

# **RS8 - Transparency and Accountability**

(Version June 2004)



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# Foreword

Charities play a rich and varied role in modern society but their continued success is dependent upon the public's trust and confidence in their work. The Strategy Unit (SU) report *Private Action, Public Benefit* recognised this link, with the government's response to the report commenting that "... easy access to accurate and relevant information about charities is essential for real accountability, and for trust and confidence in charities."<sup>1</sup> A number of the SU's recommendations have a direct impact on charities' transparency and accountability. One of these recommendations, that larger charities complete an annual Standard Information Return (SIR) about their work, achievements and impact, is currently being piloted in consultation with the sector. Another recommendation, included within the draft charities Bill, gives the Charity Commission a specific statutory objective to enhance the accountability of charities to donors, beneficiaries and to the public. These changes, together with the development of Guidestar-UK (a new information portal displaying information from charities' Annual Reports and Accounts plus supplementary material) will help to increase the amount of information available to stakeholders and so increase charities' accountability.

The Charity Commission interprets transparency and accountability as providing relevant and reliable information to stakeholders in a way that is free from bias, comparable, understandable and focused on stakeholders' legitimate needs. This report looks at what people think is important in this area and examines the

level of transparency and accountability a charity demonstrates in its reporting. We consider compliance with the Statement of Recommended Practice (the Charities SORP) to be the minimum standard of accountability, particularly for the largest charities. The forthcoming SORP review consultation will create a focus for better reporting of charities' objects, achievements, results, and impact.

This report presents the findings of an analysis of the information provided in the Annual Report and Accounts and the Annual Review of a sample of 200 of the largest charities. The analysis was not designed to assess of the extent of SORP compliance in the sector. Instead it assessed the extent to which the charities in the sample had gone beyond minimum requirements to provide information that accounted fully and transparently for their performance during the year.

Our evidence is that the general standard of performance against the transparency and accountability framework is not satisfactory. Whilst there are some very good examples, too many charities in our study did not meet basic requirements. We hope that charities will take both this message and what the report shows about good practice to heart and respond constructively.



**John Stoker**  
Chief Charity Commissioner

<sup>1</sup> Strategy Unit, *Private Action, Public Benefit - a review of Charities and the wider not-for-profit sector*, Cabinet Office, 2002.

## Executive summary

The Charity Commission takes the view that accountability is a charity's response to the legitimate information needs of its stakeholders. It is important that interested parties can easily obtain relevant and reliable information on a charity's financial position and performance, deployment of resources, organisational structure, policies, priorities, activities and achievements.

A high level of transparency when accounting for performance allows trustees to:

- demonstrate that resources are being used wisely and for the stated purpose;
- show that the charity is being organised and managed properly;
- demonstrate that the charity is carrying out its activities efficiently and effectively; and
- attract new resources to enable the charity to continue its activities.

The Charity Commission is one of many stakeholders that has a legitimate interest in how charities use their resources, and the Annual Report and Accounts are one of many ways in which charities communicate with their stakeholders. Nevertheless, the Annual Report and Accounts should provide adequate information to allow stakeholders to assess the overall performance of a charity, including sign-posting to where additional details may be obtained.

In order to gauge how far best practice in transparency and accountability is being followed among the largest charities in the

sector, the Charity Commission carried out an objective analysis of the Annual Reports and Accounts of a sample of 200 of the largest charities, plus an examination of their Annual Reviews and websites. Our analysis was not designed to assess the extent of SORP compliance in the sector; it examined SORP compliance as a base line of accountability and went further to test how far charities are transparent in accounting for their performance. The accessibility of the information contained in Annual Reports and Accounts, Annual Reviews and websites was therefore a key feature of the analysis. Detailed findings from the analysis are set out in the main body of this report.<sup>2</sup>

The Annual Report and Accounts for each charity, and Annual Review where available, were examined by reference to several criteria:

- Compliance with requirements of the Charity SORP and regulations, mainly relating to Annual Reports and SORP paragraph 31.
- Provision of additional information in Annual Reports to assist understanding of each charity's structure, activities, achievements and outcomes.
- The extent, clarity and timeliness of information available to stakeholders in Annual Reports and Accounts, Annual Reviews and websites to help them assess a charity's effectiveness and performance.
- The availability of information to enable meaningful comparisons between charities of a similar type.

<sup>2</sup> A series of key financial ratios were also examined and these will provide the focus of a second report to be published later this year.

## Executive summary

Our analysis focused on three key issues for transparency and accountability:

- The type and amount of information provided.
- The place/s in which this information was made available.
- The timeliness with which that information was made available.

## Public attitudes survey

We commissioned an independent telephone survey of 1,000 members of the public to investigate their views on the information made available by charities. The results show that the public consider the principles of transparency and accountability to be important.<sup>3</sup>

The following graph shows the percentages of respondents who felt it was important or very important for charities to make information available across a range of areas:

Percentage of respondents who considered that it is 'important' or 'very important' for charities to provide information about:



<sup>3</sup> Details of the survey methodology can be found in Annex A.

## Executive summary

The results show that information about the areas of activity on which charities have spent their money was considered to be the most important. The charity's registration number was least important to respondents. Mean scores indicate that respondents considered it important for charities to provide information covering *all* the areas mentioned in the survey.<sup>4</sup>

60% of respondents said that the ability to compare important information between charities would affect their decision about which charity to support, while 35% said it would not affect their choices. Respondents used various sources to get information about charities. The media was used most often: 60% of respondents. Most respondents used more than one source.

### Reporting on required disclosures

The following areas of accountability are required by the Charity SORP and were covered by over half of the sample in *good detail* and were *easy to find* in their Annual Report. These disclosures were covered to the highest standard by the sample group.

Disclosure	Number of charities that provided good detail that was easy to find
List of trustees at year end and who served during the year	188
Statement of the charity's statutory objects	161
Explanation of the charity's aims and mission	152
Statement concerning reviewing risks	147
Explanation of the charity's policy on reserves	131
Achievements for the year	126

### Profile of the charities in the sample

The 200 charities selected for this study had a financial year end of 31 March 2003, incoming resources of £7.2bn (approximately 22% of sector income) and outgoing resources of £7.0bn for that year. At the year end they had total funds (excluding endowments) of £5.9bn and free reserves of £0.9bn.

Trading income and grants and fees from central and local government were the main sources of income for nearly 75% of the charities surveyed. The main forms of expenditure for 87% of them were providing services to beneficiaries, providing grants and financial assistance, and providing buildings, facilities and open space.

<sup>4</sup> See Table 25, Annex A.

## Executive summary

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Charities were marked as providing *no details* in their Annual Report most often with respect to the following required disclosures. These represent the areas in which charities performed worst.

Disclosure	Number of charities that provided no detail
Summary of specific investment powers	106
Explanation of grant-making policies	97
Comment on performance of investments	95
Narrative relating to the contribution of volunteers	82

## Reporting on best practice disclosures

Charities provided the following *best-practice* disclosures, not required by the Charity SORP, in *good detail* and in a way that was *easy to find*. These represent the areas in which charities in the sample were good at going the extra mile in their Annual Report.

Disclosure	Number of charities that provided good detail that was easy to find
Explanation of how major risks were monitored/controlled	95
Provision of useful ratios	72
Comment on major sources of income and expenditure	71



### Annual Reviews

There are no requirements to produce Annual Reviews and they are not subject to any audit scrutiny or consistency checks. 121 of the 200 charities in the survey produce an Annual Review as well as their Annual Report and Accounts and, of these, 83 were available for this study.

The style, structure and content of these Reviews were much more attractive and user-friendly than for Annual Reports. The main purpose of most of the Reviews seemed to be to provide general publicity for the charity. A significant proportion were also clearly aimed to help with fundraising, and some seemed to be designed to act as an enhancement to the Annual Report.

For a significant number of charities, poor disclosure of required information in the Annual Report (particularly about activities, achievements and outcomes) was compensated by presentation of these details in the Annual Review. While it is good that this information is being given, Annual Reviews cannot be used as a substitute for Annual Reports.

### Findings by charity type

We categorised charities by activity, main source of income and main type of expenditure. We then analysed whether different groups had different levels of transparency and accountability or different areas of strength/weakness.

Charities of the following types were significantly more likely to meet or exceed minimum standards:

- The 12 charities that mainly carry out International Activities tended to provide better-than-average quality information in most areas. They also took significantly less time to file their Reports and Accounts with the Charity Commission.
- The 44 charities involved in Social Services and Relief were significantly better than average at giving the information required in the Annual Report, particularly at explaining their impact and their outcomes.
- The 39 charities with Donations and Legacies as their main sources of income tended to produce visually interesting Annual Reports and Accounts and Annual Reviews and provided cross-references in the Annual Report to their websites. They were also better than average at explaining their outcomes and impacts in their Annual Reports.

Charities of the following types were significantly less likely to meet or exceed minimum standards:

- The 20 Culture, Sports and Recreation charities were slower than average at filing their Annual Reports and

Accounts with the Charity Commission, were worse at providing the required information in their Annual Reports on their activities and poorer at explaining their benefits to wider society and how their achievements compared with their plans. This group has very low free reserves yet their explanations of their reserves policies in their Annual Reports were also worse than the average.

- The 41 Health and Medical charities were worse than average in making the required disclosures in the Annual Report generally.
- Housing and Community Affairs charities, of which 16 of the 28 followed the Registered Social Landlords (RSL) SORP, were worse than average at disclosures in the Annual Report, particularly on explaining their reserves and investment policies and powers. These charities were also below average at explaining in their Annual Reports their outcomes and their impact.
- 73 charities relied mainly on government (central and local) funding as their major source of income. Their general level of disclosure of information was lower than the average, particularly in terms of providing adequate accounting policies and notes to the Accounts.

- The 39 charities that mainly provide Facilities were worse than average at complying with the Charity SORP requirements relating to the Annual Report, particularly on reserves, investments and risk management.

### The Charity Commission's view

Transparency of reporting is increasingly important in charity management. Funding bodies and the wider public demand evidence of efficient stewardship of the funds they donate, as does the Charity Commission. Our findings support a general feeling among sector commentators that there is still scope for improvement in the level of transparency and accountability.

Our continuing initiatives designed to improve the level of transparency and accountability include:

- Routine monitoring of Annual Reports and Accounts and Annual Reviews, and publicly identifying those charities who persistently fail to submit on time. The Charity Commission will consider taking regulatory action against charities that persistently default on their responsibilities to submit their statutory documents.

## Executive summary

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- The 'Accounts aren't optional' campaign, which aims to highlight the crucial importance of timely, accurate and detailed submissions by targeting donors, local authorities, auditors, financial advisors and charities themselves.
- The Review Visits programme which includes an assessment of a charity's transparency and accountability as part of its review of how effectively a charity is performing.
- The forthcoming *Standard Information Return* (SIR) which is designed to highlight key qualitative and quantitative information about the charity, in order to ensure that the general public, donors and investors are better informed about the work of charities.
- The Charities SORP is reviewed annually to ensure that it addresses the sector's needs and to take on board new accounting standards and new developments in the sector. This year's review is looking to address the need

for greater consistency in cost allocations, and create a focus for better reporting of objectives, activities undertaken and the achievements and impacts that result. The Charity Commission is leading SORP development that is designed to enable each charity to use a reporting framework that meets its own needs and those of the sector.

