CHARITY COMMISSION
FOR ENGLAND AND WALES

Accounts monitoring review

Assessing the standard of charity financial information

Why are we reviewing the reliability of charities' financial information?

There are almost 12 million views of the charity register each year. Much of the information on the public register is collected in the annual return, or annual update, which all registered charities must complete. This includes a statement of the charity's income and spending (expenditure). Charities reporting an income over £500,000 must complete Part B of the annual return, which provides an analysis of their income and expenditure and of their balance sheet and charitable funds. All of the financial information should be available in the charity's accounts.

We display the financial information provided by each charity on that charity's section of the public register. This information also forms the basis of the sector data, which provides information on the income, expenditure and assets of the charitable sector. For almost two thirds of the charities on our register, the figures provided in the annual return are the only financial information that charities must routinely provide to us. This is because charities with an income of less than £25,000 are not required to file their trustees' annual report and accounts with us, unless they are a charitable incorporated organisation.

How did we check the reliability of charities' financial information?

Total income and expenditure

In April 2017, we selected two random samples of charities that had filed their 2015 annual returns or annual updates. One sample was of 106 charities that had reported an income of £25,000 or more ('larger charities') and the other of 110 charities that had reported an income of less than £25,000 ('small charities').

Analyses of income, expenditure, balance sheet and funds

In January 2018, we also selected a random sample of 106 charities that had reported an income over £500,000 in their 2016 annual returns ('Part B charities').

For each charity in each sample, we checked whether the figures reported in their annual return agreed to their accounts. For the small charities sample, this involved asking the trustees for a copy of their accounts. Where the figures differed, we attempted to work out why this was the case. The sample sizes mean that our findings are statistically representative of the annual returns filed with us by the three sections of our register covered by our samples. However, as with all samples, there is a margin of error.

What did we find?

Total income and expenditure

Finding/income of charity	Over £25,000 (larger charities)	Under £25,000 (small charities)
Income agrees to the accounts	93%	66%
Expenditure agrees to the accounts	92%	65%
Income and expenditure agree to the accounts	89%	62%

Whilst more than 90% of the total income and expenditure figures reported by larger charities agreed to their accounts, the reporting by small charities was much less reliable. Part of the reason was that 16% of small charities either stated that they had not prepared accounts or did not provide us with any accounts, despite reminders.

We looked in more detail at the accounts of the 11 larger charities and 24 small charities that had misreported one or both of their income and expenditure to see if we could identify the error.

Larger charities

For eight of the 11 larger charities, we could identify from their accounts the figures that they had incorrectly included in their annual returns. Examples included reporting the under or overspend as income and excluding certain categories of income and/ or expenditure, such as restricted funds. Most of the differences appear to have been the result of input error, since eight of the 11 charities correctly reported both their income and expenditure in their following year's annual return.

Small charities

For 13 of the 24 small charities, we could identify from their accounts the figures that they had incorrectly reported in their annual returns. In addition to excluding different categories of income and/ or expenditure, there were also examples of the accounts provided not covering the same period as the annual return and the netting off of income and expenditure. However, for nearly half of these charities there was no obvious reason for the differences.

Analyses of income, expenditure, balance sheet and funds

Finding/income of charity	Over £500,000 (Part B charities)
Income analysis agrees to the accounts	83%
Expenditure analysis agrees to the accounts	85%
Balance sheet analysis agrees to the accounts	98%
Funds analysis agrees to the accounts	97%
All analyses agree to the accounts	71%

Whilst more than 95% of the analyses of the balance sheet and charitable funds reported by charities agreed to their accounts, the analyses of income and expenditure were significantly less reliable. Only 71% of charities provided accurate analyses of all four parts of their accounts. Seven of the charities that had misreported their analyses of income and/or expenditure also reported incorrect Part B totals for their income and/or expenditure.

We looked in more detail at the accounts of the 31 charities that had misreported one or more of their analyses to see if we could identify the errors. For 27 of the 31 charities, we could identify from their accounts all of the figures that they had incorrectly classified in their annual returns. The following factors appear to have contributed to the mistakes made in compiling these charities' annual returns:

The charity had continued to use an out of date format for its statement of financial activities (SOFA) in its accounts

2016 was the first year that all charities preparing accruals accounts had to follow one of the 'new' (2015) Charities Statements of Recommended Practice (SORP), either Financial Reporting Standard 102 (FRS 102) or, if eligible to do so, the Financial Reporting Standard for Smaller Entities (FRSSE). The Charities SORP (FRSSE) has since been withdrawn. However, 21 charities continued to use the SOFA format of the previous SORP (Charities SORP (2005)). Ten of these charities did not complete their annual return analyses accurately.

