revised charity requirements – making life easier?

Ian Wallace asks whether the latest legislation will really make life easier for accountants working with charities.

When the Charities Act 2006 became effective earlier this year it made considerable changes to charities' requirements. The latest guidance from the Charity Commission for England and Wales (CC15 – Charity Reporting and Accounting: the essentials) – issued in May 2007 – reinforces the need for an effective framework for accounting for all charities.

This recognises the significant differences in the size and shape of charities. There are now over 190,000 registered charities, although many are small and have an income of less than £10,000.

There is also guidance to address the dual reporting issue where accounts are required to meet the Charity Commission's requirements as well as to satisfy the Companies Act.

The trustees are still responsible for ensuring the appropriate returns are submitted. These are accessible publicly on the Charity Commission's website to encourage openness and accountability.

There are new thresholds for submitting accounts as well as increased limits at which a statutory audit is required. Overall the new requirements are aimed at reducing the burden on charities.

accounting framework

Establishing the type of account required depends on the following:

- whether the charity is a company
- current year income
- value of assets
- the need to be a registered charity.

The charity also needs to consider:

- type of accounts that are required
- information needed for the annual report
- the need for independent examination or audit
- information required by the Charity Commission.

All charities are required to prepare accounts. Those with income in excess of £10,000 per annum are required to submit them to the Charity Commission. The accounting basis depends on the size of the annual income, as follows:

- if the charity has an income of less than £100,000 the accounts can be prepared on a receipts and payments basis. These should be comparatively simple, showing the receipts and payments as well as the asset and liabilities at the year end; whereas
- all charitable companies and others with an annual income of over £100,000 are required to prepare the accounts on an accruals basis. They need to be in accordance with the SORP (Accounting and Reporting by Charities: Statement of Recommended Practice 2005), with a statement of financial activities and balance sheet.

annual returns

As well as the accounts, charities with income in excess of £10,000 are legally required to submit an annual return. Those with an income greater than £1m need to complete a Summary Information Return (SIR). The returns should include details of:

- financial information
- trustees
- contact details
- details of its constitution
- how the decision process works
- the reserves policy
- plans to address any deficits
- risks
- future plans.

The Annual Information Update form, the Annual Return and the SIR will be provided to charities each year by the Charity Commission for completion by the trustees. The returns to the Charity Commission need to be made by ten months after the year end. They ideally should be provided at the earliest opportunity so that the most current information is available.

audit or examination

For incorporated charities with income greater than £90,000 and less than £500,000 or total assets up to £2.8m, an accountant's report is required. Where income or total assets exceed these limits then an audit is required, an increase of £250,000 under the Charities Act 1993. If the incorporated charity falls below these limits then no report is required. However, careful attention must be given to the charity's governing documents as these may require an audit to be carried out regardless.

For other charities the thresholds for examination and audit are set out in the table below:

account values	no exam	exam	exam by accountant	audit
gross income < £10,000	✓			
gross income > £10,000		✓		
gross income > £250,000			✓	
gross income > £500,000				✓
gross assets > £2.8m and gross income > £100,000				✓

Where income exceeds £250,000 but is less than £500,000, the examination is required to be undertaken by a suitably qualified person, which typically means an accountant.

However, trustees may prefer an audit to be undertaken instead, particularly where the transactions and accounts are complex. Once again the governing documents may stipulate an audit regardless of the size of the charity's income and assets.

The financial thresholds apply to accounts for years beginning 27 February 2007, i.e. for accounts that end next year from 28 February 2008.

Take care to appoint an examiner who has sufficient knowledge and experience of accounts and the charities requirements.

charitable companies

The Companies Act 2006 will introduce new provisions that will make the accounting requirements for companies and non-company charities very similar. The main change is that the incorporated charities that are small companies under the Companies Act will become subject to the Charities Act independent examination and audit regime. Further guidance will be provided by the Charity Commission once this is in place.

annual report

The annual report is a mandatory requirement and all annual reports must be made available to the public. These vary considerably and there are many that do not fully meet the requirements. The SORP provides guidance that confirms that an annual report should cover detail such as:

- the aims and objectives
- how well the charity has done, its successes etc
- its plans including potential difficulties
- benefits to the public.

It does not need to be particularly lengthy but should provide a fair and balanced view of the charity's position. It needs to be borne in mind that the readers of the report are not just the trustees but all stakeholders including the public. Of course the trustees' report should be quite different to the directors' report for a company.

registration thresholds

Only charities with an income in excess of £5,000 will be required to register – an increase from £1,000. Charities at present registered below the threshold can apply to the Charity Commission to be removed from the register.

exempt charities

Exempt charities are not required to submit returns to the Charity Commission as they are required to meet other statutory accounting frameworks, such as for housing associations. They have their regulator who is the 'principal regulator' and is required to ensure the body has met the charity's requirements. Where there is no regulator, the intention is that they will then become registered. The Charity Commission is reviewing these arrangements.

providing public benefit

The Charities Act 2006 defines a charity as a body which is for a charitable purpose and is for the public benefit. The Charity Commission is seeking to raise awareness of the 'public benefit' aspect and is developing guidance on this issue for charities, before it becomes effective in 2008.

what to do now?

All charities need to carefully consider how these changes will impact on them. Begin to plan now for preparing the accounts, and consider the audit arrangements. Assess the annual reports; are they fit for purpose?

Watch out for further guidance from the Charity Commission on charitable companies as well as on many other areas. There is considerable guidance and advice available on its excellent website at **www.charity-commission.gov.uk**. ■

Ian Wallace –
Manager, Public Sector, Tait Walker