Charity reporting and accounting: the essentials

March 2015

March 2015

CHARITY COMMISSION

Contents

1. The accounting framework at a glance

This section summarises the main requirements for charities to produce an annual report, a set of accounts and an annual return effective for financial years (accounting periods) ending on or after 31 March 2015. For requirements that applied for previous financial years please refer to the Charity Commission's guidance Charity reporting and accounting: the essentials (CC15b). This guidance is not a legal document but an overall summary of the reporting and accounting framework for charities. It also details the deadline for submitting accounts and returns to the commission, and when independent examination or professional audit of a charity's accounts is required. More details about these requirements are given in the sections which follow.

1.1 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 or charitable incorporated organisation
- its income for the current financial year
- the value of its assets, and
- whether or not it is required to be registered as a charity

You should then establish:

- what type of accounts must be prepared
- what information is needed in the trustees' annual report
- whether the accounts need an independent examination or audit, and
- what information must be sent to the commission

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

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

1.2 Accounts, annual reports and annual returns: preparation and filing with the commission

Accounts preparation: all charities (whether registered with the commission or not) must prepare accounts and make them available on request.

Trustees' annual reports preparation: registered charities must prepare a trustees' annual report and make it available on request.

Filing accounts and annual reports: the duty to file accounts and the annual report with the commission applies to all charitable incorporated organisations (irrespective of income) and to all other registered charities whose gross yearly income exceeds £25,000. The annual report and accounts should be filed online.

Annual return form - preparation and filing: the duty to complete and file the annual return with the commission applies to all charitable incorporated organisations irrespective of their gross income in the financial year, and to all other registered charities whose gross yearly income exceeds £10,000 - below this level, registered charities are asked to complete the annual return for certain items.

Each registered charity receives an annual return form from the commission shortly after its financial year end. In all cases the annual return should be completed online.

The annual return form enables the commission to ensure that the details of every charity on the register of charities are as complete and accurate as possible. The annual return gives the commission basic financial details, and details of contacts, trustees, activities and of the charity's classification.

1.3 Types of accounts

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

Receipts and payments

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

Accruals

Non-company charities with gross income of over £250,000 during the financial year, and all charitable companies must prepare their accounts on the accruals basis in accordance with the applicable Statement of Recommended Practice (SORP). The SORP to follow will depend upon the charity's financial year. 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'.

1.4 Audit or independent examination?

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

Precisely what type of scrutiny is needed depends on the income and assets of the charity. Broadly speaking, an independent examination is needed if gross income is between £25,000 and £1 million and an audit is needed where the gross income exceeds £1 million. An audit will also be needed if total assets (before liabilities) exceed £3.26 million, and the charity's gross income is more than £250,000.

2. Introduction

2.1 What is this guidance about?

This guidance is aimed primarily at charity trustees and sets out what charities are required to do, in terms of preparing annual reports, accounts and annual returns. It also signposts trustees to other helpful information. The Charities Act provisions enabling charities to incorporate as charitable incorporated organisations have now come into effect and the guidance has been updated for this change.

2.2 'Must' and 'should': what the commission means

The word 'must' is used where there is a specific legal or regulatory requirement that you must comply with. 'Should' is used for minimum good practice guidance you should follow unless there's a good reason not to.

2.3 Previous guidance

This guidance updates the previous guidance Charity reporting and accounting: the essentials (CC15b), last revised in March 2012.

2.4 Scope of this guidance

This guidance applies to both company and non-company charities for financial years ending on or after 31 March 2015 and to all charitable incorporated organisations.

2.5 Future changes

The financial thresholds are subject to periodic review. The most recent changes have been to the income criterion for audit and the threshold for preparing consolidated (group) accounts under the Charities Act 2011. These changes took effect for financial years ending on or after 31 March 2015. It is recommended that readers of this guidance refer to GOV.UK to confirm the thresholds that apply if using this guide for financial years ending after 2016.

2.6 Using this guidance

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

The commission suggests you read section 3 to find out which general requirements apply to all charities; section 4 will tell you which other requirements apply specifically to your charity.

2.7 Technical terms used in this guidance

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

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

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

2014 Regulation: The Charities (Exception from Registration) (Amendment) Regulations 2014 (SI 2014 No. 242).

2015 Order: The Charities Act 2011 (Accounts and Audit) Order 2015 (SI 2015 No.321).

2015 Group Regulations: The Charities Act 2011 (Group Accounts) Regulations 2015 (SI 2015 No.322).

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

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

Annual 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 and by all charitable incorporated organisations (CIOs). It helps the commission to monitor individual charities and provides information about the sector as a whole. Charities that are not CIOs and have an income of £10,000 or less should complete the relevant sections of the annual return to meet the legal obligation to keep registered details up-to-date.

