



Accounts Monitoring Review

The quality of small charity accounts

About our accounts monitoring reports

Charities' accounts are publicly available on [GOV.UK](https://www.gov.uk). Each year, we monitor a sample to check compliance with the Charities Statement of Recommended Practice (SORP) and to identify issues of regulatory concern. We are publishing a series of reports on our findings, which will help trustees to manage the risks that their charity faces, improve reporting standards and to enhance the accountability of charities to their donors, beneficiaries and the public.

The scope and purpose of this review

We have previously reported on the quality of charity accounts, based on a review of the accounts filed with us by charities with incomes over £25,000. This review complements it by considering the quality of the accounts prepared by charities with incomes of less than £25,000, which we have called small charities. Although small charities account for only 1% of the sector's income, they represent more than 60% of charities on our register. Our assessment of accounts quality is based on how useful the set of accounts is to the users of those accounts rather than on strict technical compliance with the SORP. The vast majority of small charities can choose to prepare simple receipts and payments accounts and so do not need to use the SORP. A full explanation of our methodology is provided in the appendix.

All registered charities must produce the following documents within 10 months of their financial year end:

- their trustees' annual report (annual report)
- their accounts

Charities with an income of £25,000 or less are not required to file their annual report and accounts with us when they complete their annual returns. They must still make them publicly available, for example by putting them on their website. Small charities are not required to arrange for an independent scrutiny of their accounts, unless specified by their governing document.

How we carried out the review

In September 2015 we selected a random sample of 108 charities that had reported incomes less than £25,000 in their annual returns for accounting years ending during the 12 months to 31 March 2014. This is the same period as that covered by our review of the quality of charity accounts. We then contacted these charities to obtain a copy of their annual report and accounts. The sample size means that our findings are statistically representative of the annual returns filed with us by small charities for this period. However, as with all samples, our results include a margin of error. We have selected the sample in the same way as we did in the previous year and so we can measure whether the quality of accounts has improved over time.

What we found

The percentage of accounts that were of acceptable quality

The results of our assessment are summarised in the table.

Period ended/% of accounts assessed	2012-13	2013-14
Accounts of acceptable quality	47%	47%

We found that just under half of the accounts that we reviewed in both years met a set of basic criteria and so were of acceptable quality. This is consistent with an earlier study where we found that 49% of the accounts that we reviewed were of acceptable quality. It is disappointing that the results suggest that the quality of small charity accounts is not improving over time. Their quality is also consistently much lower than those produced by those charities required to file with us, where 68% of the 2012-13 sample and 77% of the 2013-14 sample submitted accounts of acceptable quality.

We obtained responses from all of the charities in our sample. The documents that were provided to us varied widely in both quality and style of presentation, from single pages to independently examined sets of accounts that met the standards required of much larger charities. However, 8% of the charities in this year's sample and 6% in last year's did not provide either of the requested documents to us. Several more only did so after we had explained the requirements to them. It is therefore likely that some of the documents that we reviewed were only prepared because we asked for them.

This suggests that some trustees of small charities are not aware that they are required to prepare sets of accounts in addition to completing an annual return. While small charities have been relieved of the administrative task of filing their annual report and accounts with us, they have not been relieved of their legal responsibility to produce them.

Our findings on each of the annual report and the accounts are analysed in the following sections. We then comment on other regulatory issues that we identified.

The annual report

We started by checking whether the charity had submitted an annual report or some other form of narrative report, usually a chair's or treasurer's report to the annual general meeting or notes of that meeting. The results are shown in the table.

Criteria/% of accounts assessed	2012-13	2013-14
Charities submitting an annual report	52%	62%
Charities submitting another narrative report	17%	22%
Charities not submitting any narrative report	31%	16%
Total	100%	100%

It is encouraging that most small charities are carrying out some form of annual review of their activities and that more are doing so than last year. However, the trustees of many small charities do not appear to be aware of their legal obligation to prepare an annual report and to make it available for public inspection.

Our reviews of the content of the reports submitted concentrated on whether they explained:

- what activities the charity had carried out during the year to achieve its purposes
- its policy on holding reserves

The results are shown in the table.