We welcome initiatives such as Guidestar-UK and The Charities' Accounts Awards, both of which encourage charities to make information available to stakeholders in a way that facilitates their assessment of charities' performance. Some charities are actively recognising the importance of accountability by presenting a statement of their commitment to providing relevant information, including an action plan of how they intend to deliver on their stakeholders' information needs.

Charities should take the lead from these best practice examples to improve their own transparency and accountability.

## Methods of communication

The main focus of this study is the transparency with which trustees account for the activities of their charity in the Annual Report and Accounts, covering legal requirements, recommendations of the Charities SORP and developing good reporting practice.

Many charities in our study produce an Annual Review as well as an Annual Report. An Annual Review is not required by law and its contents are not subject to any regulatory requirements.<sup>5</sup> Our research included an analysis of the information that charities make available in their Annual Reviews and websites. The aim was to determine whether charities are using their Annual Reviews to provide information that should be included in the Annual Report and also to see how far Annual Reviews and other media are used to enhance charities' transparency and accountability.

### *Sign-posting between communication media*

The Annual Report should provide a focal point for all accountability by containing the information required by law and the Charities SORP.<sup>6</sup> Further accountability may be achieved through various forms of communication, reflecting the various

needs of stakeholders.<sup>7</sup> Most charities produce a considerable amount of material about themselves and their activities, particularly where donations, legacies and similar income provide the charity's main incoming resources. Sign-posting from the Annual Report and in other media to where additional information can be found enhances the transparency of trustees' accountability for their charity's activities. See Annex A, Table 13 for details of the linkages provided by charities.

Sign-posting *cannot* be used as a substitute for inclusion of mandatory information in the Annual Report, however. This study makes clear the areas in which reporting is a requirement and indicates where best practice suggestions can enhance that basic level of transparency and accountability.

Charities reliant on donations and legacies as their main source of income were particularly good at:

- providing links between Annual Reports and other documents to draw together all their information; and
- producing more 'glossy' Annual Reviews incorporating photographs and different colours and fonts etc.

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<sup>5</sup> Annual Reviews are defined in Annex B.

<sup>6</sup> The legal obligation to complete an Annual Report comes from Regulation 7(4) of the Charities Accounts and Reports Regulations 2000, these underpin the matters set out in SORP.

<sup>7</sup> Stakeholders may include: beneficiaries, donors and funders, volunteers, staff, interest groups, central, regional and local government (as a funder or as a policy maker), partners or suppliers, the media and the public.

### Annual Report and Accounts

#### *Statutory requirements*

Every charity with a gross income or total expenditure in excess of £10,000 must prepare an Annual Report and Accounts and file them with the Charity Commission no later than 10 months after the end of their financial year.<sup>8</sup> Both documents must comply with the requirements set out in statute and should follow the methods, principles and disclosures set out in the Statement of Recommended Practice: Accounting and Reporting by Charities (the Charities SORP) or a more specialist SORP where relevant.

The Charities SORP sets out how a charity should report on how it has used the resources entrusted to it and on the activities it undertakes. Preparing the Annual Report and Accounts in accordance with the Charities SORP will not only ensure that a charity meets its legal reporting duties but will also help to provide stakeholders with a clear understanding of the nature and extent of a charity's work.

The Charities SORP applies to all charities in the UK, except where another SORP applies (eg Further and Higher Education or Registered Social Landlords).<sup>9</sup> The Charity Commission expects all charities to comply fully with the relevant SORP unless there is good reason to diverge, in which case any divergence must be clearly explained in the Annual Report and

Accounts. A failure in SORP compliance could indicate a failure of trustees' duties to administer a charity properly. We may take regulatory action if trustees cannot adequately explain their failure to comply with the Charities SORP.

We are committed to encouraging charities to submit statutory reports on time. A number of initiatives are ongoing:

- Routine monitoring of accounts submissions and publicly identifying those charities that persistently fail to submit on time.
- If a charity continues to fail to submit its accounts on time, we will consider taking regulatory action.
- A compliance campaign called 'Accounts aren't optional' which aims to highlight the importance of timely, accurate and detailed returns by targeting donors, local authorities, auditors, financial advisors and charities themselves.

#### *Availability*

To comply with legal requirements, trustees must submit their Annual Report and Accounts to the Charity Commission within 10 months of their financial year end. Timely submission also demonstrates to stakeholders that the charity is willing to be accountable to the regulator.

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<sup>8</sup> Filing obligation Charities Act 1993, section 45. Charities can choose the date for their financial year end.

<sup>9</sup> See Table 2, Annex A for details of which SORP was applicable to the charities analysed.

## Methods of communication

We make charities' Annual Reports and Accounts available to other stakeholders through the following means:

- All documents held on the public register are available to any interested party; this includes the governing document and Annual Report and Accounts.
- A recent pilot scheme has also made this information available online for 300 of the largest charities.
- Extracts of the key details for every registered charity can be accessed online via the 'search the register' facility on our website.
- We are committed to supporting the Guidestar-UK initiative which will allow stakeholders greater access to key information about charities.

Some charities facilitate this availability themselves by publishing their accounts on their website or distributing them to members, and we welcome this. Charities

must make their Annual Report and Accounts available to anyone on request (Charities Act 1993, part V1, s.47 (2)).

### *Timeliness*

Our analysis examined the timeliness of submission of Annual Reports and Accounts to the Charity Commission and the stages that charities' Accounts go through before filing. The results are as follows:

- 13 charities failed to file their Annual Report and Accounts with the Charity Commission within the statutory 10 month deadline (7%).
- Almost half of the charities had their Accounts approved within 122 days (by 31 July), and one within 52 days of its year end.
- On average, auditors took 5 days to sign their audit report after the trustees had done so. Trustees then took a further 93 days on average to file the report and financial statements with the Commission.<sup>10</sup>

Stage		Average time taken (days)	Range (shortest - longest time period - days)	
Year end	⇒	Trustee sign off	154	52 - 308
Trustee sign off	⇒	Auditor sign off	5	0 - 91
Auditor sign off	⇒	File with the Charity Commission	93	3 - 234
Total (year end to filing with the Charity Commission)			252	

<sup>10</sup> The charities in this analysis were sufficiently large to require an annual audit of their Accounts. The auditors are only legally required to express an opinion on the Accounts, although their professional rules also require them to be satisfied that nothing in the Annual Report, and other statements published with the Accounts, conflicts with information disclosed in the Accounts.

## Methods of communication

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The Annual Report and Accounts are a key part of accountability and should be made available to all stakeholders as soon as possible after the period to which they relate.

Trustees should file their Report and Accounts as soon as possible; there is no reason to hold on to them for so long after the auditor has signed them off.

### *Quality of reporting*

Timeliness of submission is not sufficient if the Report and Accounts are of a poor quality.

- 9 sets of the Reports and Accounts in this analysis did not contain all the required signatures - a failure rate of 4.5%.
- 3 sets of Accounts had mathematical errors even though they had been approved and signed by the trustees and the auditors.
- One audit firm had signed and dated its Audit Report a few weeks before the trustees had approved and signed the Accounts.

There is room for improvement here. We are disappointed that these kinds of errors appear in Reports and Accounts of charities of this size.

### **Style and presentation of Annual Reports and Annual Reviews**

Our analysis showed little overlap between the various channels that charities use to communicate with their stakeholders.

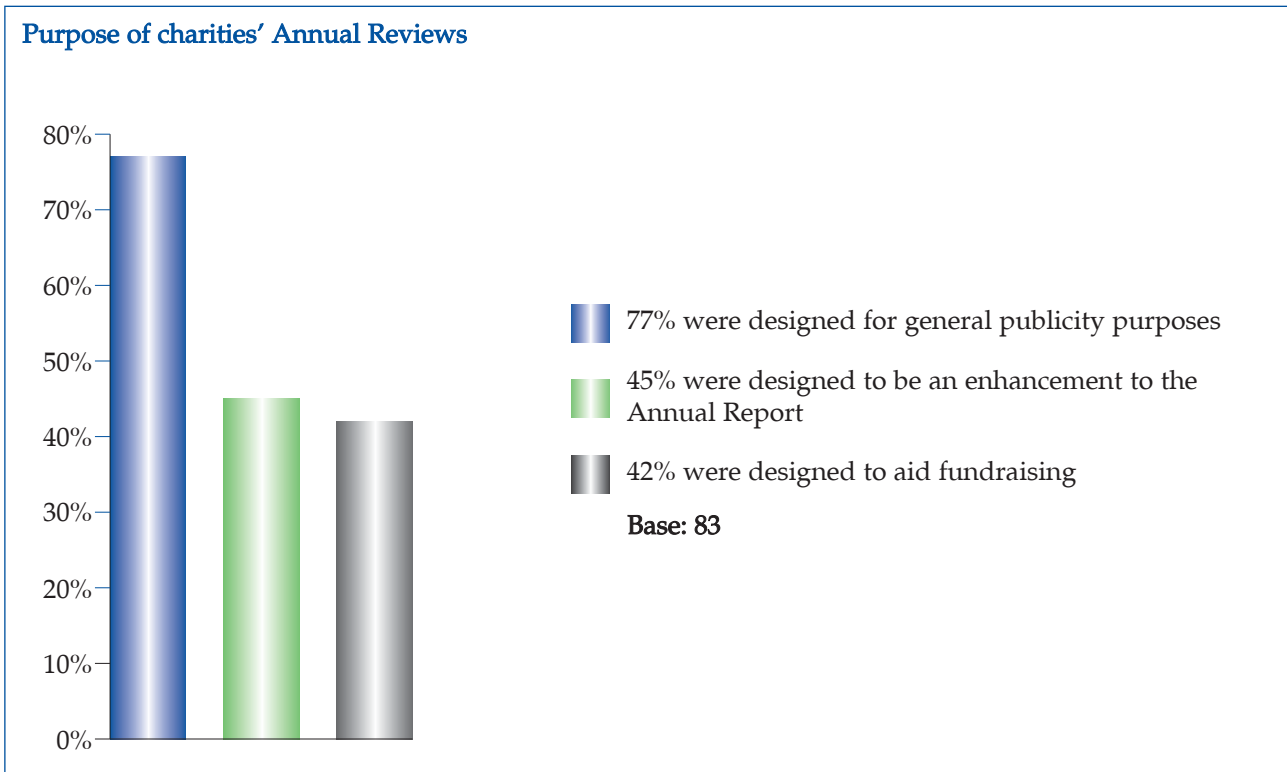
- 75 % of the 83 Annual Reviews available for this study provided information that was additional to that provided in the Annual Report.

(See Table 21, Annex A for a breakdown of the areas in which information was additional or duplicated.)

