



Accounts Monitoring Review

Do small charity annual reports and accounts meet the reader's needs?

Summary

More than 103,000 registered charities have incomes below £25,000. Except for Charitable Incorporated Organisations, charity law does not require these small charities to file their trustees' annual report (annual report) and accounts with us, but they must produce these documents and make them publicly available. The purpose of the annual report and accounts is to tell the reader what the charity is set up to do, what it achieved and how it spent its money. We contacted the trustees of a sample of 109 charities to obtain their annual report and accounts from them. Just over half of the documents received provided basic information on their charitable activities and how the trustees had used the charity's money. A quarter of charities sent either just one of the 2 required documents or did not provide either of them. This indicates that all too many trustees of small charities remain unaware of their legal duty to prepare a trustees' annual report and accounts.

About our accounts monitoring reports

Charities' accounts are publicly available on **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.

Why are we reviewing the accounts of small charities?

All registered charities are required to produce a trustees' annual report (annual report) and accounts each year and to make them publicly available. Except for Charitable Incorporated Organisations, those with incomes of less than £25,000 are not required to file their annual report and accounts with us when they complete their annual returns. Although small charities as we have defined them account for only 1% of the sector's income, they represent 62% (103,000) of the charities on our register. We are reviewing small charities' annual reports and accounts because they are the prime means by which the trustees are publicly accountable to donors, beneficiaries and the wider public for the charity's activities and how they have used the charity's money. Good reporting is important to public trust and confidence in both the reporting charity and the wider charity sector.

How do we assess whether accounts meet the needs of readers?

The focus of our assessment was on whether each set of accounts met the basic requirements of the users of those accounts rather than on strict technical compliance with the reporting requirements. We based our view of the user's requirements on the Populus survey of public trust and confidence (June 2016). Populus

found that ‘ensuring that a reasonable proportion of donations make it to the end cause’ and ‘make a positive difference to the cause they work for’ remain the most important factors driving public trust and confidence in charities. Populus also concluded that the public ‘show a clear preference for charities that satisfy their needs for transparency and impact’.

This led us to focus on the following criteria:

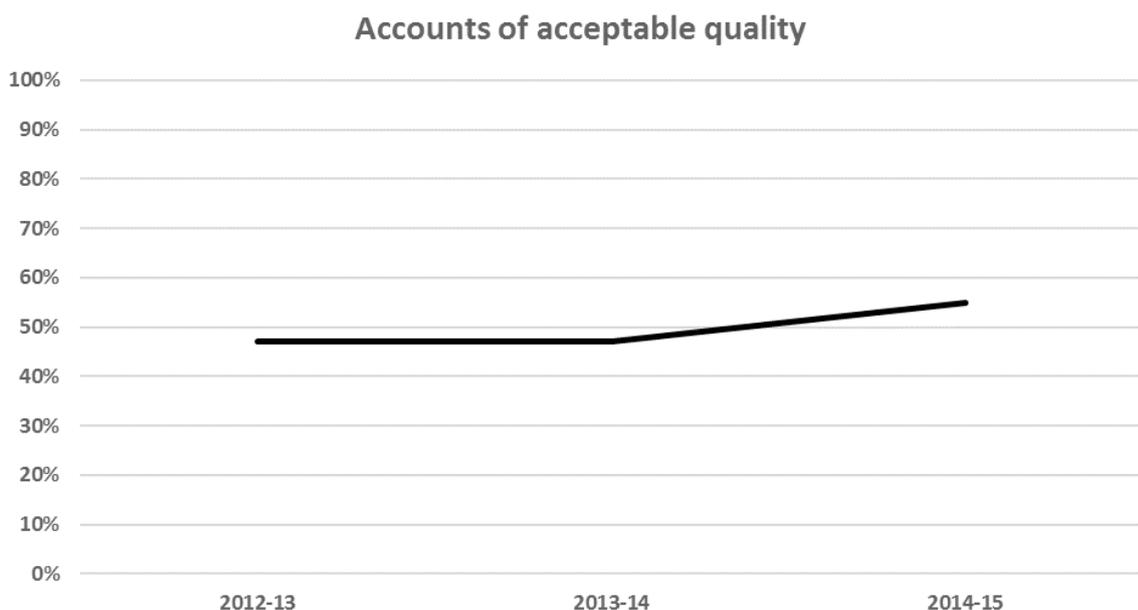
- have the trustees provided us with both an annual report and accounts?
- does the annual report explain what activities the charity had carried out during the year to achieve its purposes?
- do the accounts contain both an analysis of receipts and payments and a statement of assets and liabilities and are these consistent with each other (or the equivalent if accruals accounts (also known as SORP accounts) were prepared)?

