

Charity Reporting Requirements and External Scrutiny

Charity + Caring

Every Registered Charity is required by law to prepare a set of “accounts”, the type of accounts and Trustees Report required depends of the legal structure of the Charity, it's income for the period and it's gross assets.

All charities

Every charity must keep accounting records (these include cash books, receipts, records of grants, etc.) and prepare accounts. These requirements also apply to charities not required to become registered charities, usually because they have annual income below £5,000 per year or because they are excepted.

The charity's constitution or governing document may also set out other requirements such as the need to Audit or to distribute accounts to members/hold and AGM. This sheet considers only the Statutory requirements but you should always review the governing documents to ensure that the Trustees are in compliance with these as well as statutory requirements.

Income between £5,000 and £25,000 for the financial year

Charities with income above £5,000 must by law become registered charities with the Charity Commission. In turn every registered charity must produce a Trustees' Annual Report which is made available on request regardless of statutory filling obligations.

In addition those with income below £25,000 are required to submit an “Annual Update” to the Charity Commission, this is a partial Annual Return which informs of changes to the charity's details, changes to Trustees/ Trustee details and income and expenditure for the year.

Once income exceeds £10,000; or irrespective of income in the case of a Charitable Incorporated Organisation (CIO); there is a requirement to submit an Annual Return, accounts and Trustees Report to the Charity Commission within 10 months of the year end and Companies House within 9 months, if the charity is also a limited company.

Where income is below £25,000 there is no statutory requirement to have accounts externally scrutinised either by way of an Independent Examination or an Audit.



Income between £25,000 and £250,000 for the financial year

Charities with gross income between £25,000 and £250,000 are required to have their accounts Independently Examined. The accounts may be prepared either on the receipts and payments basis or accruals basis. If the charity is also a limited company, accounts must however be prepared on the accruals basis to comply with company law.

The Trustees Report and accounts must be submitted to the Charity Commission within 10 months of the year end and Companies House within 9 months if the charity is also a limited company.



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Income between £250,000 and £1m for the financial year

Charities with income between £250,000 and £1m (with gross assets be £3.26m) are required to prepare accruals accounts which are required to be Independently Examined by an individual who is a member of a body approved by the Charity Commission.

The Trustees Report and accounts must be submitted to the Charity Commission within 10 months of the year end and Companies House within 9 months if the charity is also a limited company.

Income of over £1m for the financial year

Charities with income over £1m (or income over £250,000 where assets exceed £3.26m) must prepare accruals accounts which are required to be Audited.

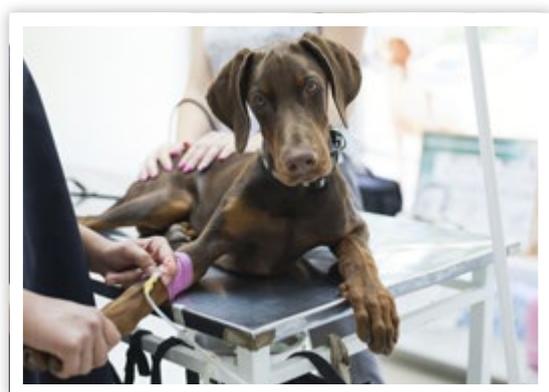
The Trustees Report and accounts must be submitted to the Charity Commission within 10 months of the year end and Companies House within 9 months if the charity is also a limited company.

Charitable companies

A charitable company must comply with both company and charity law.

In addition to the filing requirements of the Charity Commission a charitable company is also required to file accounts, which comply with Companies Act 2006 and a Confirmation Statement with Companies House.

All charitable companies have to keep accruals accounts irrespective of income levels.



Receipts and Payments V's Accruals Accounts

Receipts and Payments

Unincorporated charities and CIOs with gross income under £250,000 may choose to prepare their accounts using receipts and payments accounting. This basically summarises the money received and paid out during the financial year. The closing balance reconciles to the cash and bank balances held by your charity at the year end.

This approach is often favoured by the smaller charity with relatively simple financial transactions. However it does not always give transparency around the true financial position of the charity e.g. it would not include income which had been billed but not received at the year end.

There is no prescribed format for preparing receipts and payments accounts, Charity Commission CC16 "Receipts and payments accounts pack" gives clear guidance on the preparation of accounts on this basis.

Accruals Accounts

All charitable companies must prepare accruals accounts. Unincorporated charities and CIOs are required to prepare accruals accounts if their annual income is over £250,000.

Accruals accounts present a clearer picture of the charity's finances during the year and include the balance sheet which gives a 'snapshot' of the charity's financial position.

Accruals accounts adjust for the following:

- ▶ **debtors (money owed to you)**
- ▶ **creditors (money you owe)**
- ▶ **fixed assets used by the charity**

A charity preparing accruals accounts must follow the Statement of Recommended Practice (Charities SORP). The report and accounts must include a balance sheet, a statement of financial activities (SOFA) showing income and expenditure and explanatory notes to the accounts.



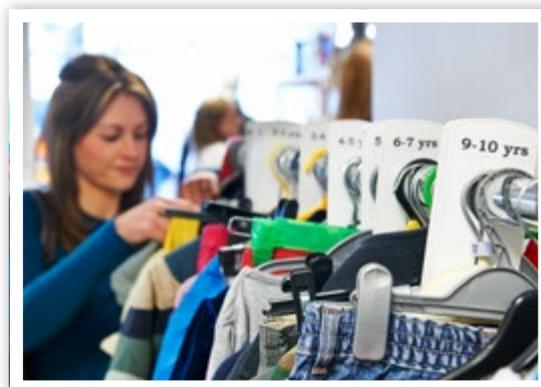
External Scrutiny

Independent Examination of Accounts

This is lighter in touch than a full Audit. Procedures are defined by law and the Directions of the Charity Commission.

The Examiner gives 'negative assurance' on the accounts overall, and reports whether or not certain matters "have come to my attention". Specifically these include lack of accounting records and the failure of accounts to comply with the Charities Act. The Independent Examiner may also help prepare the accounts in the format required and help prepare the Trustees' Annual Report.

To carry out an Independent Examination of a charity with an income above £250,000 the Examiner must have an appropriate professional qualification.



Audit

An Audit must be carried out by a Registered Auditor. An Audit gives the highest level of scrutiny of accounts and the Auditor looks for positive evidence to enable the accounts to be described as a "true and fair" view.

A charity with income above £1 million (or with an income over £250,000 and assets above £3.26m) is required by the Charities Act 2011 to have an Audit. Other charities may be required to have an Audit if their governing documents require one.

Although not a statutory requirement many charities opt to have an Audit of their financial statements. The Audit greatly adds to the credibility of a set of accounts and may help when applying for grant funding, looking to secure terms with new suppliers and seeking finance generally.

Often funding agreements include clauses requiring the accounts to be Audited, so if the Trustees do opt for an Independent Examination rather than an Audit, care should be taken that this will not cause a problem with funding agreements etc.

Further information

If you would like further information, or for how our Charities team may be able to help you, please contact us at hello@garbutt-elliott.co.uk

We would always advise that you seek appropriate professional guidance, as felt necessary, to ensure that advice is appropriate and also optimises to your particular circumstances. Garbutt & Elliott LLP accepts no responsibility or liability to any party in respect of the use and application of this information sheet.