Applicable SORP is the term used to describe the SORP to be used by the charity to prepare its accounts on an accruals basis which is in effect for the financial year for which the accounts are being prepared. For financial years beginning on or after 1 January 2015 the trustees have a choice of which SORP to apply. The choice is between SORP FRS 102 and SORP FRSSE. For financial years beginning prior to 1 January 2015 only SORP 2005 applies. SORP 2005 does not apply for financial years beginning on or after 1 January 2015.

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

Charitable company: this means a company:

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

Charitable incorporated organisation (CIO): a charitable incorporated organisation is a charity registered as a body corporate under Part 11 of the Charities Act 2011.

Exempt charities: these are exempt from registration and many aspects of regulation by the commission. Most exempt charities have their own 'principal regulator'. For example, most universities in England are exempt charities and are now regulated by HEFCE - the Higher Education Funding Council for England. Exempt charities follow the accounting and reporting requirements applicable to their type of organisation (for example, universities follow the HE/FE SORP). Otherwise, the Charities Act only requires them to produce an income and expenditure account and a balance sheet.

Excepted charities: these do not have to register with the commission, but in most other respects are regulated by the commission. Examples include charities (but not CIOs) whose gross income is less than £5,000 per year, churches and chapels of certain religious charities and Scout and Guides groups.

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

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

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

Independent examination: this is a less onerous form of scrutiny than an audit. Examiners report whether specific matters which are identified in the 2008 Regulations have come to their attention. The commission has issued guidance to trustees on the selection of examiners and directions for examiners on carrying out an examination (Independent examination of charity accounts: examiners - CC32). Where the charity is not required to have an audit but gross income exceeds £250,000, an independent examiner must qualify by being a member of an approved professional organisation specified under the Charities Act.

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

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

SORP (FRS 102): the Statement of Recommended Practice - Accounting and Reporting by Charities applicable to charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102) (effective 1 January 2015) which was published on 16 July 2014.

SORP (FRSSE): the Statement of Recommended Practice - Accounting and Reporting by Charities applicable to charities preparing their accounts in accordance with the Financial Reporting Standard for Smaller Entities (the FRSSE) (effective 1 January 2015) which was published on 16 July 2014.

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

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

The Charities Act: this means the Charities Act 2011.

Trustees' annual report: this is a concise but comprehensive review of the activities of the charity prepared by the trustees for each accounting year. The 2008 Regulations set out the basic legal requirements and more guidance is given in SORP. The requirements of the 2008 Regulations, including simplifications for charities which are not required to have a statutory audit, are set out in section 7.

3. Preparing the annual report and the accounts

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

3.1 What do I have to do?

The short answer (legal requirement)

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

In more detail

Some basic requirements apply to all charities. These are set out in section 3.2. There are also additional requirements depending on the income of the charity - broadly speaking, the larger the charity, the greater the requirements.

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

- all charities required to register with the commission except charitable companies and CIOs (see 4.1)
- registered charitable companies (see 4.2)
- excepted charities (see 4.3)
- exempt charities (see 4.4)
- charitable incorporated organisations (see 4.5)

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

3.2 What are the requirements for all charities?

The short answer (legal requirement)

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

In more detail

All charities must:

- keep accounting records - these records (eg cash books, invoices, receipts, Gift Aid records etc) must be retained for at least 6 years (or at least 3 years in the case of charitable companies) - where Gift Aid payments are received records will need to be maintained for 6 years with details of any substantial donors and to identify 'tainted charity donations' in accordance with HMRC guidance
- make the accounts available to the public on request: this is important for public accountability, and must be complied with in all cases - it is open to trustees to make a reasonable charge to cover the costs of complying with the request (eg photocopying and postage)
- make the annual report available to the public on request where one is required to be prepared

All charities unless exempt or excepted from registration must:

- prepare an annual report and make it available to the public on request

All registered charities will be contacted by the commission, shortly after the end of their financial year, and are required, depending on their income, to complete either a full annual return or to complete the relevant sections to update their details. All CIOs and all other registered charities with a gross income exceeding £10,000 are under a legal duty to complete and return the online annual return form to the commission.

3.3 How do I prepare the accounts?

The short answer

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

In more detail

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

Receipts and payments

This is the simpler of the two methods and may be adopted where a non-company charity has a gross income of £250,000 or less during the year. It consists of an account summarising all money received and paid out by the charity in the year in question, and a statement giving details of its assets and liabilities at the end of the year. A charitable company cannot under company law prepare its accounts on this basis.

Accruals

Non-company charities with gross income of over £250,000 during the year, and all charitable companies must prepare their accounts on the accruals basis in accordance with the applicable SORP. They contain a balance sheet showing the charity's financial position at the end of the year, a statement of financial activities (SoFA) and explanatory notes. The SoFA should show all incoming resources, and resources expended during the year (and for company charities only, an income and expenditure account, except where the SoFA incorporates the income and expenditure account). These accounts are required, in accountancy terms, to show a 'true and fair view'.