A full explanation of our methodology is provided in the appendix.

How did we obtain the accounts?

In June 2016, we selected a random sample of 109 charities that had reported incomes less than £25,000 in their annual returns for accounting years ending during the 12 months to 31 March 2015. We contacted these charities to obtain a copy of their annual report and accounts, sending reminders and further guidance in many instances. As with all samples, our results include a margin of error. It should be noted that many charities sent us more recent sets of accounts. It also likely that some of the accounts had been prepared only because we had asked for them.

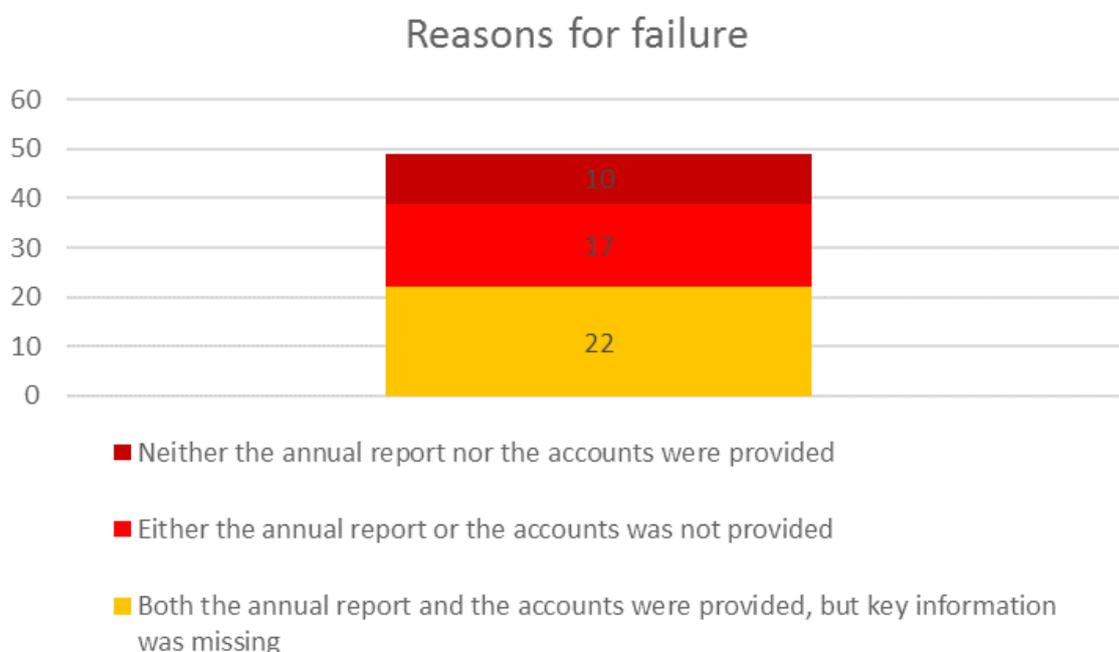
What did we find?



55% of the accounts were of acceptable quality, in other words they met the basic standard that we had set. The results imply a modest improvement in the quality of reporting compared with the 47% achieved in the previous 2 years. However, the improvement falls within the margin of sampling error and so for us to conclude that standards are indeed rising, this will need to be maintained in future surveys.

The charities that met our basic standard had provided both an annual report that covered their objectives and charitable activities and accounts that were complete, understandable and internally consistent. We assessed the documents provided on the basis of their content, rather than on what they were called. Therefore, this group includes a handful of charities that provided useful information in what appeared to be reports from their annual general meeting. However, we would emphasise that these documents do not constitute a trustees' annual report.

The reasons why 45% of our sample (49 charities) did not meet our basic standard can be summarised into the 3 categories illustrated and discussed in the sections that follow.



