

**A rough guide to the legislation on accounts**

**NB Legislation tends to change over time, and what follows is the situation today (March 2020)**

The legislative basis for what follows comes from the Companies Act 2006 and the Charities Act (2006 – now superseded by the 2011 Act). These gave rise to the Charities (Accounts and Reports) Regulations 2008.

Please note this is only a rough guide...

<b>The Issue</b>	<b>The rules</b>	<b>In reality</b>
Organisations need to keep accounting records	<p>Directors of a Company and Trustees of a Charity have a legal duty to keep records.</p> <p>Your records need to show the day to day activity and the financial position of your organisation at any particular date.</p>	<p>Keep your records up to date</p> <p>Use a system which gives you the information you need for funders, committee, members, staff, regulators, etc.</p> <p>Keep all your financial records for 7 years</p>
Organisations need to prepare annual accounts	<p>There are two basic forms of accounts – simple cash based accounts (Receipts and Payments) or more complicated accruals accounts (Income and Expenditure).</p> <p><b>Receipts and payments.</b> This is the simpler of the two methods of preparation and may be adopted where a non-company charity (note that this includes CIO's) 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</p>	<p>Few organisations prepare their own accounts. Most pass their records to an accountant who will do this for them.</p> <p>Ask your accountant!</p> <p>If you want to prepare your own accounts, that's fine, and you can see examples on the charity commission website or download standard templates.</p> <p>Receipts and payments accounts are simple, but you need to be careful. If you haven't paid the tax bill, it will not be</p>

	<p>Don't forget that you are supposed to have explicitly chosen this form of accounts and minuted that decision.</p> <p><u>Charitable companies are not allowed to adopt this simpler method.</u></p> <p><b>Accruals.</b> 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 (Statement of Recommended Practice). 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'.</p>	<p>shown in the payments, but simply listed as one of the liabilities.</p> <p>Accruals accounts can sometimes confuse people. For example, if you haven't paid the phone bill at year end, this would be shown as a creditor in the balance sheet and included as expenditure as the expense was incurred in the year in question even though you didn't pay it on time!</p>
Most organisations need to have their accounts checked	<p>There are two basic forms of scrutiny.</p> <p>an <u>independent examination</u> is needed if gross income is between £25K and £1m</p> <p>an <u>audit</u> is needed where the gross income exceeds £1m. An audit will also be needed if total assets (before liabilities) exceed £3.26m and the charity's gross income is more than £250K .</p> <p>Consolidated accounts must be prepared and audited if the gross income of the group (excluding transfers) exceeds £1m.</p> <p>An audit is carried out under standards issued by the Auditing Practices Board. A registered auditor is one registered with a recognised supervisory body in accordance with the Companies Act 2006.</p> <p>An Independent Examination is a</p>	<p>Even if you don't have to under regulations – eg because you are a charity with income less than £25,000 p.a. – many funders, members and even your own governing document might require some kind of scrutiny.</p> <p>Trustees will need to interpret the precise wording of their governing document. For instance, 'audit by a bank manager' would not normally mean a full statutory audit. On the other hand 'audit by a qualified accountant' suggests that a statutory audit by a registered auditor is required, even if the charity is small and not required to have an audit by legislation Audits are usually</p>

	<p>less onerous form of scrutiny than an audit. Examiners report whether specific matters which are identified in the 2008 Regulations have come to their attention.</p> <p>Where the charity is not required to have an audit but gross income exceeds £250,000, an independent examiner must qualify by being a member of an approved professional organisation</p>	<p>expensive!</p> <p>The independent examiner must be <u>independent</u> and <u>competent</u>. You should ask about their experience, and even ask for references</p>
Most organisations have to send their report and accounts to somebody.	<p>Any charity with income over £25,000 must send their report and accounts as well as the annual return to the charity commission.</p> <p>A CIO must file accounts whatever the level of income, even if dormant.</p> <p>Below this level, you may be asked to do so.</p> <p>Any company must submit the report and accounts as well as completing the annual confirmation statement to companies house.</p> <p>Note that a CIC has to provide an additional report for the CIC regulator</p>	<p>Don't forget the deadlines.</p> <p>Online filing is possible. For the charity commission send a pdf file as you don't want your signature to be publicly displayed on the cc website.</p> <p>At present, only companies house will fine you, the commission just name and shame and put you in red on their website.</p>

### More help and information

Obviously, the CA Plus website – you can sign up for free occasional email items like our employment advice notes: [www.caplus.org.uk](http://www.caplus.org.uk)

Guidance for charities is also available on the charity commission website [www.charity-commission.gov.uk](http://www.charity-commission.gov.uk)

There is more guidance on Independent Examinations at: [www.acie.org.uk](http://www.acie.org.uk)

**CA Plus 0115 947 0839**