



**CHARITY COMMISSION  
FOR ENGLAND AND WALES**

## Accounts monitoring review: Reporting of related party transactions in charity accounts

### Why are we reviewing the reporting of related party transactions?

Trustees must always act in the interests of their charity and not for private benefit. However, in 2017/18 we opened 335 regulatory compliance and inquiry cases into ‘trustee pay, and concerns about trustee or other private benefits or trustee decision making’. See [Dealing with wrongdoing and harm 2017-18: statistics](#). For this reason, it is important to good governance that trustees identify all related party transactions and handle any conflicts of interest properly.

Charities that prepare their accounts using the Charities Statement of Recommended Practice (SORP) must be transparent about their transactions with persons and entities closely connected to the charity or its trustees. We require each charity’s auditor or independent examiner to report to us if related party transactions are not fully disclosed in the accounts that they have scrutinised. See [Matters of Material Significance reportable to UK charity regulators](#). We are therefore reviewing whether charities are providing the disclosures required by the SORP.

### What are the trustees required to disclose about related party transactions?

Charities preparing accruals (SORP) accounts must disclose:

- trustees’ remuneration and benefits
- trustees’ expenses
- transactions with those persons and entities that are closely connected to the charity or its trustees, referred to as related parties

If there have been no transactions of each type, this fact must be stated.

### How did we assess trustees’ compliance with their reporting responsibilities?

We reviewed the 2017 accounts filed by 262 charities that had prepared accruals (SORP) accounts to assess whether they had provided the required related party disclosures. The charities were drawn from three random samples, chosen to reflect the different accounting and scrutiny requirements that apply.

### What did we find?

#### The completeness of related party transaction reporting in the accounts

The completeness of reporting improved significantly as the income of the charity increased. However, less than two thirds of the charities in our two lower income samples fully complied with the SORP’s transparency requirements.

Charity income	% of accounts fully disclosing related party transactions
£25,000 - £250,000	55% (of 66 charities)
£250,000 - £1 million	66% (of 100 charities)
£1 million and greater	86% (of 96 charities)

The Commission is concerned that a significant proportion of charities are not fully reporting their related party transactions.

We looked in more detail at the completeness of reporting of each of the three types of related party transaction. We found that the vast majority of charities disclosed trustees' remuneration and, to a lesser extent, trustees' expenses in the notes to their accounts. However, the disclosure of transactions with persons and entities closely connected to the charity or its trustees was significantly less complete.

Income/ % of accounts including	Remuneration	Expenses	Transactions	All 3 aspects
£25,000 - £250,000	85%	74%	55%	55%
£250,000 - £1 million	91%	84%	71%	66%
£1 million and greater	98%	95%	89%	86%

The lack of disclosure may be because many practitioners have not picked up on a change from the previous SORP, Charities SORP 2005. This required a statement that there had been no trustees' remuneration or expenses where this was the case. Whilst both of these requirements were carried over into the new SORP, Charities SORP (FRS 102), this also requires a similar statement where there had been no related party transactions in the reporting period.

Most of the charities that provided all three of the required disclosures provided clear statements about each. Trustees' remuneration and benefits and trustees' expenses were normally covered together in one note to the accounts, with related party transactions usually explained in a separate note. Where the disclosures were less clear, we tried to give trustees the benefit of the doubt. For example, if a note's heading referred to trustees' remuneration and expenses, but there was no information within the note itself on expenses, we assumed that this meant that there were no expenses to disclose. Where any disclosures were missing, we also checked the trustees' annual report in case the information was included there.

The disclosures provided by some charities suggested that their trustees were not fully aware of the scope of related party transactions. Particular examples were:

- disclosing the transactions in which the trustees themselves were directly involved, but not those involving persons or entities connected to them
- disclosing the remuneration paid to the trustees and persons connected to them, but not any other transactions they were involved in

The scope of this study was a check of whether the required disclosures were included. We did not check whether the information disclosed was consistent with the information provided in the trustees' annual report and in other parts of the accounts. The charity's independent examiner or auditor should perform this check.

### **The completeness of auditors' and independent examiners' reporting to the Commission**

We rely on each charity's auditor or examiner to report to us where trustees have not fully disclosed related party transactions in their charity's accounts. Of the 77 sets of accounts across our three samples that failed to do so, 74 had been reviewed by an independent examiner or auditor. We found that none had reported this to us.

Although very disappointing, this is not a surprising finding. If the auditor or independent examiner identifies that the reporting of related party transactions in a charity's accounts is incomplete, we would expect them to recommend to the trustees that they amend the accounts before they are finalised. Only where the trustees are unwilling or unable to do so should the auditor or independent examiner be in the position of having to report a matter of material significance to us. We therefore suspect that in a number of cases the requisite nil disclosure has simply been omitted and if the deficiency had been spotted it would have been corrected.

The change to the SORP was intended to provide greater assurance on the full disclosure of related party transactions. The absence of the reporting of incomplete disclosure to the regulator by the auditor or independent examiner could be taken as evidence that the auditor or independent examiner may have been complicit in the trustees' failure to provide complete disclosure.