This lack of duplication could be due in part to the fact that the documents are targeting different audiences. The style and presentation of the Annual Report and Accounts suggest they are mainly designed for the regulator whereas the Annual Review appears to be used for more general publicity and fundraising purposes.

## Methods of communication

Some reviews appeared to have a dual purpose and were marked accordingly. Based on their appearance and content, we judged that:



Annual Reports often give little information about activities and achievements during the year or only contain high-level information about activities; extra information of this kind is given in the Annual Review. We considered that a significant number of the Annual Reviews were more "reader friendly" and visually interesting than the Annual Reports, making greater use of different type styles,

photographs, diagrams and quotes from beneficiaries. Nevertheless, we judged 95% of the Annual Reports to be easy to read, incorporating good use of headings, clear narrative etc. It is good practice to present information in an accessible style, free from jargon, so it is encouraging that the majority of the charities we analysed are presenting their information in a transparent way.



## Methods of communication

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Of the 83 Annual Reviews we examined:

- 65 (78%) contained self-explanatory graphs and tables.
- 55 (66%) contained quotations from beneficiaries.
- 80 (96%) used photographs to help to get the messages across.
- 69 (83%) used a more accessible writing style than in the Annual Report.

This compares to the following use of presentation aids in Annual Reports:

- 8% incorporated self-explanatory graphs.
- 17% had tables.
- 10% had photographs.
- 65 (78%) of the Reviews contained summarised accounts, in contrast to the 10-20 pages in the full accounts in the Report.

Charities provided information in their Annual Review that was additional to the Report in the following areas:

- Financial ratios 29 (35% of the available Reviews).
- Headline figures 50 (60%).
- Impact information 78 (94%).
- Outcome information 77 (93%).
- Future plans 59 (71%).

On a few occasions, the title given to the Annual Review was "Annual Report", even though in each case there was a separate Annual Report produced in compliance

with section 45 of the Charities Act 1993 attached to the Accounts. Also, some charities produced a combined Annual Report and Accounts/Annual Review document. Whilst there are some benefits to having everything in one publication, this could cause confusion as to which parts of the booklet are the statutory documents. When charities produce a combined document, it is important that they correctly label each section to clarify which section is the Annual Report.

In other instances the Annual Review related to several "associated" charities (eg Registered Social Landlords) or, conversely, a regional body produced an overview of the year's activities. This could be confusing and compromise the transparency of charities' reporting. Trustees should ensure that it is clear to which charity an Annual Review relates.

Some charities are clearly making use of Annual Reviews in a way that enhances the level of accountability provided by the Annual Report and Accounts. This is good practice as it allows charities to provide extra and more detailed information that does not belong in the Annual Report. To make the most of this potential, charities should ensure that they tell readers where the extra information is. Tables 13 and 24 show that trustees do not currently make the link from their Annual Report to other communication media to the extent that they might.

### *Accessibility of Annual Reviews*

The Annual Reviews we studied were downloaded from websites, obtained on request from the charity, or retrieved from our records if charities had filed them at the same time as the Annual Report and Accounts.

- 10 Annual Reviews obtained from websites were for the previous year (ie to March 2002) even though the March 2003 report and financial statements had been filed with the Commission.
- Some Reviews were difficult to download from the website or, when downloaded, were difficult to read.
- A few Annual Reviews were not on the website at all and could only be obtained direct from the charity.
- One charity charged £15 for a hard copy of its Annual Review.
- One charity produced a biannual Review and stated that it was produced only if there were enough funds to do so.

Annual Reviews are an important means of providing extra information to stakeholders that the Annual Report and Accounts do not cover or cover in a way that is less accessible to the lay reader. To maximise the benefits of an Annual Review in enhancing transparency and accountability, charities should give more consideration to the ease with which stakeholders can obtain a copy of their Annual Review.

### Websites

Websites can be a key source of information about a charity's activities and priorities.

- Of the 188 charities in the survey that had a website, 21% mentioned their website in their Annual Report.

When obtaining the Annual Reviews for this research, we found the majority of charities' websites fairly easy to navigate but some were perplexing and cumbersome, taking at least 10 hits to locate the relevant page. With the increasing use of the web by all types of stakeholder, charities should give more consideration to their website as a means of providing their Annual Report and Accounts and their Annual Review.

#### **As best practice, trustees should:**

- Consider undertaking a survey of stakeholders to determine their information needs.
- Review the website regularly to check that information is up to date and easy to access, and make the Annual Report and Accounts available on line where possible.
- Consider cross-referring to the website and Annual Review in the Annual Report.
- Include summarised Accounts in the Annual Review to help people without accounting experience to understand them.

## Methods of communication

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- Issue their Annual Review simultaneously with the Annual Reports and Accounts to improve the availability of up-to-date information. In due course trustees should also ensure that the information in the Standard Information Return relates to the same period.
- Ensure that each section of a combined document is correctly labelled so that it is clear which section of the booklet is the Annual Report, produced to fulfil the requirements of section 45, Charities Act 1993 and that the Annual Report contains all the information required by the Regulations, the Charities SORP and, where relevant, the Companies Act 1985.

### **Illustrative examples of best practice include:**

A charity established to help the blind produces a version of its Annual Review in Braille. Another charity working in a similar field produces its report in a larger typeface to help its beneficiaries read it.

Welsh charities that produce their Annual Reviews in Welsh as well as English.

An Annual Review in the form of a desk calendar to improve its impact and accessibility.

An Annual Report containing a visual representation of the charity's priorities for the year, with their beneficiaries at the top of the chart providing the focus.

# Statements about what the charity exists to do

## Charitable objects

The Charities SORP states that, as part of explaining what the charity is set up to do and how it is going about it, the Annual Report should include "an explanation of the objects of the charity. This should be by reference to the governing document but may also include the mission statement of the charity" (para 31).

Transparency and accountability require that a charity explains what it is set up to do and what its activities are in that context. The charity's objects are the legal basis and rationale for its existence and should inform everything it does. A statement of objects in the Annual Report, plus a statement of aims and mission, enables stakeholders to see the charity's purpose and how all other elements of the Report relate to its achievement of that purpose.

Our analysis of 200 Annual Reports found that:

- 81% described their objects in 'good detail, easy to find'.
- 76% provided an explanation of the charity's aims and mission in 'good detail, easy to find'.
- 14% gave 'some' or 'few' details about the charity's objects.
- 22% gave 'some' or 'few' details about the charity's aims and mission.
- 11 charities gave no details at all about their objects.
- 5 charities gave no explanation of the charity's aims and mission.

Of the 11 charities that gave no details about their objects, 36% gave good details about their aims and mission instead.

Charities which provide little or no information about their objects, aims and mission are failing in a key aspect of transparency and accountability. There is room for improvement in this area.

## Charitable status

The registered number of a charity is evidence of a charity's status and that its objects are wholly charitable; the Charity Commission will not register an organisation unless satisfied that its objects are wholly charitable and of public benefit. There are a number of exceptions and exemptions to registration but all the charities in our sample were registered. All Annual Reports should disclose the charity's registration number so that stakeholders can easily identify the organisation, verify that it is a registered charity and make further enquiries about the charity if they wish.

- 95% of the 200 charities analysed disclosed their registered charity number.
- Over half of the defaulters were Registered Social Landlords (RSLs), which are subject to a SORP that does not require the charity number to be stated.

## Statements about what the charity exists to do

The registered charity number is basic information that should never be omitted from information provided by a charity, even where it is not specifically required by their SORP.

### Categorisation of charities

Transparency in the Annual Report includes disclosure of a charity's type. The ease with which stakeholders can allocate a charity to an appropriate category is made more important by the increasing use of comparative data about charities; meaningful comparisons can only be made if stakeholders can compare like with like.

Our analysis included an attempt to categorise the charities in four different ways - by governing document, activity, key income sources, and type of charitable expenditure.

#### *By governing document*

Knowledge of the legal form of a charity, as determined by its governing document, provides a context for all other information provided about the charity. Disclosure of a charity's legal form is also required by the Charities SORP.<sup>11</sup> Charities should always disclose this information.

- 85% of the charities analysed stated their type of governing document in their Annual Report.
- 15% failed to disclose adequate information on their type of governing document.

- 74% of the 200 charities were companies limited by guarantee.
- Those charities failing to disclose their type of governing document were nearly all companies limited by guarantee - giving a failure rate for that type of charity of around 20%.

#### *By activity*

We used information disclosed in the Annual Report to put each charity into an appropriate category of activity.<sup>12</sup> In most cases adequate information was available to do so easily. See Annex A, Table 3 for details.

#### *By major source(s) of income and type of expenditure*

It was relatively easy to allocate charities to an appropriate category based on their major sources of income and also by their type of expenditure because the standard of disclosure in the Statement of Financial Activities and supporting notes was generally good.<sup>13</sup>

Stakeholders' ability to recognise a charity's type from its Annual Report is a key part of transparency and accountability which charities of the size analysed ought to be doing well. While they were generally good at disclosing their activity and type of income and expenditure, there is room for improvement in these charities' disclosure of their legal form.

<sup>11</sup> The five main types of charity are - limited companies (usually limited by guarantee), unincorporated charities (trusts or associations), charities incorporated by Royal Charter and charities incorporated under an Act of Parliament. Their governing documents are, respectively, the Memorandum and Articles of Association, the Trust Deed or constitution, the Royal Charter or the Act.

<sup>12</sup> The categories used are those set out in the Caritas Data Top 3000.

<sup>13</sup> The categories of income used in this analysis were mainly derived from the Charities SORP. The categories of expenditure were derived from the classifications used on the Charity Commission's Annual Return.

## Statements about what the charity exists to do

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There is no established method of categorising charities by activity within the sector, and that could cause difficulties for stakeholders who want to make meaningful comparisons between them.<sup>14</sup>

For all elements of transparency and accountability covered in our analysis, we broke down the findings to see whether there were any significant variations from the norm based on charity type. The results are set out in the relevant sections of this report.

### **As best practice, trustees should:**

- Provide details of what their objects mean in practice, perhaps by including a mission statement or statement of aims and key objectives.
- Explain how activities undertaken relate to achievement of objects.
- Consider whether it is appropriate to show that any changes in activities still fall within objects.
- Make a statement that the charity's objects are still appropriate, showing that they have considered this (which could include consideration of whether or not to wind up, merge, change objects, change mode of operation).
- Provide information that enables stakeholders to understand the purpose and activities so as to facilitate comparison with other similar charities.

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<sup>14</sup> For example, a charity that provides physical assets to beneficiaries (which would put it in one category) may do so for a purpose that falls into another category - a charity providing housing to a particular class of beneficiary could fall into either "Housing and Community affairs" or "Social Services and Relief".

# Inputs

The provision of clearly accessible information about a charity's inputs is essential to enable stakeholders to compare its inputs with outputs and thus assess whether it is using its resources effectively.

This chapter examines the clarity with which charities disclose input details and their inter-relationship with the charity's aims, objectives, activities, performance and achievements, and future plans.