Both the annual report and the accounts were provided, but key information was missing

The trustees of these 22 charities had recognised their responsibility to carry out an annual review of its activities and to prepare accounts. Half of these charities did not meet our basic standard because they sent us what appeared to be papers from their annual general meeting, rather than an annual report, and these papers did not explain the charity's objectives and/ or the activities that the charity had carried out to achieve them. Six charities that had sent us annual reports also failed to cover the charity's objectives and/ or activities in their reports. The other 5 charities in this group provided incomplete accounts that did not include information on their assets and liabilities.

Either the annual report or the accounts were not provided

Three quarters of the 17 charities in this group did not provide any form of annual report. The remainder did not provide any accounts, although they did include limited financial information in their annual reports.

Neither the annual report nor the accounts were provided

We received some form of response from all 109 charities. We have assumed that the 10 charities that did not send us any documents did not prepare them, although one of these charities reported an income over £25,000 the following year and filed that year's accounts online. The main reasons why no accounts were prepared appeared to be either that the charity carried out little or no activity or that the trustees believed that the annual report and accounts were the same thing as the annual return.

What action we took

We have provided guidance to the trustees of the charities that did not submit accounts of acceptable quality and also to those that did, but had not completed an annual report. We have also provided guidance on closing a charity to those charities that stated that they are no longer active.

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

We want to remind trustees that all registered charities must prepare an annual report and accounts and make them publicly available, even if they are not required to file them with us. More positively, the annual report and accounts provide an important opportunity for the trustees to take stock of what the charity has achieved over the last year and to demonstrate to its supporters, potential funders and the public that they have managed its resources effectively and are meeting its objectives.

We have produced extensive guidance to assist trustees on the preparation of their charity's annual report and accounts. This includes pro-formas of both the annual report and the accounts. These provide a useful structure for preparing documents that meet the reporting requirements. Although only 11% of the charities in the sample had used our pro-formas, 83% of those sets of accounts met our basic standard. This demonstrates that if the pro-forma report and accounts are used then the standard of reporting is much improved. Our guidance can be downloaded from **GOV.UK**.

Appendix 1: how we carried out the review

Sample selection

In June 2016, we selected a random sample of 109 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 2015. 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. 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. However, it should be noted that many of the charities sent us more recent sets of accounts than those for the year that we had selected.

Obtaining copies of the annual report and accounts

Except for Charitable Incorporated Organisations (CIOs), charity law does not require charities that report an income of less than £25,000 to file their annual report and accounts with us. Our sample included one CIO. To obtain copies of these documents, in June 2016 the accounts monitoring team sent an automated email to each charity's correspondent, explaining the requirements and asking them to provide us with a copy of the charity's annual report and accounts. This was followed, where necessary, firstly by an automated email reminder to the correspondent and all trustees for whom we had an email address of the charities which had not responded and finally by a letter to them. At each stage of the process, explanations and guidance were provided to those charities that responded with questions about our request. Therefore, it is likely that some of the sets of accounts provided had been prepared only because we had asked for them.

Measuring 'acceptable quality'

The definition of what constitutes 'acceptable quality' in the context of a set of accounts is a matter of judgement. The focus of our assessment was on whether each set of accounts met the basic requirements of the users of those accounts rather than on strict technical compliance with the reporting requirements. We based our view of the user's requirements on the Populus survey of public trust and confidence (June 2016). Populus found that 'ensuring that a reasonable proportion of donations make it to the end cause' and 'make a positive difference to the cause they work for' remain the most important factors driving public trust and confidence in charities. Populus also concluded that the public 'show a clear preference for charities that satisfy their needs for transparency and impact'.

This led us to focus on the following criteria:

| Trustees' annual report (annual report) |
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| Has an annual report been submitted in some form? |
| Does the annual report explain what the charity was there to achieve (its purposes)? |
| Does the annual report explain what the charity had done during the year to carry out its purposes (its activities)? |

| The accounts |
|---|
| Have accounts been submitted? |
| Do the accounts include either a receipts and payments account (if receipts and payments accounts) or a statement of financial activities (if accruals accounts)? |
| Do the accounts include either a statement of assets and liabilities (if receipts and payments accounts) or a balance sheet (if accruals accounts)? |
| Do the closing balances on each statement reconcile to each other? |

We assessed the documents provided on the basis of their content, rather than on what they were called. Therefore, where charities had sent us what appeared to annual general meeting papers, we assessed them as if they were annual reports. We also took into account whether the reader could reasonably infer the charity's objectives from its name, for example a playgroup.