The other aspect of this reportable matter, evidence that significant conflicts of interest have not been managed appropriately by the trustees, also needs to be properly considered by auditors and independent examiners. If incomplete or non-disclosure of related party transactions is not being reported, we are concerned that the failure by trustees to manage conflicts of interest is also being under-reported.

### **What action are we taking?**

#### **We are working with the trustees of individual charities**

We have contacted the trustees of each of the 74 charities that had been independently examined or audited and did not fully disclose related party transactions in their accounts. We have provided guidance on the SORP's disclosure requirements and have required them to provide the missing disclosures to us and to their auditor or independent examiner.

We have also contacted the trustees of another four charities that did not file any external scrutiny report and advised them of their charity law duty to appoint an auditor or independent examiner.

### We are working with the accountancy profession

For each of the accounts in our samples, we recorded the accountancy body, if any, that the charity's auditor or independent examiner stated they were a member of. We then checked the membership of each auditor and examiner using the accountancy bodies' online member search tools. Firms or individuals regulated by the Institute of Chartered Accountants in England and Wales (ICAEW) and the Association of Chartered Certified Accountants (ACCA) issued the vast majority of audit or independent examination reports.

Body/ report	Number of external scrutiny reports	Number of accounts not disclosing related party transactions
ICAEW	194	41
ACCA	41	17
Other Charities Act 2011 listed body	12	9
No qualification stated	11	7
No scrutiny report filed	4	3
Total	262	77

We are working with ICAEW and ACCA to improve their members' awareness of charity reporting and accounting requirements and to identify the necessary improvements to the learning and resources available to their students and members. Both ICAEW and ACCA have provided statements to this report.

As part of our collaborative approach to improvement, we are also providing details to ICAEW and ACCA of their members who had audited or independently examined sets of accounts that had not fully disclosed related party transactions. ICAEW and ACCA have agreed to write to the members concerned and remind them of the obligation to check compliance with the SORP. They will also ask each member to:

- confirm whether there are in fact any trustee remuneration/expenses and/or related party transactions that should have been disclosed in the accounts
- report any omissions to us as a matter of material significance, indicating if in their view this was a deliberate omission by the trustees

We have asked ICAEW and ACCA to ensure that all of the members concerned have responded to them, indicating which (if any) should have also reported to us.

As part of our collaborative approach to improvement, we intend to provide the other bodies listed in the Charities Act 2011 and associated regulations with details of their members who had audited or examined sets of accounts that did not fully disclose related party transactions.

## What are the lessons for other charities?

This review has highlighted that the trustees of a significant number of charities preparing accruals (SORP) accounts are not being transparent about related party transactions, those in which they or persons and entities closely connected to them have an interest. Lack of transparency is damaging to public confidence and casts doubt on the integrity of the governance arrangements at a charity.

The trustees may delegate aspects of accounts preparation to charity staff or their independent examiner or auditor but they remain responsible for approving the trustees' annual report and accounts. The independent examiner or the auditor cannot be expected to know all of the related parties involved with the charity and so trustees need to co-operate with their independent examiner or auditor to ensure that the disclosures provided in their accounts are comprehensive and complete.

In addition to transparency about related party transactions, trustees must take a rigorous approach to identifying and managing any conflicts of interest. Trustees have a duty to act in their charity's best interests. This includes:

- avoiding putting yourself in a position where your duty to your charity conflicts with your personal interests or loyalty to any other person or body
- not receiving any benefit from the charity unless it is properly authorised and is clearly in the charity's interests; this also includes anyone who is financially connected to you, such as a partner, dependent child or business partner

You can find out more about your responsibilities in Section 6 of [The essential trustee: what you need to know: what you need to do \(CC3\)](#)

Auditors and independent examiners of charity accounts have a duty to check that the required disclosures about related parties have been made and to report to us if they have not. They also have a duty to report to us if significant conflicts of interest have not been managed appropriately by the trustees.

## Annex: ICAEW and ACCA statements on the Charity Commission report

### ICAEW

While ICAEW auditors and independent examiners fared better than others, the number of accounts not fully disclosing related party transactions is still disappointing. We have asked the Charity Commission for more details and we have agreed a plan with them to improve the quality of work of ICAEW members in this important area. The results of the review also send a clear message to Trustees in terms of the choices they make when they appoint auditors and independent examiners, particularly where unqualified advisors are under consideration.

### ACCA

We welcome this report and for the opportunity to include this short statement.

This is an important accounting monitoring review of Reporting of related party transactions in charity accounts from the Charity Commission, with findings on which ACCA will be taking action.

We believe this action is necessary because of our Royal Charter and our work to protect the public interest, promote responsible and ethical business and support economic performance. It's vital that the charity sector delivers timely and trustworthy information to the Charity Commission, as accountancy professionals working in the charity sector act in the public interest.

The accountancy profession is often the first line of defence for important financial and regulatory issues including ensuring Charities are transparent about their transactions with persons and entities closely connected to the charity or its trustees. There is a responsibility on the profession to uphold the highest of standards, regardless of the sector.

As a result of this review and its findings, we are working closely with the Commission and our members to ensure the value of audit and all reporting for the charity sector remains a top priority. It is important for anyone involved in the charity sector, especially trustees, auditors, independent examiners, internal auditors and professional bodies, to take appropriate action.