



Accounts Monitoring Review

Double Default Class Inquiry 2016-17 – key findings from our review of accounts submitted by double defaulting charities

The trustees' annual report and accounts are important to public trust and confidence because they set out what activities have been undertaken, the money received and spent. Charities with an income above £25,000, and all Charitable Incorporated Organisations (CIOs) must file copies of their trustees' annual report, accounts and external scrutiny report (audit or independent examiners' report) with the Commission within 10 months of their financial year end. This is a statutory requirement.

As part of its aim to ensure that charities comply with this requirement, the Commission undertakes a programme of work to identify and follow up on charities that have not provided the required information for two years or more. These 'double defaulting' charities are given the opportunity to file these documents within a certain time period. If they do not comply with this request, they are put into a class inquiry, opened under section 46 of the Charities Act 2011.

The Commission considers late submission of the required accounting documents to be a serious governance issue and in these cases, uses its power under section 84 to direct trustees to provide the missing information. Despite the use of this power, which requires trustees to submit accounts within a specific time period stated in the Order (usually 30 days after the charity was placed into inquiry), the majority of accounts were received more than 30 days after the charity had been placed into the class inquiry. The Commission also used its power under section 52 of the Charities Act 2011 to obtain banking information to further support the review.

This report considers 45 charities that made good their default in 2016-17, submitting a total of 98 sets of accounting documents which were reviewed by the Commission's accountants. This amounts to a total of £42,407,831 of income being accounted for to the general public through the Commission's register. The majority (72%) of the charities whose accounts were reviewed were either charities involved in education or religious charities.

The majority of charities in the class inquiry subsequently filed the correct documents with us although several required advice on SORP compliance and other issues. 73% of the charities in our review met their filing obligations the following year or the year after but 27% (12 charities) lapsed into default. Not all trustees understood the external scrutiny requirements, as six charities submitted accounts without any external scrutiny report where one was required. The majority of charitable companies in the review who filed their accounts late to the Charity Commission, also filed late with Companies House.

Providing timely, accurate and informative financial information will help funders, donors, beneficiaries and others to understand your charity and its work, and will encourage trust and confidence in it. Where charities consistently file accounting documents late, the governance of charity may be called into question. The trustees of charities that are late in filing may need additional help and support in meeting their legal obligations. Guidance is available on the Charity Commission website which can be found at [GOV.UK](https://www.gov.uk).

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

All registered charities with an income of over £25,000 and all Charitable Incorporated Organisations irrespective of income must file the following documents with us within 10 months of their financial year end:

- their trustees' annual report ('annual report')
- the report of an independent scrutiny of their accounts (where required)
- their accounts

Failure to submit accounts and accompanying documents to the Commission is a criminal offence. We also regard it as mismanagement or misconduct in the administration of the charity. Providing timely, accurate and informative financial information helps funders, donors, beneficiaries and others to understand a charity and its work and will encourage trust and confidence in the charity.

By reviewing charity accounts making good their default, we are aiming to ascertain whether the accounts submitted are of an acceptable quality, and to provide advice and guidance where these are not, and to identify issues where further action might need to be taken.

Charities' accounts are publicly available on [GOV.UK](https://www.gov.uk).

How we carried out the review?

This report considers the accounting documents of 45 charities that were in the class inquiry during 2016-17. In respect of these 45 charities making good their default, a total of 98 sets of accounts were submitted and reviewed by the Commission's accountants. These accounts were reviewed using a standard checklist which highlighted non-compliance with accounting requirements and other issues, for example, going concern or conflict of interest issues. In those cases where bank statements were sought we reviewed balances and transactions.

What did we find?

71% of the accounts reviewed (70 sets of accounts) were found to contain all of the required documents that make up a set of accounts (the annual report, independent scrutiny report and the accounts). These accounts related to 34 individual charities:

- four charities had no issues which required following up by the Commission
- two charities were closing down
- 12 charities submitted accounts which did not comply with the applicable SORP or had other issues such as financial difficulties
- six have been placed into separate inquiries by the Commission
- 10 charities have been referred within the Commission for risk assessment and may receive further queries on certain non-accounting issues such as conflicts of interest or to establish why income figures submitted in the annual return do not agree with the submitted accounts

The remaining 29% (28 sets of accounts) of accounts did not meet this basic quality criteria of containing all the required documents that make up a set of accounts. These 28 sets of accounts related to 11 individual charities, two of which are in the process of closing down; three have been placed into separate inquiries by the Commission; five need to resubmit their accounts; and one is, at the date of publication, being risk assessed by the Commission to establish what action to take.

The accounts reviewed were in the following income ranges:

Income	Number of accounts reviewed
Less than £250,000	31
Less than £1,000,000	47
£1,000,000 or over	20

Company charities

We found that generally where charitable companies filed their accounts late to the Charity Commission, they also filed late with Companies House.

Of the 45 charities in the review, 15 were incorporated charities and 30 were non-company charities. The 15 incorporated charities submitted 30 sets of accounts late to the Commission; of these 30 accounts, 25 were submitted late to Companies House and five were submitted on time.

How long did it take charities to send their accounts to us?

Charity trustees were contacted to inform them that the charity had been placed into the class inquiry and that accounts should be submitted to the charity within a specific period of time, around 30 days.