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

3.4 What goes into the annual report?

The short answer (legal requirement)

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 7. 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 7. That section is divided between matters which all charities must report, matters that smaller charities report, and matters that larger charities report. The applicable SORP also provides best practice recommendations for annual reporting that are consistent with the legal framework.

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

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

4. Specific reporting requirements for different types of charity

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

4.1 Which reporting requirements apply to all charities which have to register with the commission except charitable companies and CIOs?

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

Basis of preparation: accounts must be prepared either on the receipts and payments or the accruals basis. If on an accruals basis, they must be prepared in accordance with the 2008 Regulations and the applicable SORP. The commission provides packs for non-company charities preparing their accounts on a receipts and payments or accrual accounting basis which are available through GOV.UK. 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 the commission does have the power to require an audit in exceptional circumstances.

Type of trustees' annual report: a trustees' annual report must be prepared (unless excepted from registration) but it may be simplified (see section 7).

Information to be sent to the commission: these charities should not send the commission a copy of their annual report and accounts unless the commission asks for them.

They must, however, file an annual return with the commission online within ten months of the end of their financial year if their yearly income is over £10,000.

If the income is £10,000 or less, they will be asked to complete the relevant sections of the annual return, which include trustee details. The commission sends an annual return notification to the named contact on the commission's records shortly after the end of the charity's financial year.

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

Basis of preparation: accounts must be prepared either on the receipts and payments or the accruals basis; if on an accruals basis, they must be prepared in accordance with the 2008 Regulations and the applicable SORP. The commission provides packs for receipts and payments or accrual accounting by non-company charities which are available through GOV.UK. 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, the commission has the power to require an audit.

Type of trustees' annual report: a trustees' annual report must be prepared but it may be simplified (see section 7).

Information to be sent to the commission: these charities must complete an annual return. The named charity contact on the commission's records will receive an annual return notification. Submission of the annual return is online.

The annual return, trustees' annual report and accounts must be filed with the commission, within 10 months of the end of the charity's financial year.

4.1.3 Charities with a gross income of over £250,000 but not exceeding £1 million in the relevant financial year, and total assets not exceeding £3.26 million (legal requirement)

Basis of preparation: accounts must be prepared on the accruals basis in accordance with the 2008 Regulations and the applicable SORP. The commission provides a pack for accrual accounting by non-company charities, which is available through GOV.UK. These provide a template to produce accounts in the required form.

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

Type of trustees' annual report: a trustees' annual report must be prepared but it may be simplified (see section 7).

Information to be sent to the commission: these charities must complete an annual return. The named charity contact on the commission's records will receive an annual return notification. Submission of the annual return is online.

The annual return, trustees' annual report and accounts must be filed with the commission within 10 months of the end of the charity's financial year.

4.1.4 Charities with a gross income exceeding £1 million in the relevant financial year, or whose gross assets exceed £3.26 million and gross income exceeds £250,000 (legal requirement)

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

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

Type of trustees' annual report: a full trustees' annual report must be prepared (see section 7).

Information to be sent to the commission: these charities must complete an annual return. The named charity contact on the commission's records will receive an annual return notification. Submission of the annual return is online.

The annual return, trustees' annual report and accounts must be filed with the commission, within 10 months of the end of the charity's financial year.

4.1.5 Charities which have either charitable or non-charitable subsidiaries must prepare group accounts where the income of the group, after eliminating intra group transactions and consolidation adjustments, exceeds £1 million (legal requirement)

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

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

Type of trustees' annual report: a full trustees' annual report must be prepared (see section 7) together with the additional disclosures required concerning the activities of subsidiaries as required by the applicable SORP.

Information to be sent to the commission: charity groups with a net income over £1 million do not complete a separate annual return as one must be completed by the parent charity.

The annual return, trustees' annual report and accounts must be filed with the commission within 10 months of the end of the charity's financial year.

4.2 What specific requirements apply to charitable companies?

The short answer (legal requirement)

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

In more detail

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

- a charitable company must prepare a directors' report and accounts under the Companies Acts, and must file these with Companies House - the accounts must be prepared on an accruals basis
- the requirements for the annual report are the same as those for other charities and therefore the company must comply with the annual report requirements set out in the 2008 Regulations; in practice, companies normally produce a directors' report and that report is expanded to contain all the information required to be included in the annual report
- if the charitable company's income is over £25,000 the trustees must also send the commission an annual report (or a suitably modified directors' report) and the accounts; if the charitable company's income is over £10,000 the charity must file online its annual return - the commission's requirements for an annual return are the same as for non-company charities and filing is required within 10 months of the end of the charitable company's financial year

With effect for accounting years beginning on or after 1 April 2008, the specific audit requirements for charitable companies contained in the Companies Act were removed. A charitable company will only require an audit under the Companies Act if it exceeds the Companies Act audit threshold. For small charitable companies and small charitable company groups, which are not required to have an audit under the Companies Act, the Charities Act scrutiny arrangements apply and charitable companies are required to have their accounts audited by a registered auditor if either of the following conditions are met. For accounting periods (financial years) ending on or after 31 March 2015 the following thresholds apply:

- gross income exceeds £1 million
- gross assets exceed £3.26 million and gross income exceeds £250,000

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

Unless the articles of association specifically require an audit, charitable companies for accounting periods ending on or after 1 April 2009 and for subsequent accounting periods have been able to have an independent examination.

