

Charities

The Accounts and Independent Examination for small Charities

The accounts for a small charity are prepared in the same way as for a small company.

Many non accountants that take on a treasurer's role often net off income and expenditure for events to come up with the magic "profit" figure. This is incorrect and should never be done as GROSS figures are required.

For accounting periods beginning or after 1st April 2008 there is a new common scrutiny regime which came into effect with s117 and Schedule 9 of the Companies Act 2006, which removed the special regime for charitable companies.

The main changes are:

- Common thresholds for audit
- The end of the audit exemption report
- Independent examination applies to all charities not subject to audit where income exceeds £10,000
- New Whistle Blowing duty
- Common statutory basis for all charitable group accounts.

Detailed accounting data is not required when completing an annual return, but full accounts must be submitted separately and checked and verified by an independent examiner who is wholly un-connected with the charity.

There is guidance on what is needed for a set of accounts on the commission's website at

<http://www.charitycommission.gov.uk/publications/cc15.aspx>

There are essentially only 2 formats allowed and these are related to the income level and also status of the charity

Receipts and payments. Can be adopted where a non-company charity has a gross income of £100,000 or less during the year. It consists of an account summarising all money received and paid out by the charity in the year in question, and a statement giving details of its assets and liabilities at the end of the year.

Accruals. Non-company charities with gross income of over £100,000 during the 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 notes. These accounts are required, in accountancy terms, to show a 'true and fair view'.

When considering an examiner, smaller charities of between £10,000 and £20,000 where expenditure is clearly definable (i.e. School parent and teacher associations) someone who has a good degree of financial awareness without any formal accountancy qualifications would be acceptable.

For an examiner to be "independent", that individual should have no connection with the charity's trustees which could inhibit the impartial conduct of the examination. The following would normally be considered to be inappropriate for appointment:

- Any of the charity trustees (current or during the financial year concerned) or anyone else closely involved in the administration of the charity now or during the year.
- A major donor of unspent funds, or a major beneficiary of the charity (that is, someone who is clearly to some extent dependent on the charity's support)
- A close relative, business partner or employee of any of the above.

Separate guidance is now available to charity trustees who are responsible for appointing the charity's independent examiner in the publication [Independent Examination of Charity Accounts: Trustees' Guide](#)

Charitable companies that opt not to have an audit will have to have an examination where their gross income exceeds £10,000 for a financial year ending on or before 31 March 2009.

The threshold at which an independent examination is required increases to a gross income exceeding £25,000 for financial years ending on or after 1 April 2009.

Financial years ending on or before 31 March 2009, charities with a gross income of £500,000 or less **may choose** to have an independent examination in place of an audit unless both their gross assets exceed £2.8 million and their gross income exceeds £100,000.

For financial years ending on or after 1 April 2009, the gross asset threshold and the gross income level at which the asset threshold applies are increased so that charities with a gross income of £500,000 or less may choose to have an independent examination in place of an audit unless both their gross assets exceed £3.26 million and their gross income exceeds £250,000.

There is stricter guidance for larger charities where it is recommended that only a **qualified accountant** should be selected in the case of a charity exceeding either:

- Gross assets of £1,000,000 value as shown in its [balance sheet](#); or
- Gross income of £100,000 for its accounting year.

Only a limited number of financial qualifications are recognised as being able to sign as a Reporting Accountants, and details of which ones can be found on the Charities' Commission website.

There are standard formats available for independent examiners to sign, and they can be obtained from the Charities' Commission website.

<http://www.charity-commission.gov.uk/>

The PDF document for the Independent Examiners report is

<http://www.charitycommission.gov.uk/publications/cc16.asp>

The PDF document for Reporting Accountants is CC63a and can be found at

<http://www.charitycommission.gov.uk/investigations/sorp/sorpieara.asp>

If asked to audit a charity's accounts check a number of things before committing

- Gross income and expenditure
- The qualifications and reporting requirements of any auditor/examiner
- The independence of the audit according to the guidelines

A good starting point is the Charities Commission Website, and the Operational Guidance. **It is useful to note that some accountancy qualifications (i.e. CIMA) are not allowed to "audit" and should not use that particular word when signing off a set of accounts.**