## People

### *Trustees*

In this report the section on organisational structure deals with disclosures concerning trustees.

### *Employees*

On the whole, the charities analysed were good at reporting basic information on the number of staff they employ and the areas in which they are employed. That is required information in a note to the Accounts that has not changed for many years.

However, the Annual Reports did not generally contain much comment on staff numbers during the year or on major changes in the way staff are organised including deployment, training and how this contributes to organisational objectives. These details about staff are important so that stakeholders have a clear picture of how the charity is being run and how its resources are being spent.

- 60 Annual Reports contained good detail of staff and staffing levels (30%).
- 49 charities made no mention of staff at all (25%).

### *Volunteers*

The input of volunteers is often significant to the running of a charity. Volunteers carry out a range of activities including fundraising and administrative functions.

- 54% of the Annual Reports for charities with volunteers included comment on their contribution.
- Often this comment provided minimal details.

Charities are required to provide narrative about the effectiveness of volunteers in their Annual Report but are not required to place a value on their contribution in the Accounts. Without information on the extent to which volunteers contribute to a charity's activities, stakeholders are unable to make meaningful judgements about its performance and efficiency. Where a charity makes significant use of volunteers in the course of undertaking its charitable or income generating activities this should be explained. Whilst measurement issues, including attributing an economic value to such unpaid voluntary contributions, prevents the inclusion of such contributions within the Statement of Financial Activities, it is nevertheless important for readers to be provided with sufficient information to understand the role and contribution of volunteers. Such information may, for example, explain the activities that volunteers help provide, quantify the

## Inputs

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contribution in terms of hours or staff equivalents, and may present an indicative value of this contribution.

The charities we analysed were generally good at meeting reporting requirements in relation to human resources but they could do more to provide the kind of extra information that gives stakeholders a complete picture of the contribution of the people involved in their work.

### Property

For the purposes of this analysis, property includes land, buildings and other tangible assets (such as computers and software, vehicles and fixtures and fittings) that are reflected in the financial statements and also other tangible and intangible assets that may or may not be reflected in the Accounts.<sup>15</sup>

- 17% of Annual Reports analysed were considered to have included good detail about the charity's tangible and intangible assets, and a further 13% gave some details.
- Often, the only comment was a cross-reference to the relevant note to the Accounts.

There is no requirement to provide details of property in the Annual Report. However, without these details stakeholders cannot appreciate the full extent of the charity's assets and the contribution they make to activities and the achievement of

objectives. It is good practice to give this information in order to be fully accountable rather than merely compliant with statutory requirements.

### Finance and income

The charities included in the analysis had total incoming resources for the year to 31 March 2003 of £7.2bn. We would expect a high standard of transparency and accountability from these charities to enable stakeholders to judge how effectively they have used these substantial resources.

The three main sources of income for the charities we analysed were:

- Trading income (38%).
- Grants/fees from central or local government (37%).
- Donations, legacies and similar income (20%).

The Accounts, if they comply with the Charities SORP, will tell the reader the charity's major sources of income. However, many stakeholders will not be experienced in interpreting Accounts and will look to the trustees to explain in the Annual Report what the figures mean. An explanation of income and year on year changes is good practice that ensures all stakeholders understand the resources a charity has had at its disposal.

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<sup>15</sup> For example, historic or inalienable assets that have not been capitalised, patents, licences and trademarks, the charity's name and/or logo.



## Inputs

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Some of the charities gave sparse commentary on financial matters, referring the reader instead to the attached Accounts. Others provided considerable commentary, explaining the major elements of the Accounts and the reasons for significant changes year on year.

- 36% of charities provided good explanation of the major sources of income for the year.
- 53% provided some explanation.
- 13% provided no explanation at all.

The analysis also looked at the explanatory notes and comment to the Statement of Financial Activities (SoFA):

- 38% had one or more explanatory notes missing.
- The most significant omissions were analysis and explanation for fees/grants receivable, donations and legacies and income from shops and from charitable activities (see Annex A, Tables 16 and 17 for more details).

### *Fundraising income*

Comment in the Annual Report on the effectiveness of fundraising activities, when they are significant, is specifically required by the Charities SORP and is essential for stakeholders' understanding of how a charity derives its income.

Our analysis found that:

- 30% of the charities provided good, easy-to-find narrative in their Annual Reports concerning fundraising.
- 38% gave some details.
- 22% said nothing at all.

The Annual Reviews did not generally provide any greater clarity in this area. Although 42% of Annual Reviews appeared to be designed to assist fundraising (Table 22), they mainly showed the use to which funds had been put rather than detailing the success (or otherwise) of fundraising efforts. For example, new fundraising initiatives may have high start-up costs that impact on fundraising performance.

Considering the interest and comment that this area of charities' activities generates, this low level of detail in Annual Reports and Reviews is surprising. There is considerable scope for improvement here.

### *Intangible income*

Most charities receive benefits for which they do not pay, or for which they pay at a substantially discounted rate.<sup>16</sup> The Charities SORP requires that, where this occurs and is quantifiable and measurable, it should be reflected in the Accounts either at cost to the donor or at a valuation made by the trustees.

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<sup>16</sup> This section excludes the contribution of volunteers as dealt with earlier.

Examples of this include where a charity receives free accommodation, has part of its administration services provided free by a commercial company or where staff are "lent" by a commercial company to the charity without charge. In all these cases the notes to the Accounts ought to at least recognise that these free services are being provided and, if it is impossible to put a value on them, to say so.

A number of charities' financial statements indicated that there were no employees and no property costs. This is clearly not the case because the charity could not function without them. Where this information is missing, stakeholders cannot judge how effectively the charity is using its resources.

In a significant number of the Annual Reports and Accounts analysed, trustees did not refer to free or heavily discounted goods and services. This suggests they are unaware of the requirement to bring them into the Accounts if they are material and if the value is quantifiable and measurable.

Transparency in reporting demands that stakeholders can easily access information about *all* significant inputs to a charity. Where it is not a requirement that certain details are provided in the Annual Report, trustees should say where more information is available. The percentage of charities providing a good level of information

about inputs in the areas covered in this analysis is disappointing and there is significant scope for improvement.

### **As best practice, trustees should:**

- Provide more detail of the extent of volunteer support in the Annual Report by including an estimate of their time as a number of charities already do. When linked to the employee data already disclosed, this would provide a much more complete picture of the time input to the running of the charity from all sources.<sup>17</sup>
- Consider how best to reflect goods, services and time for which the charity does not pay at all, or pays for at a substantial discount, and ensure appropriate disclosure in the Accounts and appropriate commentary in the Annual Report.
- Include comment in their Annual Report on the scope and financial outcome of fundraising activities, including start up costs, in order to enhance their accountability in addition to complying with the Charities SORP.
- Ensure that the Annual Report includes adequate comment on income sources, fluctuations year on year and performance against budget.

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<sup>17</sup> The Charity Finance Directors' Group produced a discussion document in 2003 ("Inputs matter - Improving the quality of reporting in the charity sector") that suggested that the time devoted to the charity by volunteers should be included in the Accounts, valued at a standard rate.

## Inputs

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- Consider going beyond the Charities SORP's (and where relevant, Companies Act 1985) requirements by providing in their Annual Report a summary of the charity's major assets (whether capitalised or not), the use that is made of them and major changes to them during the year. Sign-posting to where full details of tangible and intangible assets can be found is also good practice.
- Consider whether naming their chief executive and senior executives and including biographical details in their Annual Report would be useful for their stakeholders.

## Activities and achievements

Every charity exists to serve a specific purpose as set out in its governing document. To be registered as charitable, the purpose of an organisation must serve a public benefit. So information about a charity's activities and achievements is a key element of its accountability to stakeholders. Without a clear idea of what a charity has achieved with its resources, stakeholders cannot see whether the charity is operating effectively and in the public benefit.

This chapter looks at the disclosures charities make to show what they have done during the year and, most importantly, what they have achieved and the benefits they have delivered.

The required disclosure in the Charities SORP is quite broad. It gives trustees flexibility in how they report on activities and achievements so that the specific circumstances of their charity can be reflected. We have issued more guidance in this area in **Reporting the Activities and Achievements of Charities in Trustees' Annual Reports (CC59)**.

With regard to reporting on achievements, our analysis found that:

- 63% of Annual Reports contained good detail on achievements in the year.
- 23% gave some information on these matters.
- 8% gave only a few details.
- 7% gave no details at all, thus failing to meet a Charities SORP requirement.
- 65% stated what the charity had done to further its objects.
- 37% commented on how the activities had benefited users of the charity.

Particularly good at providing these details were the 12 International Activities charities (83% presented good detail), the 12 Religious charities (75%) and the 44 Social Services and Relief charities (75%).

The 39 charities whose main source of income was donations and legacies were better than average at explaining in their Annual Reports their outcomes and impact. 72% gave good explanation of what the charities had done to achieve their objects (overall average 65%) and 44% gave good detail on the benefit of the charities' activities to their users (overall average 37%).

Our research showed that, while the Annual Report often gives minimal information about activity and achievements, the Annual Review tends to complete the picture:

- 93% of the Annual Reviews gave considerable detail about outcomes and impact that did not duplicate the Annual Reports.

Reporting on activities, and their impact and outcomes, is a key element of accountability. The Home Office response to the Strategy Unit report *Private Action, Public Benefit* included the following recommendation on the proposed new Standard Information Return (SIR) for larger charities (those with annual income over £1 million). The Home Office recommends that the SIR should:

*"Highlight key qualitative and quantitative information about the charity, focusing on how it sets objectives and measures outcomes against these."*

## Activities and achievements

Transparency demands that stakeholders can readily access information about a charity's activities and achievements. It is therefore encouraging that so many charities provide details of the year's activities in their Annual Report, although there is room for improvement among the 15% that provided little or no detail.

Information about activities in the Annual Review should not be used as a substitute for a basic level of accountability in the Annual Report. In addition to summarising the key results, it is good practice for the Annual Report to refer readers to where more information can be found. In our analysis, where the Annual Review did provide more information in this area, only 24% of Annual Reports gave a cross-reference to the relevant material.

## Expenditure

The three main types of charitable expenditure for the charities analysed were:

- Providing services (eg care/counselling) (47%).
- Providing financial assistance (eg grant awarding to individuals and/or organisations (20%).
- Providing buildings/facilities/open space (20%).

Most charities provided good notes to the Accounts to explain all their major sources of expenditure, although one or more explanatory notes were missing for 75 of the charities (38%).

We examined comment in the Annual Reports about unusual financial items such as a large deficit in a defined benefit pension scheme, large reorganisation costs and/or redundancy costs, or large one-off charitable expenditure. Of the 148 charities appearing to have such items:

- 46 (31%) of Annual Reports gave good detail to explain these matters.
- 32 (22%) gave some detail.
- 70 (47%) gave no details at all.

By contrast, a much higher proportion of Annual Reviews gave information on financial matters:

- 60% of the Annual Reviews gave headline figures that were not in the Annual Report.
- 35% gave financial ratios that were not in the Annual Report.
- 78% gave summarised financial information.