If the income exceeds £10,000 an annual return must be completed.

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

Charitable companies which have either charitable or non-charitable subsidiaries must prepare group accounts under the Charities Act where the aggregate income of the group, after the elimination of all group transactions from income for the year exceeds £1 million for accounting periods ending on or after 31 March 2015 and those group accounts will be subject to audit under charity law. Where the group income exceeds the small company thresholds, group accounts must be prepared and audited under company law.

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

4.3 What specific requirements apply to charities excepted from registration?

The short answer (legal requirement)

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 the commission unless the commission asks for them.

Excepted charities, unless they choose to register, are not required by law to prepare an annual report but it is good practice to do so and the commission has the right to direct the trustees to prepare and submit a report in exceptional circumstances.

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

As with other charities, precisely what type of external scrutiny is required depends on the income and assets of the charity and whether or not the charity is a company. Broadly speaking, for financial years ending on or after 31 March 2015, an independent examination is needed if income is between £25,000 and £1 million and an audit is needed where the income exceeds £1 million. An audit will also be required if total assets (before liabilities) exceed £3.26 million, and the charity's income exceeds £250,000.

4.4 What specific requirements apply to charities exempt from registration?

Legal requirement: exempt charities must keep proper accounting records and prepare accounts. Where they are required to prepare accounts giving a true and fair view, they should follow the applicable 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 so to do. They must also provide copies of their accounts to members of the public on request.

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

4.5 What specific requirements apply to CIOs?

Basis of preparation: CIOs may opt to prepare their accounts on a receipts and payments basis if their gross income is less than £250,000. Otherwise the accounts are prepared on an accruals basis, in accordance with the 2008 Regulations and the applicable SORP. The commission provides packs for receipts and payments or accrual accounting by non-company charities which are available through GOV.UK. These provide a template to produce accounts in the required form. CIOs preparing their accounts on a receipts and payments basis should note that they are required to make two specific disclosures regarding guarantees and debt and should refer to the receipts and payments pack for more information.

External scrutiny: CIOs must have an audit if either of the following conditions are met in the financial year ending on or after 31 March 2015:

- gross income exceeds £1 million
- gross assets exceed £3.26 million and gross income exceeds £250,000

Where an audit is not required under the Charities Act or by its governing document an independent examination is required if the CIO's gross income is more than £25,000 in the financial year. If an independent examination is chosen and gross income exceeds £250,000 then the independent examiner appointed must be a member of a body specified under the Charities Act. In exceptional circumstances, the commission has the power to require an audit.

CIOs which have either charitable or non-charitable subsidiaries must prepare group accounts under the Charities Act where the aggregate income of the group, after the elimination of all group transactions from income for the year exceeds £1 million and those group accounts will be subject to audit under charity law.

Type of annual return: all CIOs must complete an annual return.

Information to be sent to the commission: all CIOs must file their annual report and accounts and an annual return. The named charity contact on the commission's records will receive an annual return. Submission of the annual return is online.

The annual return, annual report and accounts must be filed with the commission within 10 months of the end of the CIO's financial year.

5. 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.

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

The short answer (legal requirement)

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

In more detail

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

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

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

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

6. Further help and advice

Charities preparing accruals accounts should follow the accounting regulations set out by the relevant statement of recommended practice (SORP).

The SORP FRS 102 and SORP FRSSE are available as a free PDF download, but you can also buy a printed copy of either SORP from the authorised publisher via www.charitysorp.org:

- download the SORP as a PDF file
- find out how to order a printed copy of the SORP

Another useful source of information for those involved in the preparation of financial information is the ICAEW Charities Online Financial Reporting Awards. 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.

7. Legal requirements for annual reports

The detailed legal requirements for the trustees' annual report are set out in The Charities (Accounts and Reports) Regulations 2008 which provide the legal underpinning for the recommendations made in the SORP 2005. The headings used in this section are taken from the SORP 2005, however trustees may choose how they lay out their annual report, provided all the legal requirements are met.