The 2016 annual return uses the headings from the 2015 SORPs. The SOFA formats have the same basic structure as their predecessor, but are intended to be clearer, with fewer headings and simplified descriptions. For example, 'voluntary income' under Charities SORP (2005) is described as 'donations and legacies' under Charities SORP

(FRS 102). Therefore, charities that had continued to use the old format may have found it more difficult to complete the annual return accurately.

The 2015 SORPs did not introduce any substantive changes to the format of the balance sheet and charitable funds. This may partly explain why the accuracy of the balance sheet and analysis of funds analyses was much higher than the income and expenditure analyses based on the SOFA.

The focus of this review is on the accuracy of the figures in Part B of the annual return, rather than on the accuracy of the accounts that the annual return figures were drawn from. However, it is a matter of concern that 20% of charities in our sample were still using Charities SORP (2005) formats to prepare their 2016 accounts. The accounts of four of these charities also stated in their accounting policies that their accounts had been prepared under Charities SORP (2005).

The charity had included unusual items of income or expenditure in its SOFA

Incorrect annual return analyses often involved the inclusion of 'unusual' items in the SOFA and/or the notes to the accounts, such as 'other donations' or 'other charitable expenditure', in 'other' in the annual return. Figures should only be entered in the 'other' income and expenditure categories in the annual return where those categories have been used in the accounts.

The 2015 SORPs give trustees the flexibility to change how they describe the main headings in the SOFA if this would help the user of the accounts. For example, a charity running a care home could describe 'income from charitable activities' as 'care home fees'. Similarly, trustees may include additional information and sub-totals in the SOFA. However, charities that chose to do this created problems for the compilers of some annual returns when they tried to match the charity's SOFA analysis to the categories in the annual return. The formats of the SOFAs in the accounts of those charities that had completed their annual returns correctly were invariably more clearly presented and easier to match to the main headings in the annual return than those that had not.

The compiler of the annual return was uncertain over whether, or where, the different types of charitable funds should be included in the annual return

Whilst this theme was less common, it appears to have been a significant factor in most of the errors involving incorrect total income and/or expenditure as well as incorrect analyses of charitable funds. Examples included excluding restricted or unrestricted income and/or expenditure from the annual return and classifying designated funds as restricted funds in the annual return.

Input error appears to have been a less significant factor behind the incorrect analyses than was the case with the incorrect total income and expenditure figures. 21 of the 31 charities that made mistakes in their 2016 annual return analyses have now filed their 2017 annual return analyses, and 11 of these charities continued to complete them incorrectly. The other 10 charities are either no longer required to complete Part B of the annual return or have yet to file their 2017 annual returns.

What action did we take?

With individual charities

As previously discussed, we checked the following year's annual returns of the charities in our larger charities and Part B samples that had reported incorrect figures in their annual returns. We have provided guidance to the charities that reported incorrect figures, unless they completed their following year's annual return correctly.

Since small charities are not required to file their accounts with us, it was not practical to check whether those that had reported incorrect figures in their annual returns had completed their following year's annual returns correctly. We provided all of the charities in the sample with guidance on their responsibilities for preparing an annual return and accounts.

We also checked the following year's accounts of the four charities in our Part B sample whose accounting policies stated that they had prepared their 2016 accounts under Charities SORP (2005). All of them have filed their 2017 accounts and the accounting policies of three of them now state that they prepared their accounts under Charities SORP (FRS 102), as required. The other has continued to prepare its 2017 accounts using the out of date SORP. We were already providing guidance to this charity because of deficiencies in its previous years' accounts.

With the annual return

We launched the current version of the annual return, AR18, in August 2018. We are using the findings from this review to help improve the guidance that we provide to charities to help them complete the annual return financial information accurately.

With the Charities SORP

The Charities SORP is periodically updated to take account of changes in financial reporting requirements. The four charity regulators across the UK and Ireland will begin developing a new SORP from 2019. We will use the findings from this review to help inform the development of the new SORP.

Lessons for other charities

The financial information that trustees must provide in their charity's annual return or annual update is publicly available on our register. The figures must be taken from the charity's accounts. Accounts that are clearly presented and, where accruals accounts are prepared, that comply with the SORP's requirements are easier to understand. This also reduces the risk of input error when compiling the annual return. A person who is familiar with the charity's accounts should complete or check the annual return figures.