

Annual Accounts, Audits and Independent Examinations

Many smaller groups are confused by the phrase **Annual Accounts** thinking that it refers to a Bank Account. **Annual Accounts** refers to the **Annual Report** on the finances, resources and the progress towards meeting its objects.

Requirements for producing annual accounts vary according to the organisation's legal structure and how much income it has.

Firstly every organisation must comply with its governing document. Preferably the governing document will say something along the lines of "we will comply with whatever legal and regulatory requirements apply". If it says "Audit" then you must do so, (but you might consider amending this clause at your next AGM).

Unincorporated Associations

There is no statutory requirement for a group that is unincorporated, and not charitable, to produce any accounts at all, nor to have them inspected by any external body. *However*, it is good practice to do so, to sign them, and present to the members, and if possible, to have someone external with financial skills to cast an eye. You will be required to produce your accounts if you wish to apply for grants. You may be required to produce annual accounts for other bodies, for example if you are a member of a federation or linked to a larger organisation.

Charities

If your group is charitable, even if it is not registered, then it needs to comply with the **Charity Statement of Recommended Practice (SORP) 2005**. (Charitable Companies must also comply with Company Law).

Charities must prepare their accounts on the correct accounting basis. Up to £100,000 a year income, they can prepare their accounts on a **Receipts and Payments** basis, over £100,000 they must prepare their accounts on an **Accruals** basis.

Small charities with less than £500,000 are allowed to have a specific form of inspection for small charities, an **Independent Examination** instead of a full Audit, although they can choose to have an audit, and they might be required by other bodies such as a funder to produce audited accounts, or in response to any problems that they have encountered such as allegations of misappropriation or mismanagement of previous funding, or fraud.

More information about **Independent Examination** can be found at www.acie.org.uk. Charities larger than this are required to have an Audit.

Independent Examination is a specific provision under Charity Law for small charities not for all small organisations.

Companies

Registered companies are required to comply with Company Law. Their accounts must include:

- An income and expenditure account (commercial companies will instead have a profit and loss account)
- A balance sheet signed by a Director
- An auditor's report signed by the auditor (if audited)
- A Director's report signed by a Director or the Company Secretary
- Notes to the accounts.

Small companies may claim an **exemption from audit**. There is total exemption from audit for certain small companies if they are eligible. Some charitable companies are exempt from audit but must provide an accountant's report <http://digbig.com/5bamka> (partial exemption).

To be a **small company**, at least two of the following conditions must be met:

- annual turnover must be £5.6 million or less (or £250,000 or less if the company is charitable);
- the balance sheet total must be £2.8 million or less;
- the average number of employees must be 50 or fewer

For a **charitable company** to qualify for total audit exemption it must qualify as small, its gross income must not be more than £90,000 and its balance sheet total must not be more than £2.8 million.

NB: Charitable Companies also have to comply with the **Charity SORP** so it is worth checking your accounts to make sure the accountant has made reference to this, as well as to Company Law, as it is not uncommon for Charitable Companies to have accounts prepared only in line with Company Law. Watch for "profit and loss" instead of "income and expenditure" and check for references to Charity Law. You need to find accountants who understand both.

Charitable Companies that meet the threshold must also submit their Accounts, Annual Returns and Trustees' Annual Report to the Charity Commission (see below).

Filing Accounts and Annual Returns

If organisations are registered with the Charity Commission and/or Companies House, they will also be required to **file their accounts**.

All **Companies** have a duty to file their accounts with Companies House by the deadline:

- within 10 months (to the day) of their Accounting Reference Date (the end of their financial year).
- Within 22 months of incorporation or within 3 months of their Accounting Reference Date for first accounts if these cover a period of more than 12 months.

Companies' **Accounting Reference Dates** are published on the Company's entry on the Company House Website at www.companieshouse.gov.uk (click the Search Company Information button and enter the company number). Companies have a **duty** to ensure that they meet this deadline, so they have to ensure that their Auditors also know the deadline and check that the accounts are filed in time. Failure to file company accounts leads to automatic fines.

Charitable Companies must *also* comply with the accounting and reporting requirements for Charities (see below).

Charities with an **income exceeding £25,000** must submit an **annual return** (which includes their accounts and a completed return form) and a Trustees Annual Report.

(For Financial Years ending before 1 April 2009, the threshold for submitting accounts and the Trustees Annual Report was £10,000.)

Charities must submit their accounts and annual returns within 10 months of the end of their financial year. Failure to file Charity Accounts can lead to the Charity being removed from the register.

Charities with less than £25,000 (less than £10,000 in financial years ending before 1 April 2009) are *not* required to submit their accounts, Annual Return or Trustees Annual Report to the Charity Commission, but they *are* required to keep their details on the register of charities up to date (e.g. they must notify the Charity Commission of changes to Trustees; changes of contact address etc.)

Charitable Companies must *also* file their accounts with Companies House (see above).

The websites of the Charity Commission and Companies House post the details of companies and Charities to whether they comply with the reporting requirements, and their accounts are available for public inspection (free on the Charity Commission website, and for a fee on the Companies House website). www.charitycommission.gov.uk, and www.companieshouse.gov.uk.

Community Interest Companies must also prepare a **Community Interest Company report** and return it to the **CIC regulator** with a fee of £15, as well as the usual company accounts.

Sources of Information and Guidance

MoneyMatters Plus

Community Economic and Regeneration Team, Immingham resource Centre, Margaret St, Immingham, North East Lincolnshire, DN40 1LE, 01469 572313, simon@cert-ltd.co.uk.

Community Accountancy Self Help

for general information www.cash-online.org.uk.

Association of Charity Independent Examiners

The Gatehouse, White Cross, South Road, Lancaster, LA1 4XQ, phone/fax number 01524 348920, e-mail: info@acie.org.uk, www.acie.org.uk.

Honorary Treasurers' Forum

contact Barbara Robertson, Administrator, c/o Centre for Charity Effectiveness, Cass Business School, 106 Bunhill Row, London, EC1Y 8TZ email: CassCCE@city.ac.uk
www.treasurersforum.org.uk.

Charity Finance Directors' Group

3rd Floor, Downstream Building, 1 London Bridge, London SE1 9BG, (0)845 345 3192,
www.cfdg.org.uk

Charity Treasurer's Handbook (3rd Ed)

Gareth G Morgan, Published by Directory of Social Change, ISBN 978 1 903991 50 2

Practical Guide to Financial Management

Kate Sayer, Published by Directory of Social Change, ISBN 978 1 903991

These and other titles available from Directory of Social Change Publishing, Directory of Social Change, 24 Stephenson Way, London NW1 2DP, 020 7391 4800, www.dsc.org.uk.

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