Small charities, whether preparing receipts and payments accounts or accruals accounts have identical annual reporting requirements under the 2008 Regulations and should follow sections 1 and 2. Large charities, which are subject to statutory audit, must follow sections 1 and 3. All charities preparing accounts on an accruals basis, whether small or large should also refer to the SORP. SORP 2005 references are given as these cross refer to the 2008 Regulations. Once the 2008 Regulations are updated to reflect the SORP FRS 102 and SORP FRSSE then these references will be similarly changed. In practice all the requirements of the 2005 SORP and the 2008 Regulations are also found in the SORP FRS 102 and SORP FRSSE.

Trustees using the SORP FRS 102 or SORP FRSSE may do so for financial years beginning on or after 1 January 2015; this will be necessary for their accounts to give a true and fair view as required by the 2008 Regulations.

For the minority of charities preparing group accounts there are some additional reporting requirements and these are set out in section 4.

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

7.1 Matters that all charities must report

7.1.1 Reference and administrative details of the charity, its trustees and advisers (SORP paragraph 41)

- 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
- the charity registration number, and if applicable, the company registration number
- the address of the principal office of the charity, and in the case of a charitable company, the address of its registered office
- 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
- 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 commission has given them authority so to do. (SORP paragraph 42).

7.1.2 Structure, governance and management (SORP paragraph 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:

- particulars, including the date if known, of 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)
- 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 if permission not to disclose has been obtained)

7.1.3 A financial review (SORP paragraphs 55 and 56)

- 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
- 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

7.1.4 Funds held as custodian trustee on behalf of others (SORP paragraph 59)

Where a charity is or its trustees are, acting as custodian trustees, the following matters should be disclosed in the report:

- a description of the assets which they hold in this capacity
- 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
- details of the arrangements for safe custody and segregation of such assets from the charity's own assets

7.1.5 Public benefit statement

A statement confirming whether the charity trustees have complied with their duty to have due regard to the guidance on public benefit published by the commission in exercising their powers or duties.

7.2 Matters that smaller charities, not subject to statutory audit, must also report

7.2.1 Objectives and activities (SORP paragraphs 47 and 52)

Charities that are not subject to a statutory audit requirement may limit their disclosures within this section to a summary description of the purposes of the charity (its objects) and the main activities undertaken by the charity to further its charitable purposes for the public benefit.

7.2.2 Achievements and performance (SORP paragraphs 53 and 54)

Charities that are not subject to a statutory audit requirement may limit their disclosures within this section to a brief summary of the achievements of the charity during the year in relation to its objects.

7.3 Matters that charities subject to statutory audit must also report

7.3.1 The report should provide the following additional reference and administrative information about the charity, its trustees and advisers (SORP paragraph 41)

- 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
- the names and addresses of any other relevant organisations or persons; this should include the names and addresses of those acting as bankers, solicitors, auditor (or independent examiner) and investment or other principal advisers

7.3.2 The report should provide the following additional information about the structure, governance and management of the charity (SORP paragraph 44)

- 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
- 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
- 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
- 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
- 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

7.3.3 Objectives and activities (SORP paragraph 47)

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:

- a summary of the objects of the charity as set out in its governing document
- an explanation of the charity's aims including the changes or differences it seeks to make through its activities
- an explanation of the charity's main objectives for the year
- an explanation of the charity's strategies for achieving the stated objectives
- a review of the significant activities (including its main programmes, projects or services provided) undertaken by the charity to further its charitable purposes for the public benefit; the details provided should focus on the activities that the trustees consider significant in terms of the charity as a whole - the annual report should, as a minimum, explain the objectives, activities, projects or services identified within the analysis note accompanying the charitable activities set out in the SoFA

Where the charity conducts a significant amount of its activities through grant-making, a statement should be provided setting out its grant-making policies (SORP paragraph 49).

Where social or programme-related investment activities are material in the context of the charitable activities undertaken, the investment policies should be explained (SORP paragraph 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 (SORP paragraph 51).

7.3.4 Achievements and performance (SORP paragraph 53)

The report should contain information that enables the reader to understand and assess the achievements of the charity and its subsidiary undertakings during the year. It should review its performance against objectives that have been set. It is likely to contain both quantitative and qualitative performance to explain achievement and performance, and it would be helpful to identify any indicators, milestones and benchmarks against which the charity assesses the achievement of its objectives. In particular, the report should contain:

- a 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
- 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
- where significant investments are held, details of the investment performance achieved against the investment objectives set
- comment 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

7.3.5 Financial review (SORP paragraph 55)

The annual report should provide the following additional financial review information about the charity, including a review of the financial position of the charity and its subsidiaries, and a statement of the principal financial management policies in force during the year:

- principal funding sources and how expenditure in the year under review has supported the key objectives of the charity
- where material investments are held, the investment policy and objectives, including the extent to which social, ethical or environmental considerations are taken into account

7.3.6 Plans for future periods (SORP paragraph 57)

The report should explain the charity’s plans for the future including the aims and key objectives it has set for future periods together with details of any activities planned to achieve them.

