

8. Managing money

8.6 Annual accounts and audit

All charities must prepare accounts and make them available on request. The duty to file accounts and the Trustees' Annual Report with the Charity Commission applies to all registered charities whose gross income exceeds £25,000. Charities whose gross income exceeds £10,000 must send a completed Annual Return, which can be completed online.

The format of the annual accounts is guided by The Statement of Recommended Practice issued by the Charity Commission in conjunction with the Accounting Standards Board. This is known as SORP 2005 and contains guidance on the presentation of accounts and represents good practice.

Types of accounts

Charity accounts may be prepared either on the receipts and payments basis or the accruals basis. Which of these is needed will depend on the income of the charity and whether or not it has been set up as a company:

- **Receipts and payments.** This is the simpler of the two methods of preparation and may be adopted where a non-company charity has a gross income of £250,000 or less during the year. It consists of an account summarising all money received and paid out by the charity in the financial year, and a statement giving details of its assets and liabilities at the end of the year. Charitable companies are not allowed by company law to adopt this method.
- **Accruals.** Non-company charities with gross income of over £250,000 during the financial year, and all charitable companies must prepare their accounts on the accruals basis in accordance with the SORP. They contain a balance sheet, a statement of financial activities and explanatory. These accounts are required in accountancy terms to show a 'true and fair view'.

Audit or independent examination?

Except for NHS charities, only those charities with gross income of more than £25,000 in their financial year are required to have their accounts independently examined or audited – below that threshold, an external scrutiny of accounts is only needed if it is required by the charity's governing document.

Precisely what type of scrutiny is needed depends on the income and assets of the charity. Broadly speaking, an independent examination is needed if gross income is between £25,000 and £500,000 and an audit is needed where the gross income exceeds £500,000.

An audit will also be needed if total assets (before liabilities) exceed £3.26m, and the charity's gross income is more than £250,000.

Preparing receipts and payments for your annual accounts

Receipts and payments accounts summarise cash movements only during the financial year. A statement listing assets and liabilities is also required (in place of a balance sheet required for accruals accounts).

You may need to complete up to three receipts and payment accounts, one each for:

- the unrestricted funds (all charities should have these)the restricted income funds (many charities have these)
- any endowment funds (some charities have these)

Receipts and payments accounts can be split into two categories:

Gross income includes:

- donations (including covenants, gift aid donations and related tax reclaims), grants, gifts, legacies and subscriptions;
- gross receipts from the sale of goods or services in furtherance of the charity's objectives;
- gross receipts from fundraising and other activities undertaken for generating funds;
- investment income (including interest, dividends, related tax reclaims & rents);
- transfers of expendable endowment to income funds, or expenditure of this endowment for income purposes.

Total expenditure includes:

- costs of generating funds including fund-raising and publicity costs, investment property costs and investment management fees;
- expenditure in furtherance of the objects of the charity including grants, donations, cost of activities (goods & services) provided and support costs;
- management and administration costs of the charity.

These categories may include any interest paid.

Please refer to the *CC16: Receipts and payments accounts pack* for what is not included in total expenditure and gross income.

All payments for similar purposes (e.g. wages) and receipts for similar purposes (e.g. donations) should be added together and not shown separately. Of course, significant items (e.g. a large grant) may be best shown separately for clarity.

Gifts in kind and intangible income are not included in receipts and payments accounts. However trustees may like to include a note in their annual report or in notes to the accounts.

What else accompanies the accounts?

The accounts of charities using receipts and payments accounts and having an examination by an independent examiner will consist of four related documents:

Three are prepared by the trustees:

- A trustees' Annual Report - This gives details about the charity's activities in the year.
- One or more receipts and payments accounts – These show the incoming and outgoing cash for the year for unrestricted, restricted and endowment funds.
- A statement of assets and liabilities - This lists the assets and liabilities at the end of the year.

One is prepared by the independent examiner:

- Independent Examiner's Report - This gives an external reviewer's comment on the accounts

Further information

Charity Commission for England & Wales

Tel: 0845 3000 218

www.charity-commission.gov.uk

HM Revenue and Customs

www.hmrc.gov.uk

Disclaimer

The information provided in this sheet is intended for guidance only. It is not a substitute for professional advice and we cannot accept any responsibility for loss occasioned as a result of any person acting or refraining from acting upon it.

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