Consolidated Fund creditor balance (see note 11). This adjustment was offset as a working capital movement in 2002–03 in respect of the Consolidated Fund creditor, reducing the book surplus for 2002–03 from £974k to £944k.

14. Reserves

	2002–03 Donated Asset Reserve
	£000
Balance at 1 April 2002	4
Donations in year	2
Released to General Fund	(2)
Balance at 31 March 2003	**4**

The donated asset reserve reflects the net book value of assets donated to the Charity Commission.

15. Note to Schedule 5

The Commission's capital is used exclusively for administration purposes. Its distribution amongst objectives is therefore not markedly different from the proportion of the related gross administration cost.

Wherever possible, administration costs have been attributed to objectives in accordance with the Commission's normal management accounting practices. To facilitate this process, the activities undertaken by the Commission are identified as being either "direct" or "support" activities; the costs of the latter are reapportioned to the former using bases such as the proportion of floorspace occupied, the number of staff in post, or the proportion of the total Commission budget held. The full cost of each "direct" activity contributes to a Commission output, which, in turn, contributes to a Commission objective.

Income has been attributed to objectives on the same proportionate basis as expenditure.

16. Capital commitments

The Commission had not entered into any contracted commitments of a capital or non-cancellable nature as at 31 March 2003. Similarly there were no such commitments as at 31 March 2002.

17. Commitments under operating leases

	31 March 2003 Buildings	31 March 2002 Buildings
	£000	£000
At 31 March the Commission was committed to making the following payments during the next year in respect of operating leases expiring:		
Within one year	—	—
Between two and five years	—	—
After five years	1,919	1,905
	1,919	**1,905**
Other		
Within one year	—	—
Between two and five years	76	—
After five years	—	—
	76	**0**

18. Contingent liabilities *(see also note 1.14)*

Towards the end of the year 2001–02, the Commission was presented with an invoice for an additional, unexpected amount of c£260k relating to accommodation charges for its Liverpool offices. The landlord is now also claiming an additional amount of c£300k for financial year 2002–03. The Commission has disputed the invoice with the landlord, Customs & Excise. However, ongoing discussions with the Treasury and Customs and Excise have cast doubt on the likelihood of the Commission having to incur these charges.

There were no instances of non-FRS 12 contingent liabilities which required separate notification to Parliament during the year.

19. Related Party Transactions

The Commission has no bodies which might be regarded as related parties. The Commission has, therefore, undertaken no related party transactions.

None of the Board members, key management staff or other related parties has undertaken any material transactions with the Commission during the year.

20. Financial Instruments

FRS 13, Derivatives and Other Financial Instruments, requires disclosure of the role which financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Because of the non-trading nature of its activities and the way in which government departments are financed, the Charity Commission is not exposed to the degree of financial risk faced by business entities. Moreover, financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which FRS 13 mainly applies. The Commission has very limited powers to borrow or invest surplus funds and financial assets and liabilities are generated by day-to-day operational activities and are not held to change the risks it faces in undertaking its activities.

As permitted by FRS 13, debtors and creditors, which mature or become payable within 12 months from the balance sheet date have been omitted from the currency profile.

Liquidity risk

The department's net revenue resource requirements are financed by resources voted annually by Parliament, just as its capital expenditure largely is. The Charity Commission is not therefore exposed to significant liquidity risks.

Interest rate risk

All of the Charity Commission's financial assets and financial liabilities carry a nil rate of interest, and the Commission is not therefore exposed to any interest rate risk.

Foreign currency risk

The Charity Commission's exposure to foreign currency risk is negligible. Foreign currency income is negligible and foreign currency expenditure is not significant. The Commission therefore has no standing policy to eliminate currency exposures on high value transactions.

Fair Value

Set out below is a comparison by category of book values and fair values of the Charity Commission's financial assets and liabilities as at 31 March 2003.

20. Financial Instruments *(continued)*

	Book Value	Fair Value	Basis of fair valuation
	£000	£000	
Primary financial instruments			
Financial assets			
Cash at bank (see Note a)	950	950	
Financial liabilities			
Provisions	(281)	(281)	Note b

Notes:

a *Cash at bank and in hand is available on demand*

b *Fair value is not significantly different from book value since, in the calculation of book value, the expected cash flows have been discounted by the Treasury discount rate of 6 per cent in real terms.*

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