Criteria/% of accounts assessed	2012-13	2013-14
Charities including a statement of their activities to carry out their purposes	60%	61%
Charities including a reserves policy	23%	28%

Most of the charities that provided some form of report to us had included information on their charitable activities within it. This includes some of those that submitted a chair's statement or other report, if the charity's objectives were clear from its name and the charitable activities were covered. However, these reports failed to provide all the other information that is required in an annual report, in particular a reserves policy. A chair's statement or notes of an annual general meeting does not constitute an annual report.

Virtually all of the charities that had included a reserves policy also covered their activities to carry out their purposes, indicating that the trustees had a good understanding of the annual report requirements.

The accounts

Unlike the annual report, nearly all of the charities that sent documents to us provided some form of accounts. In total, 12% of this year's sample did not provide us with accounts, compared with 7% the year before.

Our reviews of the accounts concentrated on whether they met a basic integrity standard. This was that the accounts contained both of the prime statements, the statement of financial activities and balance sheet (if accruals accounts) or a summary of receipts and payments and statement of assets and liabilities (if receipts and payments accounts), and that their closing balances agreed with, or reconciled to, each other.

The results of the integrity check are shown in the table.

Period ended/% of accounts assessed	2012-13	2013-14
Accounts meeting the integrity standard	74%	70%

The samples contained a wide range of approaches to presenting financial information, some of which were unnecessarily complex or unclear, but it was encouraging to find that a large majority of the accounts submitted contained the required prime statements and were internally consistent. Virtually all of the accounts included either a receipts and payments account or an income and expenditure account in some form. However, some failed the integrity check because they had either not included a balance sheet/ statement of assets and liabilities in their accounts or these were not consistent with the statement of financial activities/ receipts and payments account.

Other matters of interest

As well as measuring accounts quality, we used our samples of charity accounts to consider the following questions of wider regulatory interest.

- Did the annual return income figure agree to the accounts?

The income and expenditure figures that charities provide in their annual returns are the only financial information that we require small charities to routinely submit to us. The figures are publicly available on [GOV.UK](https://www.gov.uk) and the income figure determines whether or not a charity has to file its accounts with us.

We found that 9% of charities in this year's sample and 7% of charities in last year's had reported a significantly different income figure in their annual return than the income or receipts shown in their accounts. The reasons included poor quality accounts and input errors, such as reporting the previous year's figure or including the brought forward bank balance. One of the charities in this year's sample should have reported an income over £25,000 on their annual returns and filed an independently examined set of accounts with us.

We could not carry out this check for 13% of charities in this year's sample and 18% of those in the previous year's, either because they did not provide us with accounts, or because the accounts they sent were for a more recent financial year than their last annual return.

- Were the accounts of charities that had submitted their annual returns late of poorer quality than those that had submitted on time?

In each year, 91% of the charities in our samples submitted their annual returns on time. The late submission of annual returns by a charity is an indicator of poor governance arrangements. The numbers involved are small, but 50% of the late filers' accounts were of acceptable quality in each year, similar to the 47% that we found for all of the small charities in the samples.

- Were charities arranging for an independent scrutiny of their accounts?

16% of the charities in this year's sample and 15% of last year's provided an independent examiner's report with their annual report and accounts. A further 21% provided some other form of scrutiny report, usually a simple statement. Small charities do not have to have an independent scrutiny of their accounts, unless required to do so by their governing document. Again, the numbers involved are small, but the accounts of those charities that had opted for an independent examination were of much higher quality than the others. 88% of the independently examined accounts in this year's sample were of acceptable quality and 94% of last year's. Both figures compare very favourably to the overall 47% rating.

- Were charities using our templates for the annual report and accounts?

We publish guidance on [GOV.UK](https://www.gov.uk) to assist trustees on the preparation of the annual report and accounts. This includes templates for the annual report and for both receipts and payments and accruals accounts. They provide a useful structure for preparing documents that meet the reporting requirements. 6% of the charities in this year's sample had used our templates for both their annual report and their accounts. Another 1% used just an accounts template and a further 12% used just the annual report template. Once again, we are dealing with small numbers, but the accounts prepared using our templates were of higher quality than the others. 71% of the sets of accounts prepared using both of the templates were of acceptable quality. The figure falls to 60% when the sets of accounts where only one template had been used are included. Invariably it was deficiencies in the other document that led to the set of accounts failing to meet the standard.