The charities in the survey had total outgoing resources for the year to 31 March 2003 of £7bn. It is extremely important that trustees are accountable for how that money is spent.

## Activities and achievements

### Impact

The impact of a charity's activities is of great interest to stakeholders as a measure of its effectiveness in applying its resources for public benefit.

- 16% of the Annual Reports explained in detail how the year's activities had benefited wider society.
- 34% gave limited information.
- 51% gave no details at all.

Analysis of the survey results by type of charity activity shows that:

- Charities classed as Conservation and Protection were better than average at demonstrating their benefit to wider society in their Annual Reports. 33% gave detailed information.

- None of the 20 charities in the Culture, Sports and Recreation category gave details in their Annual Report as to how their work benefited wider society.

Charity trustees need to regularly reassess how the activities of the charity impact on society and provide a public benefit. Anecdotal evidence suggests that more and more charities are starting to study this aspect of their work as a matter of routine and we would encourage this trend along with reporting on the issue in the Annual Report. Reporting on the impact of a charity's activities is not a Charities SORP requirement but it is a key part of best practice in transparency and accountability to which charities should be giving greater attention. Failure to comment on impact does not mean that trustees do not consider it, but may leave stakeholders with that impression.

#### A good practice example:

One charity we reviewed produced a detailed and informative "Impact Report" as part of its Annual Report and Accounts. This elaborated on the charity's strategic aims, translating them into impact measures and targets that stakeholders could then use when looking at its performance over the last year.

### Achievements against targets

Most charities set themselves targets for the year which may be related to finance or to activities. Monitoring achievements against these targets and reporting on progress is an important aspect of accountability that enables interested parties to judge how well the charity is doing.

- 30 charities (15%) had included good details in their Annual Reports on how actual achievements matched their plans.

- 88 (44%) had given limited information.
- 82 (41%) gave no details at all.

There was one significant variation from these findings. Only one Culture, Sports and Recreation charity out of 20 gave good detail on how its achievements compared to plans.

## Activities and achievements

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### *Achievement of reserves and investment policy targets*

- 80% of Annual Reports gave some details of performance against reserves policy, but 20% did not.
- 83 out of 178 of the Annual Reports of charities that had investments gave some comments on investment performance against targets, but 95 (53%) gave no comments at all.

We appreciate that the last year or two have been very difficult in the investment markets, but this does not justify reducing the level of transparency and accountability by failing to give a statement of policy and a statement of performance against it.

Reporting on performance against reserves policy targets is not a Charities SORP requirement but it is an important area of transparency and one in which there is room for improvement. The Annual Report can provide an overview with the details elsewhere; cross-referencing to sources of further information is good practice.

### *Subsidiary companies' achievements*

The Charities SORP requires that charities comment on the activities and achievements of their subsidiary companies. A significant number of Annual Reports did not do so.

The accountability of trustees applies to all parts of the charity; failure to report on the activities of a subsidiary means that

stakeholders are not informed about a potentially significant aspect of the charity's activities.

### **As best practice, trustees should:**

- Ensure that their Annual Report gives enough information about the charity's activities and achievements to comply with their SORP requirements and then either expand this or provide good cross-references to where the extra detail can be found.
- Ensure that their reporting of achievements covers the work of their subsidiary where relevant.
- Bear in mind that many of their stakeholders will not be experienced in interpreting Accounts and will look to the trustees to explain what the figures mean. Such explanation should be contained in the Annual Report, as required by the Charities SORP; where amplified in the Annual Review, a suitable cross-reference should be made.
- Indicate in their Annual Report that attention has been given to impact when reviewing the charity's strategy.
- Disclose in their Annual Report details of key targets that have been set for the year and performance against them.

## Activities and achievements

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### **An illustrative example:**

A charity that was selected for a review visit did not make much information to the public available about its aims and activities. This gave the impression that the charity might not be operating effectively.

During the visit it became clear that the charity was a very active and dynamic organisation and had simply failed to communicate this to its stakeholders, including the Charity Commission.

Charity Commission staff advised the trustees to make the rationale of the charity, how it operates and its success stories available via its Annual Report, on its website and in other documents so that the public could form a greater understanding of its work.

In this instance the work of a well-run charity was undermined by its failure to be fully accountable to its stakeholders.

Our review visits programme consistently identifies a number of charities which have demonstrated good levels of transparency in many ways, such as a detailed and informative Chair's Report, but which fail to comply with some of the basic Charity SORP requirements.

Trustees should provide in their Annual Report details on the benefit to society of the charity's activities and achievements. Demonstrating the public benefit provided by the charity is a key area of accountability.



# Organisational structure and processes

The robustness of management structures and significant internal processes of charities is vital to the effective delivery of their services. A key element of transparency and accountability is the ability of stakeholders to find out from the Annual Report and Accounts who the trustees are, how they have organised the charity and the key processes they use to run it. This chapter reviews the levels of disclosure by charities on these structures and processes.

## Details about trustees and committees

The Charities SORP requires that trustees provide "a description of the organisational structure of the charity and how decisions are made".

### *Who are the trustees?*

The Charities SORP requires each charity to state in the Annual Report the names of the trustees at the time the report was signed and throughout the financial year covered by the Annual Report. It also requires disclosure of other details relating to trustees, principally concerning the method of appointing them and who makes the appointment.

The trustees of a charitable company are appointed by its members. In some instances the members and the trustees may be the same people. To aid transparency, the Annual Report should provide complete clarity and full details on how the trustees are appointed.

### *Delegation to committees*

Many boards of trustees, particularly of larger charities, delegate some of their functions to committees. This can be a positive way of working: it allows more time to be devoted to matters delegated to the committee and enables non-trustees to be involved, thus broadening the spread of relevant expertise to help in decision-making.

Stakeholders should be able to ascertain which decisions are delegated and to whom so that they can tell how decisions are made.

### *Remuneration and expenses*

As a general rule, trustees may not be remunerated unless their governing document gives the power to do so or unless the prior permission of the Charity Commission has been obtained. The Charities SORP requires the remuneration paid to trustees to be disclosed and nature and amount of expenses reimbursed to trustees to be set out in the notes to the Accounts.

There is also a requirement to confirm that trustees have not been remunerated or that no expenses have been reimbursed.

- Only 3 out of the 200 charities failed to set out the required details concerning who the trustees were at the time the Annual Report was signed and throughout the financial year.

## Organisational structure and processes

- 39% gave full details of the process by which trustees are appointed and 40% gave some information.
- 22% gave no details about the appointment process for trustees at all.
- 53% provided some kind of details for their committees.

Inadequate information in these areas means that stakeholders do not know who is ultimately accountable for the charity's activities. This is a key area of transparency so the figure of 22% that provide no information about the appointment of trustees is not acceptable.

- 94% of charities provided the required information in their Annual Report about trustee remuneration and reimbursement of expenses.
- Very few made a statement to the effect that there had been no remuneration.

It is good to see that the majority of charities provide the required information about remuneration. We would like to see more charities going beyond the bare minimum requirements to provide complete clarity on trustee expenses and remuneration.

### Organisational structure

#### *Internal structures*

To judge the soundness of a charity's organisation, stakeholders need to see details of its structure (activities, divisions and departments) and of the chief executive and senior executives in charge of running each

activity/department/division. Stakeholders need this information to assess for example, whether a charity is run effectively or bureaucratically.

- 37% of the Annual Reports disclosed good details of the charity's organisational structure.
- 56% presented some details.
- 8% gave no details at all, thus failing to comply with the Charity SORP requirements.
- Few charities gave any extra details about their senior managers, eg background and qualifications.

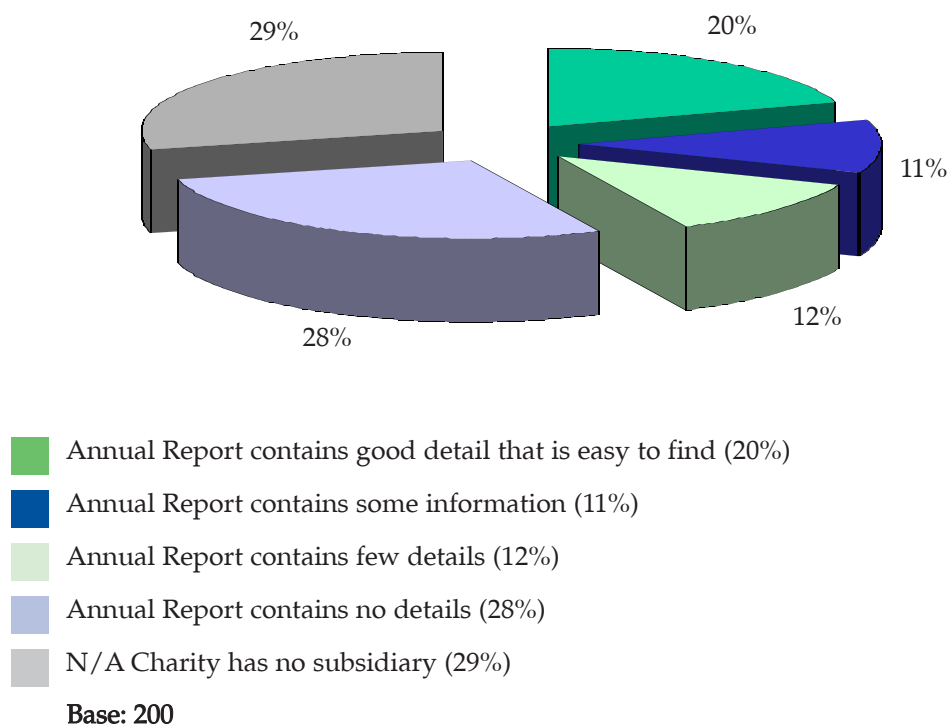
#### *Group structure*

A subsidiary company's performance is often a major factor in the whole charity's performance. Trustees are responsible for the operation of the whole group of organisations, so the Annual Report should:

- describe the group structure;
- describe the charity's internal structures; and
- explain the purpose of all significant subsidiaries.

The Charities SORP, Financial Reporting Standards (and the Companies Act, where relevant) require brief information concerning the subsidiaries to be disclosed in the Accounts. However, the Charities SORP calls for the Annual Report to comment on the subsidiaries' activities during the year. 76 (38%) of the charities analysed had a main source of income from trading, which is usually through subsidiaries. 140 of the 200 charities analysed had subsidiary or associated companies.

### Information provided about subsidiary companies in charities' Annual Reports



### *Partnerships with other organisations*

Charities often work in partnership with other charities and other types of organisation to deliver their charitable activity. These other charities and bodies may fall into the category of related parties (as defined in the Charities SORP and in Financial Reporting Standard 8). Transparency in describing a charity's structure dictates that the trustees should report on all major partnerships and

arrangements with other organisations - not just the financial aspects but their rationale, activities and achievements that help the charity to further its objects. We found that:

- 25% of the Annual Reports gave good details of their relationships with other organisations, where such a relationship existed.
- 88% gave good details about them in the notes to the Accounts.