7.4 Additional reporting requirements where group accounts are prepared

7.4.1 Where group accounts are prepared on a voluntary basis there are no additional disclosures required by the Regulations, however the SORP 2005 requires that where group accounts are prepared the annual report includes the following points

- the relationship between the charity and related parties, including its subsidiaries (SORP paragraph 44)
- when considering the objectives and activities, and the strategies and activities undertaken to achieve them, where significant activities are undertaken through subsidiary undertakings these should be explained (SORP paragraph 47)
- when setting out the achievements and performance of the charity and the group, the information provided enables the reader to understand and assess the achievements of the charity and its subsidiary undertakings in the year (SORP paragraph 53)
- when setting out the financial review, the review is of the financial position of the charity and its subsidiaries (SORP paragraph 55)

7.4.2 Where group accounts must be prepared because the income of the group exceeds the threshold for preparing group accounts, all the items set out in section 4.1 should be covered and the Regulations require the annual report to consider both the parent charity and its subsidiary undertakings together. When applying the SORP recommendations (SORP paragraphs 44, 47, 53 and 55) particular attention is paid to

- aims and objectives
- strategies and achievements
- principal sources of income
- consideration of major risks
- organisational structure
- investment policy and performance
- reserves

8. Further guidance for charities preparing their accounts on an accruals basis

8.1 New SORPs, SORP FRS 102 and SORP FRSSE, apply for financial years (reporting periods) beginning on or after 1 January 2015 but the Charities (Accounts and Reports) Regulations 2008 have not been updated

8.1.1 Introduction

This guidance identifies what preparers of the trustees' annual report and accounts should do until such time as new regulations are made. It also covers the commission's approach to accounts filing in these circumstances and gives advice to independent examiners as to how to modify their independent examination report.

8.1.2 The legal requirement for the trustees' annual report

The legal requirement for the trustees' annual report is found in section 162 of the Charities Act 2011. The act provides that regulations will be made that set out the required content. The current regulations, The Charities (Accounts and Reports) Regulations 2008 remain in effect until such time as they are amended, replaced, or withdrawn.

The practical effect is that the preparer of the trustees' annual report must comply with the content requirements set out in the 2008 Regulations that apply for their size of charity. The regulations do not prevent trustees providing additional information. The new SORPs published on 16 July 2014 built upon the existing reporting framework and did not remove any of the existing legal requirements. For information on the new SORPs refer to the dedicated SORP microsite: www.charitysorp.org.

It is therefore possible to comply with the 2008 Regulations and follow either of the new SORPs by providing the additional information in the trustees' annual report that the applicable SORP requires.

Until such time as new regulations are made, section 7 of this guidance Charity reports and accounts: the essentials (March 2015) (CC15c), sets out the required contents of the trustees' annual report, reflects the requirements of the current regulations but does not include the additional requirements of the new SORPs. When new regulations are made, this publication will be updated to reflect the new regulations and the new SORPs.

8.1.3 The legal requirement for the preparation of charity accounts

The legal requirement for the preparation of accounts is found in section 132 of the Charities Act 2011. The act provides that regulations will be made that set out the required form and content of accounts where these are prepared on an accruals basis. The current regulations, The Charities (Accounts and Reports) Regulations 2008 remain in effect until such time as they are amended, replaced, or withdrawn. Section 135 of the Charities Act 2015 provides that nothing in the act concerning accounts preparation shall apply to a charitable company. Therefore the Charities (Accounts and Reports) Regulations 2008 do not apply to the form and content of accounts prepared by charitable companies. Charitable companies prepare their accounts in accordance with the Companies Act 2006 and applicable regulations.

The continuation of the 2008 Regulations therefore has no effect on the accounts preparation of charitable companies. Consequently charitable companies can apply either of the new SORPs for financial years beginning 1 January 2015 without having to make any additional statement referring to the 2008 regulations in their notes to the accounts as to the legal basis on which their charity's accounts are prepared.

However for the accounts of non-company charities, the 2008 Regulations remain in effect and there is an inconsistency between the 2008 Regulations and UK Generally Accepted Accounting Practice effective for financial years beginning 1 January 2015. Non-company charities may wish to take advice from their independent examiner/auditor/accounting adviser/umbrella body as to how best to manage this situation. The commission's view is that the requirement to prepare accounts that are 'true and fair' takes precedence and therefore it is possible to apply either of the new SORPs in preference to the SORP specified in the 2008 Regulations provided this is clearly advised in the notes to the accounts.

8.1.4 'True and fair' and the application of a SORP

Regulation 8 (4) of the Charities (Accounts and Reports) Regulations 2008 requires that the statement of financial activities and balance sheet must be prepared so as to give a true and fair view.