What action we took

We will require the charity that had incorrectly reported its income as less than £25,000 on its annual returns to resubmit the annual return with an independently examined annual report and accounts. We are also contacting another charity that is paying a salary to one of its trustees in contravention of its governing document.

We have provided guidance to the trustees of the charities that did not submit accounts of acceptable quality. This should enable them to prepare future sets of accounts to an acceptable standard. We have also provided guidance on closing a charity to those charities that appear to be inactive.

We will be including an article in CC News to highlight the key messages from this review and our guidance to help trustees meet their reporting requirements. CC News is the commission's quarterly online newsletter, which is sent to all charity contacts and trustees on our register for whom we have an email address.

Lessons for other charities

Charities must by law prepare an annual report and accounts and make them publicly available. The annual report and accounts provide an opportunity for the trustees to demonstrate to the charity's supporters, potential funders and the public that they have managed its resources effectively and are meeting its objectives.

As noted in the body of the report, we have produced extensive guidance to assist trustees on the preparation of the annual report and accounts. This includes a pro-forma annual report and both receipts and payments and accruals accounts (SORP 2005). These provide a useful structure for preparing documents that meet the reporting requirements. This guidance can be downloaded from [GOV.UK](https://www.gov.uk).

Appendix 1: how we carried out the review

Sample selection

In September 2015, we selected a random sample of 108 charities that had reported incomes of less than £25,000 in their annual returns for their accounting years ending during the 12 months to 31 March 2014. This approach enabled us to cover a complete annual return cycle and allowed sufficient time for the charities that had filed late to be included in the population. It also mirrors the time period covered by our review of the quality of the accounts prepared by charities with incomes of more than £25,000. A random sample of 96 is sufficient for us to be confident that, if we had reviewed all of the accounts prepared by charities which reported incomes less than £25,000 in that year, the percentage that we assessed as being of acceptable quality would lie within 10 percentage points either side of our results.

Obtaining copies of the annual report and accounts

Charities that report an income of less than £25,000 on their annual return are not required to file their annual report and accounts with us. Indeed, our online filing system will not permit them to do so. To obtain copies of these documents, in September 2015 the accounts monitoring team sent an automated email to each charity's correspondent, explaining the requirements and asking them to provide us a copy of the charity's most recent annual report and accounts. In October 2015 the team sent an automated email reminder to the correspondent and all trustees for whom we had an email address of the charities which had not responded. In November 2015, final reminders were sent by letter to the correspondent and all the trustees of the remaining charities from whom we had no response. The letter warned the trustees that failure to reply to us would result in their charity being named in this report and that we may take other regulatory action. At each stage of the process, explanations and guidance were provided to those charities that responded with questions about our request.

Measuring 'acceptable quality'

The definition of what constitutes 'acceptable quality' in the context of a set of accounts is a matter of judgement. We have based our assessment on how useful the accounts are to the users of those accounts, principally funders and financial supporters, rather than on strict compliance, where accruals accounts are prepared, with the SORP's requirements. Our emphasis is on whether a charity's annual report and accounts taken together demonstrate how the trustees have discharged their duty to use the charity's resources responsibly to achieve its purposes.

This approach reflects both The Financial Reporting Council's 'Statement of Principles for Financial Reporting: Interpretation for Public Benefit entities (June 2007)' and the findings of the Ipsos MORI research report into public trust and confidence in charities (June 2014).

We checked whether the documents submitted met a minimum compliance standard and were complete, transparent and internally consistent. The criteria are listed in the table.

Assessment criteria

Trustees' annual report (annual report)
Has an annual report been submitted?
Does the annual report explain what the charity was there to achieve (its purposes) and what it had done during the year to carry out those purposes (its activities)?
Does the annual report explain the charity's reserves policy?
The accounts
Have accounts been submitted?
Have the statement of financial activities and balance sheet (if accruals accounts) or receipts and payments account and statement of assets and liabilities (receipts and payments accounts) been completed and can their closing balances be reconciled to each other?

The assessment of whether a set of accounts was of acceptable quality was an overall judgement based on reading the annual report and accounts as a whole. The results from the individual criteria informed the overall judgement, but the only criteria that had to be met were that both of the annual report and accounts had been submitted in some form.