### *Risk management*

Details of risk management are important aspects of transparency and accountability. Stakeholders should be able to ascertain from the Annual Report that all elements of risk in the charity have been identified and minimised.

The Charities SORP requires trustees to make a statement in their Annual Report about risk. Many charities meet this requirement but give the impression that they do so because they have to, instead of showing they have gone through a thorough process to support their statement.

- 74% (147) of the 200 charities made the required statement concerning risk and a further 46 made a statement that met some, but not all, of the requirements.
- 4% (7) of charities failed to make any statement at all, thereby failing to comply with the Charity SORP.
- 48% went beyond the basic statement and gave good additional details about the processes by which they regularly identify, monitor and manage risk.
- 8% gave a good explanation of the nature of some of the key risks that they faced.
- 24% commented on the charity's IT arrangements.

Charities increasingly depend on IT, so they face major risks if it does not perform effectively. Accountability to stakeholders is enhanced if details of the charity's major IT systems are provided.

Analysing the findings by the different categories of charity showed that Housing and Community Affairs charities gave much better than average additional disclosures on risk management. 65% of them gave good detail on how major risks are monitored and controlled (overall average 47%). This is likely to be because 16 of the 28 charities in this category are Registered Social Landlords, which are required to make a much more detailed statement on internal control by the RSL SORP than is required by the Charities SORP.

We found that the extent of comment on organisational structure, particularly on subsidiary and related organisations, was inadequate. There is considerable room for improvement to provide stakeholders with complete clarity about how these charities operate.

#### **As best practice, trustees should:**

- Consider whether providing details about senior managers and trustees such as their qualifications, other directorships/trusteeships and their particular area of expertise would add value for their stakeholders.
- Ensure that the Annual Report always includes details on how trustees are appointed as required by the Charities Act and the Charities SORP.
- Provide details about organisational structure, including subsidiaries.

# Disclosure of strategy, policies and plans

The Annual Report should show clearly how charitable objects are translated into actions. The charity's legal objects are normally expressed in very broad terms and it is not usually possible for trustees to address the whole range of activity permitted by them. A major element of the trustees' responsibility is to decide what specific activities the charity will carry out and the resources available for them.

This chapter focuses on disclosures by charities of their strategies, policies and plans to help deliver their charitable objects.

## Strategy and plans

A key element of accountability to a charity's stakeholders is the provision of information about the charity's strategy which encapsulates the specific areas of activity that the charity is focusing on within the parameters of its objects.

The Charities SORP does not explicitly call for details of a charity's strategy to be disclosed in the Annual Report; it requires disclosure of details of activities in the year in the context of the strategy. However, many charities include in their Annual Report details of the current strategy or mission statement (or both), including an assessment of how far their activities have met their aims.

The Charities SORP does require that the Annual Report includes comment on the plans for the charity's future. Trustees often take this a step further and include comments in the Annual Report on the financial health of the charity.

- 66 of the Annual Reports analysed (33%) gave good details of plans for the future.
- 105 (53%) gave some details.
- 29 (15%) gave no information at all, thus failing to comply with the minimum disclosure requirements of the Charities SORP.
- 61 (31%) gave details of the charity's financial health.

A partial explanation for any omissions is that these are the kinds of detail that charities prefer to disclose in Annual Reviews.

- 59 of the Annual Reviews we analysed (71% of available Reviews) included comments about the future that were additional to the information in the Annual Report.

More Social Services and Relief charities, and Religious charities, provided good details about future plans in their Annual Reports (50% and 42% respectively) than the average of 33%. Only 8% of Education, Training and Scientific Research charities provided good details about future plans in their Annual Reports but this was compensated for by a higher than average figure for disclosures in their Annual Reviews (89%).

A statement of a charity's plans is important so that stakeholders can see how the charity will continue to function. Too many of the charities analysed failed to provide this information and therefore failed to comply with the Charities SORP and to provide complete transparency for stakeholders about the position of the charity. It is good practice to provide

## Disclosure of strategy, policies and plans

further details in the Annual Review but not to use the Annual Review to substitute for information that is required in the Annual Report. Where the Annual Review does provide additional information the Annual Report should contain suitable cross-referencing.

### Policies

Trustees determine the key policies that the charity will follow to achieve its aims. Disclosure of this information in the Annual Report strengthens the charity's accountability to stakeholders by showing them how the trustees plan to raise and use resources.

### Reserves

- 66% of the 200 charities gave a good explanation of their reserves policy.
- 10% made no mention of it at all.
- 39% gave a good explanation of actual performance against their reserves policy and the steps they would take to bring performance into line with the policy.

42% of Housing and Community Affairs charities gave good detail on their reserves policies - 24% less than the average figure for all 200 charities in the survey.

Those charities that did not mention a policy at all are in breach of the Charities SORP and, if they are not limited companies, of the requirements of The Charities (Reports and Accounts) Regulations 2000.

The charities included in the analysis had total reserves at 31 March 2003 (excluding endowment funds) of £5.9bn and "free reserves" of £0.9bn. This is a significant sum for which the charities should be fully accountable. It is not acceptable for any of the charities in the analysis to fail to provide details of their reserves policy. We would encourage more charities to follow the example of the 38% that gave full details of their policy and their performance against it.

Charity Commission publications **Charity Reserves (RS3)** and **Charities Reserves (CC19)** give more information on reserves and are designed to improve the quality of reporting in this area.

### Investment

Where applicable a charity is required by the Charities SORP to state its powers of investment in the Annual Report.

- 41 out of the 200 (21%) charities stated their investment powers in their Annual Report.
- 70 (35%) explained their investment policy.

Such a high level of failure in Charities SORP compliance is not acceptable in charities of this size which could potentially hold significant resources in investments.

### Grants payable

Where applicable a charity is required by the Charities SORP to state its grant-making policy in its Annual Report.

## Disclosure of strategy, policies and plans

Trustees should provide more than a minimal statement in this area, especially where grant-making is a significant part of the charity's expenditure. Full details of a charity's grant-making policy give stakeholders a clear understanding of where the charity is spending its money and how those decisions are made.

- 148 of the 200 charities (74%) paid grants to beneficiaries.
- 33 of the 148 gave good details of their grant making policy in the Annual Report (22%), with a further 18 (12%) giving some details.
- 97 of the 148 (66%) gave no details at all.

It is disappointing that 66% of grant-making charities give no details of their grant making policy. It is a Charities SORP requirement that grant-making policies are disclosed and it is also a key element of transparency and accountability. 40 charities had grant making as their main source of expenditure, 12 of which (30%) failed to give any details of their grant-making policy in their Annual Report and Accounts.

Both the Annual Review and website of these charities (if applicable) were studied to see if they contained additional information.<sup>18</sup>

Additional information provided ranged from a detailed breakdown of grants awarded and the grant making policy to more general facts and figures. Two of the charities gave good or excellent details on their grant-making policy. Five gave a few details on their programme and the remaining five gave no details at all. The information was mainly presented as tables or graphs.

Only three of the 12 charities cross-referred from their Annual Report to the Annual Review or the website, a figure which was consistent with the whole sample group of 200.

The 40 charities whose main expenditure was grants should be much better at accounting for how they have distributed this money. As grant-making is the main focus of their operations, they are not being accountable or transparent unless they explain their policy to stakeholders.

### *Accounting policies*

The Charities SORP, Financial Reporting Standards, the Charities Act and Regulations and the Companies Act all require disclosure of a charity's accounting policies. The Annual Report should demonstrate to stakeholders that the trustees have reviewed their charity's accounting policies to ensure they are still the most appropriate and reflect the charity's current circumstances and most recent external requirements.<sup>19</sup>

<sup>18</sup> 3 of the charities did not have a website or produce an Annual Review.

<sup>19</sup> The findings of our analysis echo those of the Charity Finance Directors' Group, which states in its report "Inputs matter - improving the quality of reporting in the charity sector":

*"There needs to be more clear and full disclosure by charities of accounting policies, estimation techniques and bases of allocation/apportionment of costs, especially central costs, across the lines of the Statement of Financial Activities (SoFA). Detailed notes in the accounts should show how the stated policies have been applied."*

## Disclosure of strategy, policies and plans

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- 25% of charities had one or more significant accounting policies missing from their Annual Report. The most commonly missing policies were:
  - income from activities to further the charitable objects;
  - fees and grants receivable;
  - charitable expenditure; and
  - allocating indirect costs across expenditure headings.
- 14% commented in their Annual Report on whether accounting policies had changed.
- The accounting policies disclosed for charities that presented consolidated Accounts tended not to cover items in the SoFA that related to the subsidiary companies. They must do so where these items are material.

Disclosure of accounting policies for major balance-sheet items caused few problems. Omissions tended to occur in the SoFA. Trustees should take particular care that a policy is stated for the allocation of costs between the categories of expenditure in the SoFA.

Housing and Community Affairs charities were not good at disclosing these powers and policies (14% and 18% respectively), nor were Health and Medical charities (14% and 29% respectively). International Affairs charities were better, at 25% and 50% respectively, and Religious charities were well above average at 33% and 67% respectively.

Disclosure of accounting policies is a key part of transparency and accountability. Financial information about a charity is essential for stakeholders to whom the trustees are responsible for safeguarding the charity's assets and spending its resources. There is room for improvement in this area. While it is encouraging that some charities are providing information about changes to accounting policies, we would not expect to see a quarter of charities of this size with statutory information missing from their Annual Report.

### **As best practice, trustees should:**

- State their powers of investment in their Annual Report even where they do not have any investments or an investment policy.



## Disclosure of strategy, policies and plans

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- Make a statement in their Annual Report that they have reviewed their accounting policies. Most auditors require a representation from trustees to confirm that they have reviewed the accounting policies so it is a small step to make that information available to stakeholders.
- Include a comment about the charity's general financial health, which is particularly helpful, when linked to details of the funds available and the reserves policy, helping to put the charity's future plans into context.
- Disclose the major features of the charity's current strategy.

### **Illustrative examples of best practice include:**

The Annual Report of one grant-making charity gave a full list of its grants, with a detailed explanation of the purpose of each and background information to each decision.

The Annual Report also gave guidance on applying to the charity for assistance, showing further the trustees' understanding of the document's public character.

Another charity whose reserves policy was clearly set out helpfully explained the calculation used.

## Annex A - Research techniques and survey findings

The data used in this report was derived from a review of 200 Annual Reports, financial statements and the Annual Reviews of larger charities with a 31 March 2003 year-end.

In addition an independent research company interviewed 1000 members of the public to canvass their views on the level and type of information that charities make available to their stakeholders.