UK Generally Accepted Accounting Practice (GAAP) provides the route map to preparing accruals accounts on a true and fair basis. If any alternate approach is adopted the onus is on the preparer to demonstrate why following GAAP would lead to the accounts prepared not being true and fair and to demonstrate how their alternative approach is necessary for true and fair. GAAP does make provision for particular circumstances where a departure from GAAP is necessary for a true and fair view and an alternative treatment for an item has to be adopted but it then requires the preparer to explain their alternate approach and make certain disclosures in the notes to the accounts.

The role of a SORP is to provide application guidance for charities preparing accruals accounts in accordance with GAAP. A SORP is not an accounting standard in its own right. When GAAP changes a new SORP is issued. When GAAP changes any previous SORP does not apply for reporting periods subject to the new GAAP.

The 2008 Regulations were made under old GAAP as it applied for accounting periods beginning on or after 1 April 2008. It follows that when new GAAP applies for accounting periods beginning on or after 1 January 2015, the new SORPs, the SORP FRS 102 and SORP FRSSE, apply as the old SORP 2005 does not provide application guidance to new GAAP and so no longer applies.

Regulation 8 (5) of the 2008 Regulations makes reference to preparing accruals accounts in accordance with the methods and principles of the SORP. Although regulation 2 defines the SORP as the Statement of Recommended Practice for Accounting and Reporting by Charities (SORP 2005), the over-arching requirement is to prepare the accounts to give a 'true and fair' view. It is therefore reasonable for preparers to conclude that where there is an apparent clash of legal requirements with the applicable GAAP, the requirement to prepare accounts to give a 'true and fair' view necessarily requires adherence to the applicable GAAP and this over-rides the failure of the regulations to have been updated to correctly define the SORP that is to be followed.

8.1.5 Suggested statements are made in the trustees' annual report and accounts regarding compliance with the prevailing law and regulations

It is recommended that the following reference is made by all charities in the trustees' annual report:

The financial statements have been prepared in accordance with the accounting policies set out in notes to the accounts and comply with the charity's governing document, the Charities Act 2011 and Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard for Smaller Entities published on 16 July 2014.

Or, as applicable:

The financial statements have been prepared in accordance with the accounting policies set out in notes to the accounts and comply with the charity's governing document, the Charities Act 2011 and Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland published on 16 July 2014.

It is recommended that non-company charities (those charities which are not charitable companies) make the following statement in the accounts:

The accounts (financial statements) have been prepared in accordance with Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard for Smaller Entities published on 16 July 2014, the Financial Reporting Standard for Smaller Entities (FRSSE), and the Charities Act 2011 and UK Generally Accepted Practice as it applies from 1 January 2015.

The accounts (financial statements) have been prepared to give a 'true and fair' view and have departed from the Charities (Accounts and Reports) Regulations 2008 only to the extent required to provide a 'true and fair view'. This departure has involved following the Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard for Smaller Entities published on 16 July 2014 rather than the Accounting and Reporting by Charities: Statement of Recommended Practice effective from 1 April 2005 which has since been withdrawn.

Or:

The accounts (financial statements) have been prepared in accordance with the Statement of Recommended Practice: Accounting and Reporting by Charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102) issued on 16 July 2014 and the Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland (FRS 102) and the Charities Act 2011 and UK Generally Accepted Practice as it applies from 1 January 2015.

The accounts (financial statements) have been prepared to give a 'true and fair' view and have departed from the Charities (Accounts and Reports) Regulations 2008 only to the extent required to provide a 'true and fair view'. This departure has involved following Accounting and Reporting by Charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102) issued on 16 July 2014 rather than the Accounting and Reporting by Charities: Statement of Recommended Practice effective from 1 April 2005 which has since been withdrawn.

8.1.6 Filing the trustees' annual report and accounts

The commission will accept charity trustees' annual report and accounts prepared using the new SORPs for reporting periods (financial years) beginning on or after 1 January 2015.

8.2 Can I adopt the new SORPs early?

8.2.1 Introduction

Early adoption of the SORP FRS 102 or the SORP FRSSE is not lawful for non-company charities because the 2008 Regulations are still in effect and specify that the accounts are to be prepared in accordance with the methods and principles of the 2005 SORP. However charitable companies, those which are also registered with Companies House and have a company registration number, may adopt the SORP FRS 102 or SORP FRSSE early for their accounts preparation. However all charities must ensure that the contents of their annual report comply with the minimum requirements of the 2008 Regulations.