Of the 98 sets of accounts reviewed by the Commission's accountants:

- 31 sets of accounts were received within 30 days of the date that the charity been placed into the class inquiry
- 30 sets of accounts were received between 30 and 90 days of the charity being placed into the class inquiry
- 37 sets of accounts were received more than 90 days after being placed into the class inquiry

There was no reason or excuse for late submission to the Commission other than trustees' poor oversight as shown in the reasons given for filing accounts late, including: changes in staff; illness of staff; confusion by trustees as to when accounts should be submitted; trustees thinking that accountants were submitting the accounts; difficulty in filing online; and trustees not being aware of their duty to file accounts with the Commission.

Types of charities

We categorised charities into various types based on their activities as explained in the Trustees' Annual Reports or where this was not available, we referred to the charity framework on the Commission's Register. We found the following:

Type	Number of charities	Percentage
Health	1	2%
Relief of poverty/overseas	1	2%
Education	16	36%
Community centre	3	7%
Military	2	4%
Religious	16	36%
Village Hall	1	2%
Sport	2	4%
Grant-making	2	4%
Theatre	1	2%
	45	100%

Of the 45 charities whose accounts were reviewed by Commission accountants, 16 were charities involved in education and 16 were religious charities. This comprises 72% of the total number reviewed.

External scrutiny

Generally, the accounts submitted had received the correct level of external scrutiny. However, seven (16%) of the 45 charities reviewed submitted accounts without an appropriate external scrutiny report. One of these charities was in liquidation and one had income below the level at which external scrutiny is required.

Of the remaining 38 charities whose accounts we reviewed, 29 charities (64% of the total) submitted accounts with clean external scrutiny reports with no concerns reported for each of the years reviewed.

Of the remaining nine charities:

- three charities submitted audit reports with modified opinions - the qualifications related to not being able to verify opening balances, not being satisfied with internal controls, inadequate provisions being made and insufficient third party documentation
- three charities submitted external scrutiny reports where going concern issues were highlighted
- one charity had an audit report with a disclaimer of opinion in both of the accounting periods for which accounts were submitted - the auditors were unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion due to crucial records not being available - a disclaimer of opinion in an audit report means that the auditor is unable to express an opinion on the accounts
- two charities had Independent Examiner's reports with concerns identified by the examiner in one case due to a fraud and in the other due to a lack of controls over cash donations received and cash payments

What action we took

Of the 45 defaulting charities reviewed we provided advice and guidance to 17 charities on such matters as compliance with the applicable SORP, external scrutiny requirements, managing financial difficulties and conflicts of interest issues.

In situations where a defaulting charity was late in submitting its accounts again in the year immediately following the original default, we opened a separate inquiry. We also opened a case or inquiry where certain issues arose, for example: conflicts of interest issues where the trustees were related; allegations of abuse or fraud; and alleged unauthorised payments to trustees. We opened a total of nine such inquiries or cases.

We are currently risk assessing 11 charities, three of which defaulted in the year following being part of the class inquiry, to ascertain whether further work is needed. It is likely that further cases/inquiries will be opened in relation to these charities.

Of the seven charities that did not submit the correct external scrutiny report, five were provided with advice and guidance and asked to resubmit. Where charities had external scrutiny reports which highlighted going concern issues, these charities were sent our guidance CC12, Managing Financial Difficulties. The charity which had an Independent Examiner's report with concerns due to a fraud was put into a separate inquiry. The other charity that had concerns in the independent examiner's report due to lack of controls over cash donations received and cash payments was sent advice and guidance and is being assessed to see if it is appropriate to open a separate case.

Lessons for charities, trustees, auditors and independent examiners

Lessons for charities and trustees:

- It is a statutory requirement to prepare an annual report and accounts and arrange for them to be subject to independent scrutiny, if required. All registered charities must also provide information annually to the Commission. The rules vary according to your charity's size and structure. Registered charities with:
 - income up to £10,000 should complete the relevant sections of the annual return, which include updates to trustees;
 - income above £10,000, and all CIOs, must prepare and file an annual return form;
 - income above £25,000, and all CIOs, must also file copies of their trustees' annual report, accounts and if income exceeds £25,000 the external scrutiny report (audit or independent examiners' report) with the Commission within 10 months of their financial year end.
- Providing timely, accurate and informative financial information that will help funders, donors, beneficiaries and others to understand your charity and its work will encourage trust and confidence in it.
- 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 £1,000,000 or gross assets exceed £3.26m and gross income exceeds £250,000.
- Using the Charity Commission's accounts packs is an easy way to ensure compliance with the accounting and reporting requirements. There are a number of other free resources for trustees to identify what is required in charity accounts and for independent examiners to understand when an independent examination can be carried out rather than an audit, www.gov.uk/government/organisations/charity-commission.
- 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 can be 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.

Appendix 1: 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: <https://www.gov.uk/remove-charity-register>

For all charities with an income of £250,000 or less with the 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, 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). This is not for use by charitable companies. However, 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 £500,000 or less to 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: www.charitycorp.org

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.

Where an audit modified report is being given or concerns raised in an independent examiner's report then reference should be made by the auditor or independent examiner to the guidance on reporting matters of material significance to the charity regulator.