### Profile of charities in the survey

**Table 1: By type of charity**

Type of charity	Governing Instrument	Number	%
Limited company	Memorandum and Articles of Association	147	74
Incorporated under Royal Charter	Royal Charter	18	9
Trust	Trust Deed	23	11
Trust	Set up by Charity Commission Scheme	8	4
Trust	Established by Act of Parliament	3	2
Trust	Established by Deed Poll	1	-
			<b>Base: 200</b>

**Table 2: By type of guidance complied with**

Guidance complied with	Number	%
Charity SORP only	170	85
NHS guidance and Charity SORP	6	3
Registered Social Landlord SORP	23	12
Higher & Further Education SORP	1	1
		<b>Base: 200</b>

## Research techniques and survey findings

**Table 3: By activity**

Activity	Number	%
Business and professional	0	-
Civil rights, citizenship and law and order	6	3
Conservation and protection	9	5
Culture, sport and recreation	20	10
Education, training and scientific research	24	12
Health and medical	41	20
Housing and Community Affairs	28	14
International activities	12	6
Philanthropic intermediation eg grant making	4	2
Religion	12	6
Social services and relief	44	22
		<b>Base: 200</b>

**Table 4: By main source of income**

Main income source	Number	%
Donations, legacies and similar income	39	20
Membership income	2	1
Grants/fees from central or local government	73	37
Trading income	76	38
Investment income, including bank interest	5	2
Other	5	2
		<b>Base: 200</b>

## Research techniques and survey findings

**Table 5: By main type of charitable expenditure**

Main type of expenditure	Number	%
Providing financial assistance (eg grant awarding to individuals and/or organisations)	40	20
Providing buildings/facilities/open space	39	20
Providing services (eg care/counselling)	93	47
Providing advocacy/advice/information/education	14	7
Acting as an umbrella/resource body	1	-
Sponsoring or undertaking research	13	6
<b>Base: 200</b>		

**Table 6: By production of an Annual Review**

	Number	%
Annual Reviews available for this study	83	42
<b>Base: 200</b>		

## Filing the Report and Accounts

**Table 7: When did the charities file their Reports and Accounts?**

	Received by Charity Commission		Approved and signed by Trustees	
	Number	%	Number	%
May 2003	-	-	1	-
June 2003	-	-	16	8
July 2003	6	3	73	37
August 2003	8	4	19	9
September 2003	21	10	37	19
October 2003	17	9	18	9
November 2003	18	9	16	8
December 2003	26	13	9	5
January 2004	91	45	9	5
February & March 2004	13	7	1	-
Trustees' signatures not dated	-	-	1	-
<b>Base: 200</b>				

## Research techniques and survey findings

**Table 8: The stages leading up to the filing of Reports and Accounts**

	Average days	Longest period	Shortest period
Period from:	Days	Days	Days
• Financial year-end to approval of financial statements by trustees	154	308	52
• Approval by trustees to date on which auditors signed their report	5	91	0
• Auditors signing their report to filing of report and accounts with the Commission	93	234	3
<b>Total days (legal maximum 306)</b>	253		

\* Charities who did not submit signed accounts have been excluded

## The Annual Report

**Table 9: Presentation of Annual Reports**

	Yes Number	%	No Number	%
Is the Annual Report easy to read and navigate?	191	96	9	5
Does the Annual Report contain the following:				
• Self-explanatory graphs?	17	8	183	92
• Self-explanatory tables?	34	17	166	83
• Photographs?	20	10	180	90
				<b>Base: 200</b>

**Table 10: Disclosure of charity details**

	Yes Number	%	No Number	%
Did the Annual Report disclose the following:				
• Charity name	199	100	1	1
• Charity number	190	95	10	5
• Type of governing document	171	86	29	15
• Financial year end	196	98	4	2
				<b>Base: 200</b>

## Research techniques and survey findings

**Table 11: Required and best practice disclosures**

	Good detail, easy to find	Some information	A few details	No details	Not applicable
How good was the information provided in the Annual Report on the following:	Number	Number	Number	Number	Number
<b>(a) Aims and objects (required disclosures)</b>					
Statement of statutory objects of the charity	161 (81%)	19 (10%)	8 (4%)	12 (6%)	-
Explanation of aims and mission of the charity	152 (76%)	28 (14%)	15 (8%)	5 (3%)	-
<b>(b) Organisation (required disclosures)</b>					
List of trustees at year end and who served during the year	188 (94%)	9 (5%)	0	3 (2%)	-
Details of how trustees are appointed	78 (39%)	43 (22%)	35 (18%)	44 (22%)	-
Details of any body or person who can appoint the trustees	63 (32%)	44 (22%)	30 (15%)	63 (32%)	-
Description of organisational structure	74 (37%)	64 (32%)	47 (24%)	15 (8%)	-
<b>(c) Organisation (best practice disclosures)</b>					
Details of committees, their composition and their areas of activity?	56 (28%)	51 (26%)	38 (19%)	53 (27%)	2 (1%)
<b>(d) Relationships (required disclosures)</b>					
Statement of relationship with related parties	58 (29%)	38 (19%)	30 (15%)	35 (18%)	39 (20%)
Details of relationships with other charities and bodies	49 (25%)	37 (19%)	45 (23%)	62 (31%)	7 (4%)
<b>(e) Review of charity's and subsidiaries' activities (required disclosures)</b>					
Achievements for the year	126 (63%)	46 (23%)	15 (8%)	13 (7%)	-
Plans for the future	66 (33%)	47 (24%)	58 (29%)	29 (15%)	-
Narrative about the effectiveness of fundraising	61 (31%)	33 (17%)	42 (21%)	43 (22%)	21 (11%)
Narrative relating to the contribution of volunteers	31 (16%)	34 (17%)	33 (17%)	82 (41%)	20 (10%)
Information provided about subsidiary companies	40 (20%)	22 (11%)	23 (12%)	55 (28%)	60 (30%)
<b>(f) Finance (best practice disclosures)</b>					
Comment on major sources of income and expenditure	71 (36%)	69 (35%)	35 (18%)	25 (13%)	-
Comment on financial health	61 (31%)	63 (32%)	54 (27%)	22 (11%)	-
Comment on unusual items (eg large deficit on defined benefit pension scheme)	46 (23%)	17 (9%)	15 (8%)	70 (35%)	52 (26%)
Comment on accounting policies and any changes to them	27 (14%)	26 (13%)	26 (13%)	121 (61%)	-
<b>(g) Performance (best practice disclosures)</b>					
Does the Annual Report contain useful ratios?	72 (36%)	58 (29%)	44 (22%)	26 (13%)	-
Is there an explanation of performance of key ratios?	62 (31%)	58 (29%)	44 (22%)	36 (18%)	-
<b>(h) Reserves (required disclosures)</b>					
Explanation of the charity's policy on reserves	131 (66%)	33 (17%)	17 (9%)	19 (10%)	-
Comment on achievement of policy and action to be taken	77 (39%)	49 (25%)	33 (17%)	41 (21%)	-
Explanation of funds in deficit	17 (9%)	8 (4%)	8 (4%)	60 (30%)	107 (54%)
<b>(i) Investments (required disclosures)</b>					
Summary of specific investment powers	41 (21%)	19 (10%)	34 (17%)	106 (53%)	-
Explanation of the charity's investment policy	70 (35%)	28 (14%)	25 (13%)	61 (31%)	16 (8%)
Comment on performance of investments	37 (19%)	24 (12%)	22 (11%)	95 (48%)	22 (11%)
<b>(j) Grants (required disclosures)</b>					
Explanation of grant making policies	33 (17%)	8 (4%)	10 (5%)	97 (49%)	52 (26%)
<b>(k) Risk management (required disclosures)</b>					
Statement concerning reviewing risks	147 (74%)	24 (12%)	22 (11%)	7 (4%)	-
<b>(l) Risk management (best practice disclosures)</b>					
Explanation of major risks	15 (8%)	12 (6%)	28 (14%)	145 (73%)	-
Explanation of how major risks monitored/controlled	95 (48%)	42 (21%)	42 (21%)	21 (11%)	-
<b>(m) Internal processes (best practice disclosures)</b>					
Comment on staff and staffing levels?	60 (30%)	44 (22%)	44 (22%)	49 (25%)	3 (2%)
Comment on its property assets?	33 (17%)	25 (13%)	41 (21%)	96 (48%)	5 (3%)
Comments concerning the charity's IT and systems?	10 (5%)	20 (10%)	18 (9%)	152 (76%)	-
					<b>Base: 200</b>

## Research techniques and survey findings

**Table 12: Outcomes and impact described in the Annual Report**

	Explained detail	%	Limited information	%	No detail	%
To what extent does the Annual Report describe the following:	Number		Number		Number	
What charity has done to achieve its objects?	130	65	55	28	15	8
Details of how its achievements compare to its plans?	30	15	88	44	82	41
Explanation of the benefit of this year's activities to users?	73	37	71	36	56	28
Explanation of the benefit of this year's activities on wider society	31	16	67	34	102	51

**Table 13: Linkage between the Annual Report and other communication media**

	Charities producing these extra statements/ having a website	Annual Reports cross referring to the other statements/ website			
	Number (base)	Number - Yes	%	Number - No	%
If the Annual Report and Accounts booklet contains other statements (for example, a Chairman's statement) does the Annual Report refer to them?	49	24	49	25	51
If the charity produces an Annual Review, does the Annual Report cross-refer to it?	83	20	24	63	76
If the charity has a website, does the Annual Report refer to it?	188	39	21	149	79

## Research techniques and survey findings

**Table 14: Other comments on the Annual Reports**

	Number of charities
Annual Report and Accounts booklet contains much detail, but in reports other than Annual Report	60
Report clearly laid out, concise and helpful	49
Report very brief and uninformative	34
Report contains excellent detail on aims, plans, policies and strategy	33
Report very strong on impact and achievements	30
Report strong on financial matters	26
Report weak on financial matters	22
Report weak on impact of charitable activity	17
Some honest details about problems	15
Particularly good detail on charity structure and organisation	13
Poor detail on charity structure and organisation	6

## The Financial Statements

**Table 15: Key information in the financial statements**

	Yes	No	Not applicable
<b>Key transparency and accountability information</b>	<b>Number</b>	<b>Number</b>	<b>Number</b>
Is there an accounting policy for each major source of (consolidated) income, expenditure and balance sheet item?	143 (72%)	57 (29%)	-
Is there a note explaining the composition of each major figure in the (consolidated) SoFA and balance sheet?	125 (63%)	75 (38%)	-
Is there a note covering the amount of any remuneration to trustees, and the nature and amount of expenses reimbursed to them during the year?	187 (94%)	13 (7%)	-
Is there adequate disclosure of related parties, and transactions and balances with them, particularly expenses that would normally have to be borne by an organisation but which are not included in the SoFA?	130 (65%)	17 (9%)	53 (27%)
			<b>Base: 200</b>



## Research techniques and survey findings

**Table 16: Most frequent missing on inadequate accounting policies**

	Number of charities
Incoming resources:	
• Income from charitable activities	10
• Donations and sale of donated goods	5
• Legacies	3
• Fees/grants receivable	10
• Shop income and trading income	3
Outgoing resources:	
• Charitable expenditure	27
• Grants payable	3
• Operating costs/trading expenditure	10
• Allocating costs to SoFA categories	69
• Policy for allocating costs to SoFA categories inadequate	5