8.2.2 Accounts preparation and charity law

Part 8 of the Charities Act 2011 specifies the required form and content of charity accounts, reports and returns. Section 132 of the Charities Act 2011 requires that trustees prepare: 'a statement of accounts complying with such requirements as to its form and contents as may be prescribed by regulations made by the minister'. Non-company charities cannot adopt the applicable new SORP: SORP FRS 102 or SORP FRSSE early because the 2005 SORP is still in effect for financial years prior to 1 January 2015 and the 2008 Regulations still apply. The 2005 SORP ceases to apply under UK Generally Accepted Accounting Practice for financial years beginning on or after 1 January 2015 because it is withdrawn. For the accounts to provide a 'true and fair' view under UK Generally Accepted Accounting Practice for financial years beginning on or after 1 January 2015 it is then necessary to follow one of the new SORPS: SORP FRS 102 or SORP FRSSE.

However section 135 of the 2011 Act provides that sections 130 to 134 do not apply to a charitable company. Charitable companies prepare their accounts under company law and the applicable regulations made under company law. It follows that charitable companies can adopt the applicable new SORP: SORP FRS 102 or SORP FRSSE early if that is permissible under company law and GAAP.

8.2.3 Annual report preparation and charity law

Part 8 of the Charities Act 2011 specifies the required form and content of charity accounts, reports and returns. Section 162 of the Charities Act 2011 requires that trustees prepare the annual report in accordance with the regulations as prescribed by the minister. This section applies to both non-company charities and charitable companies.

It follows that both non-company charities and charitable companies must ensure that the minimum content fulfils the requirements of the 2008 Regulations for their size of charity. More is required of auditable charities. Charitable companies must in addition fulfil the requirements of the directors' report as required by the regulations made under company law.

8.2.4 The legal requirement for the trustees' annual report

The legal requirement for the trustees' annual report is found in section 162 of the Charities Act 2011. The Act provides that the charity trustees of a charity must prepare in respect of each financial year of the charity an annual report containing:

(a) such a report by the trustees on the activities of the charity during that year

(b) such other information relating to the charity or to its trustees or officers

as may be prescribed by regulations made by the minister.

The 2008 Regulations therefore apply to all registered charities and excepted charities which prepare a trustees' annual report.

8.3 Definition of a 'large' charity for reporting purposes

8.3.1 Introduction

Part 5 of the 2008 Regulations sets out the requirements for the form and content of the annual report. It sets out the additional requirements of an auditable charity and these additional requirements correspond to the definition of 'large charity' used by the 2005 SORP, and the new SORPs: SORP FRS 102 and SORP FRSSE.

8.3.2 Change in the definition of large

It follows that the increase in the audit income criterion from £500,000 to £1 million gross income necessarily means that the additional reporting requirements of the 2008 Regulations, and the applicable SORP, now apply only to charities with a gross income exceeding £1 million for financial years (accounting periods) ending on or after 31 March 2015.

8.3.3 Other factors that may influence the contents of a charity's annual report

Although the legal definition of 'large' charity will increase, trustees may wish to provide the additional information in their annual report due to other factors that can influence reporting:

- it is anticipated that the Charities SORP-making body will consult during 2015 on introducing a definition of large charity based on a gross income of £500,000 or for non-UK charity law jurisdictions 500,000 euros
- research carried out for the commission consistently shows that the greatest driver of public confidence in charity is knowing how donor money has been spent; the annual report is a key public document that enables trustees to do just that

Ultimately it is a matter for trustees whether to choose to provide the additional information required when their charity is not 'large'.

8.4 Advice for independent examiners and auditors regarding the application of the new SORPs, SORP FRS 102 and SORP FRSSE until such time as the 2008 Regulations are updated

8.4.1 Advice for independent examiners

The examiner must prepare their report in accordance with Direction 10 of the Independent examination of charity accounts: examiners (CC32). Until the 2008 Regulations are updated, it is recommended that the following reference is made in the first section of the examiner's report as part of any comment on other matters:

Your attention is to drawn to the fact that the charity has prepared the accounts (financial statements) in accordance with Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard for Smaller Entities published on 16 July 2014, the Financial Reporting Standard for Smaller Entities (FRSSE) in preference to the Accounting and Reporting by Charities: Statement of Recommended Practice issued on 1 April 2005 which is referred to in the extant regulations but has since been withdrawn.

We understand that this has been done in order for the accounts to provide a true and fair view in accordance with the Generally Accepted Accounting Practice effective for reporting periods beginning on or after 1 January 2015.

Or:

Your attention is to drawn to the fact that the charity has prepared the accounts (financial statements) in accordance with Accounting and Reporting by Charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102) in preference to the Accounting and Reporting by Charities: Statement of Recommended Practice issued on 1 April 2005 which is referred to in the extant regulations but has been withdrawn.

We understand that this has been done in order for the accounts to provide a true and fair view in accordance with the Generally Accepted Accounting Practice effective for reporting periods beginning on or after 1 January 2015.

8.4.2 Advice for auditors

Auditors should contact their professional body for advice as to how to modify their audit reports until such time as the 2008 Regulations are updated.