



Accounts Monitoring Review

Wider learning for trustees, auditors and independent examiners about the standards of accounts in the double default class inquiry 2015-16

Summary

As part of its work to ensure that charities comply with their basic duties to file annual return and reports each year, the Charity Commission has a programme of identifying and following up on charities that are 2 years or more in default of their obligation to file their trustees' annual report and accounts. This programme takes the form of a class inquiry opened under section 46 of the Charities Act 2011.

Since the Commission began undertaking public polling in 2005, the public have consistently identified that for charities to: 'ensure that a reasonable proportion of donations make it to the end cause' is one of their top 5 drivers for public confidence. At a rating of only 5.4 for 2016 this confidence indicator is now at its lowest reported level. In the **2016 Populus report** on 'Public trust and confidence in charities' reported that: 'a fifth say their confidence has decreased because they don't trust charities or don't know where the money goes ...'.

Following the publication of our report **Tackling abuse and mismanagement: 2015-16** and our reminder '**Are you on top of your charity's annual report and accounts submission?**' (January 2017), this report considers the 27 charities that made good their default during 2015-16 that were reviewed by the Commission's accountants as part of that class inquiry. The filing of these accounts led to £15.5 million of charity income being accounted for to the general public through the Commission's register and this brings the total amount reported during the course of the class inquiry to just over £75 million since September 2013.

In our accounts review, we found that those making good the default filed an adequate report and accounts with us but not all trustees understood the external scrutiny requirements. Also 6 charities had wound up without notifying the Commission.

Trustees and accounts preparers using our free reports and accounts templates performed well. There are a number of other free resources for trustees to identify what is required and for independent examiners to understand when an independent examination can be carried out rather than an audit.

Why are we reviewing the accounts of charities making good their default?

Charities' accounts are publicly available on **GOV.UK**. All registered charities with an income of over £25,000 and **all** charitable incorporated organisations **irrespective of income** must file their trustees' annual report and accounts and external scrutiny report with the Commission within 10 months of their financial year end. We are reviewing the accounts of small charities to assess how well their trustees are complying with their legal obligations.

Charities selected for the class inquiry are those charities that fail to file accounts properly in 2 consecutive years, so-called 'double defaulters'. These charities are in default of their legal obligation to file their trustees' annual report and accounts with us.

This report considers 14 charities from 2015-16 that had submitted their accounts, together with a further 13 charities from 2014-15. Following our enforcement work over the year, there were 12% fewer charities in default in March 2016 than in March 2015. And our particular focus on charities in default with an income of £100,000 or above has accompanied a decrease in the number of defaulters of charities in this income band by 20.5% in the same period.

Our findings

In respect of the 27 charities making good their default, a total of 69 sets of accounts were submitted and reviewed by the Commission's accountants during 2015-16. Of the 27 charities that brought their filing up-to-date in the year, 8 were incorporated charities and 19 were non-company charities. The majority of the accounts submitted were found to be of good and acceptable quality.

Two charities submitted accounts without the correct external scrutiny and the Commission instructed these charities to re-submit their accounts. There were 6 charities which were no longer operating and had been wound down. The trustees in all of the 6 cases had failed to notify the Commission of their winding down of the charity. They all had final years' income of nil or less than £100.

Of the 8 incorporated charities 6 (or 75%) had submitted accounts to Companies House on time but had failed to file accounts on time with the Commission. There was really no reason or excuse for late submission to the Commission other than trustees' poor oversight.

In 2015-16 3 new inquiries had been subsequently opened into charities that that were brought into the inquiry in 2014-15. The reasons for this were evidence of poor financial management and misuse of charity funds.

Lessons for charities, trustees, auditors and independent examiners

Lessons for charities and trustees:

- the trustees of all registered charities must prepare a trustees' annual report and accounts
- using the Charity Commission's accounts packs is an easy way to ensure compliance with the accounting and reporting requirements

- all registered charities with an income of over £25,000 and all charitable incorporated organisations (CIOs) irrespective of income, must file their trustees' annual report and accounts and external scrutiny report with the Commission within 10 months of their financial year end
- it is the responsibility of trustees to ensure the right external scrutiny is carried out where required by charity law - the key thresholds to remember are an independent examination is required if gross income is more than £25,000 - an audit is required if either gross income exceeds £500,000 or gross assets exceed £3.26 million and gross income exceeds £250,000 - for financial years ending on or after 31 March 2015 the income criterion for audit increased from £500,000 to £1 million
- it is the responsibility of trustees of charitable companies to ensure that their charity's report and accounts are filed with both Companies House **and** the Charity Commission

Lessons for auditors and independent examiners:

- the trustees of charities that are late in filing may need additional help and support in meeting their legal obligations
- late filing is often indicative of wider governance problems in a charity
- it is the responsibility of an independent examiner to check that their charity client is eligible for independent examination

Resources for trustees and independent examiners

Trustees can check the accounts preparation and external scrutiny requirements for their charity by reading **Charity reporting and accounting: the essentials November 2016 (CC15d)**.

If winding up their charity, trustees must notify the Commission so that we can remove the charity from our register. Notification is a simple process involving the completion of our **online form**.

For all charities with an income of £250,000 with the sole exception of charitable companies, trustees have the option to prepare simpler receipts and payments accounts. We recommend using our **Receipts and payments accounts pack (CC16)** which contains all the information needed to comply with the legal requirements.

For those charities not eligible to opt for receipts and payments accounts, except for charitable companies, we have an accruals accounts pack. The **Accruals accounts pack (CC17) - SORP FRS 102** contains all the information needed to comply with the legal requirements and the Charities Statement of Recommended Practice (SORP).

Directors (trustees) of charitable companies should note we have now launched a report and accounts pack developed in collaboration with Companies House which is designed to help smaller companies with an income of less than £500,000 meet their reporting obligations.

Charities preparing their accounts using the charities Statement of Recommended Practice (SORP) can download the new SORP free and access free SORP materials including help sheets and worked examples via the **SORP website**.

Independent examiners should refer to our publication **Independent examination of charity accounts: examiner's (CC32)** for the eligibility requirements for charities to have an independent examination.