**Table 17: Most frequent missing or inadequate notes to the financial statements**

	Number of charities
Incoming resources:	
• Income from charitable activities	17
• Donations and legacies	16
• Fees/grants receivable	28
• Shop income and trading income	11
Outgoing resources:	
• Charitable expenditure	14
• Grants payable	4
• Shop expenses/trading expenditure	8
• Fundraising costs	3
• No analysis by type of expense, or inadequate analysis	20
• Nature or amount of trustees' expenses not disclosed	4
Other:	
• Inadequate explanation of purpose of funds	4

## Research techniques and survey findings

**Table 18: Other comments on the Accounts**

	Number of charities
Income not properly categorised in the SoFA	10
Expenditure not properly classified in SoFA	2
Mathematical errors in the accounts	3
Balance sheet and auditors' report not signed	9

## Annual Reviews

**Table 19: How visually interesting are Annual Reviews?**

	Yes	No
	Number	Number
Is the current Annual Review written in a more accessible style than the Annual Report?	69 (83%)	14 (17%)
Does the current Annual Report contain the following:		
• Self-explanatory graphs and tables?	65 (78%)	18 (22%)
• Quotations from beneficiaries?	55 (66%)	28 (34%)
• Photographs?	90 (96%)	3 (4%)
<b>Base: 83</b>		

**Table 20: Annual Review basics**

	Yes	No
	Number	Number
Is the current Annual Review written in a more accessible style than the Annual Report?	69 (83%)	14 (17%)
Does the current Annual Report contain the following:		
• Self-explanatory graphs and tables?	65 (78%)	18 (22%)
• Quotations from beneficiaries?	55 (66%)	28 (34%)
• Photographs?	90 (96%)	3 (4%)
<b>Base: 83</b>		

## Research techniques and survey findings

**Table 21: How informative was the Annual Review?**

	Information additional to Annual Report	Information duplicates Annual Report	No information
<b>Does the Annual Review provide information on:</b>	<b>Number</b>	<b>Number</b>	<b>Number</b>
Financial ratios	29 (35%)	32 (39%)	22 (27%)
Headline figures	50 (60%)	26 (31%)	7 (8%)
Impact information	78 (94%)	4 (5%)	1 (1%)
Outcome information	77 (93%)	5 (6%)	1 (1%)
Future plans	59 (71%)	9 (11%)	15 (18%)
			<b>Base: 83</b>

**Table 22: What was the perceived purpose of the Annual Review?**

(Note: Some reviews appeared to have more than one purpose)

	Yes	No
<b>Apparent purpose of Annual Review</b>	<b>Number</b>	<b>Number</b>
Fundraising	35	48
General publicity	64	19
Enhancement to the Annual Report	37	46
		<b>Base: 83</b>

**Table 23: General perceptions and comments**

	Number of charities
Annual Review much easier to read than the Annual Report	8
Annual Review more informative than the Annual Report	12
Annual Review fills in gaps in the Annual Report	15
Annual Review very long/heavy reading	4
Good use of individual cases to illustrate activities/outputs	7
Confusion caused because Annual Review entitled "Annual Report" even though a separate Trustees' Annual Report existed	4
Annual Review very long and very heavy reading	4
Annual Review on website not for same year as Annual Report and Accounts	10

## Research techniques and survey findings

### Other measures to enhance transparency and accountability

**Table 24: Other measures in place to enhance transparency and accountability**

Reference made by the charity in its Annual Report or Annual Review to the following:	Number of charities
Website	57 (29%)
Newsletter	23 (12%)
Helpline, customer service centre, mini-cam, e-mail, telephone service, text messaging	12 (6%)
Availability of publications, fact sheets, research papers	8 (4%)
Documents such as Corporate Plan, and Annual Review on CD, available on request	8 (4%)
Regular meetings with volunteers, advisory groups, tenants etc	3 (2%)
	<b>Base: 200</b>

### Results from a survey of the public

**Table 25: Respondents were asked how important they thought it was for charities to provide the following information. Respondents used a scale of 1 to 5 where 5 = very important, 1 = not at all important and 3 = neither important nor unimportant. The mean results from 1000 responses are shown below.**

Mean score	Information
4.43	Which charitable activities the charity has spent its money on
4.41	What the charity has achieved (ie the impact on society of the work they have undertaken)
4.14	The amount of money the charity spends on raising money (including the cost of fundraising staff)
4.10	The cost of the charity's administration (including staffing costs)
3.95	The charity's financial policies (eg investment policies and reserves)
3.87	How decisions are made in the charity and who makes them
3.80	Where the charity gets its income from (eg from donors/grants/investments/fees etc)
3.40	The charity's registration number

**NOTE:** In some instances percentages add up to more than 100% due to rounding up.

## Annex B - Glossary of terms

**Transparency and Accountability:** For the purposes of this report we interpret transparency and accountability as providing relevant and reliable information to stakeholders in a timely manner that is free from bias, comparable, understandable and focused on stakeholders' legitimate needs. This means that the information provided is capable of being understood by users with a reasonable knowledge of business, economic activities and accounting and a willingness to study the information with reasonable diligence.

**Accounting policies:** the principles, bases, conventions and rules by which transactions are recognised, measured and presented in the accounts.

**Accounts:** the statement of accounts produced annually by a charity in compliance with the Charities Act 1993 or the Companies Act 1985 and the Charities SORP. Usually they comprise a Statement of Financial Activities, a Balance Sheet, a Cash Flow statement (where required), a statement of accounting policies and other notes. When audited, they have attached to them an auditors' report.

**Achievements:** something accomplished by the charity.

**Activities:** anything done using resources belonging to the charity or under its control, and including all its work and services.

**Aims:** describe the changes the charity plans to achieve, or the differences it wants to make.

**Annual Report:** A report produced annually by the trustees of a charity, in compliance with legal requirements and the requirements of the Charities SORP, to provide legal and administrative details relating to the charity and to describe what it is trying to do and how it is going about it.

**Annual Review:** A review of a year's activities produced by a charity in addition to its Annual Report. They are frequently more promotional in nature and may be more descriptive and less focused on performance reporting and linking to financial information. Others may provide detailed performance information relating to particular services and may include financial summaries.

For the purposes of this project an 'Annual Review' is any document that is:

- designed to give an overview of the charity's activities, usually a summary of financial information, achievements and changes etc (ie it does not just report on one area exclusively, such as research or fundraising effectiveness);
- published in addition to documents produced to fulfil the charity's statutory obligations (although the review may contain extracts from that information); and
- made widely available.

**Beneficiaries:** persons, people or bodies who may benefit under charitable trusts.

**Impact:** the broad, longer-term effects of the charity's work.

**Indicators:** well-defined, easily measurable information, which shows how well the charity is performing.

## Glossary of terms

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**Inputs:** the resources and activities that are used in the charity to create the services offered, for example, staff and volunteers' time, use of equipment etc.

**Mission statement:** a short statement of the purpose of the charity, sometimes called an overall aim.

**Objectives:** the practical steps the charity will take to accomplish its aims.

**Outcomes:** the changes, benefits, learning or other effects that happen as a result of the charity's services or activities.

**Outputs:** the activities, services and products provided to users. They show the volume of work undertaken, representing the direct products of the charity arising from its activities.

**Performance management:** the use of performance measurement information to help set and report on performance goals.

**Plan:** a written description of the steps the charity will take to achieve certain things.

**Services:** the goods, information and activities the charity provides for its users.

**Stakeholder:** any person, group, or organisation that has an interest in, or expectation of the charity.

**Strategic plan:** covers the vision for the future of the charity and outlines the steps necessary to achieve this over a period of time, often three to five years.

**Strategy:** a planned way of achieving long-term aims.

**Trends:** show changes over time; can be used to plan future services.

**Users:** anyone who uses or benefits from a charity's services or facilities, whether provided on a voluntary basis or as a contractual service.

# Annex C - Requirements for preparing and filing Annual Reports and Accounts

## Preparation

All registered charities in England and Wales are required to produce annual financial statements and an Annual Report and file them with the Charity Commission, unless the charity falls below the minimum size criteria set out in the Charities Act 1993 - having gross income and total expenditure of £10,000 or less. In addition, any charity that is a limited company must also prepare and file a directors' report and annual financial statements at Companies House. A charity that also falls within the scope of another regulator (for example, a Registered Social Landlord, which is regulated by the Housing Corporation) is usually required by that regulator to prepare and file an Annual Report and Accounts. So whichever category a charity falls into, unless it is very small, preparing and filing an annual trustees'/directors' report and financial statements is a universal requirement.

## Filing time limits

The time limits for filing the Annual Report and Accounts are also very similar between regulators. Registered charities must file their Annual Report and financial statements with the Charity Commission within ten months of the end of the financial year. A similar timescale exists for charities that are companies for filing these documents at Companies House. So for the 200 charities surveyed as part of this project, each of which had a 31 March 2003 financial year-end, the last filing date was 31 January 2004.

## Form and Content

The minimum content of Trustees Annual Reports for charities in England and Wales is determined by Regulations issued under the Charities Act 1993. The Charities SORP ('Statement of Recommended Practice: Accounting and Reporting by Charities') provides some additional recommendations. Charitable Companies must also produce a directors' report though this may be combined with the Trustees Annual Report to reduce duplication of information.

The format and content of charity financial statements is determined by the legislation under which the charity is constituted. Charities that are companies must comply with the accounting requirements of Companies Act 1985, and non-company charities must largely comply with requirements of the Charities Act 1993 and associated Reports and Accounts Regulations.

Both company and non-company charities preparing accruals accounts must prepare accounts that give a true and fair view. In order to do this the accounts must follow relevant accounting standards and any statement of recommended practice (SORP) that relates to the charity. A SORP is a document that provides the appropriate interpretation of accounting standards for the type of organisation concerned. Most charities are subject to the Charities SORP, though there are also SORPs for Registered Social Landlords, Authorised Funds (unit trusts) and Further and Higher Educational Institutions.

Accordingly the Charity Commission expects that charities will adhere to the SORP relevant to their circumstances.

### Scope

The above requirements apply to charities' Annual Reports and financial statements, effectively providing a minimum standard. But there are virtually no requirements applying to any additional material issued by a charity to report on its performance, such as a "glossy" Annual Review or material available on a website, unless they contain summarised financial statements. Where they do so, the SORP provides guidance on the form and content of the summarised financial statements and the Auditing Practices Board has issued Bulletins entitled "The auditors' statement on the summary financial statements" (Bulletin 1999/6) and "The electronic publication of auditors' reports" (Bulletin 2001/1).

The Commission's publication CC59 ("Reporting the Activities and Achievements of Charities in Trustees' Annual Reports") states that:

*"Whilst trustees might usefully refer to these other sources of information within their Annual Report such information should not be seen as a substitute for good annual reporting. The Annual Report, if it is to succeed, needs to be a coherent document that not only meets the requirements of SORP and the Regulations but also provides the necessary link with financial reporting."*



## Annex D - Bibliography

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