The Charity Commission for Northern Ireland

Charity reporting and accounting: the essentials

Guide to the accounting and reporting framework in Northern Ireland

The Charity Commission for Northern Ireland

The Charity Commission for Northern Ireland is the regulator of charities in Northern Ireland, a non-departmental public body sponsored by the Department for Communities.

Our vision

To deliver in partnership with other key stakeholders in the charitable sector "a dynamic and well governed charities sector in which the public has confidence, underpinned by the Commission's effective delivery of its regulatory role."

Further information about our aims and activities is available on our website www.charitycommissionni.org.uk

Equality

The Charity Commission for Northern Ireland is committed to equality and diversity in all that we do.

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Online or in print

If you are viewing this document online, you will be able to navigate your way around by clicking on links either within the contents page or text.

We have produced a glossary that provides further information, definitions and descriptions of some key terms. The words in **bold green type** indicate words that are found in the glossary towards the end of this document. If you are reading the document online you can click on the word and it will link you to the definition in the glossary. The words in *pink italics* indicate other guidance or databases.

Please check our website www.charitycommissionni.org.uk to make sure you're using the latest versions of forms and guidance.

Contents

Section 1: Overview

Anyone who has given time or money to a charity will have an interest in seeing its resources used properly. A charity's accounts and reports are a means of communicating considerable information about the charity in a relatively concise way. A well prepared and informative set of accounts and reports will give members, funders, donors, and anyone else with an interest in the charity, a good picture of the activities of the charity and how well it is using its resources. Charity law requires all charities to be accountable and transparent. Accurate, clear and publicly available information about charities' finances and activities is essential to promote public trust and confidence in them and the charity sector as a whole.

It is important, therefore, that charity trustees, and those involved with charities, understand their legal requirements when it comes to keeping financial records, producing accounts and reports, and submitting information to the Charity Commission for Northern Ireland (the Commission) on an annual basis.

This document, *ARR02. Charity reporting and accounting: the essentials*, provides an introduction to, and overview of, the new accounting and reporting framework in place for registered charities from 1 January 2016. The full list of accounting and reporting guidance includes:

ARR01. Charity reporting and accounting: guidance summary

ARR02. Charity reporting and accounting: the essentials

ARR03. Receipts and payments accounts

ARR04. Accruals accounts

ARR05. How to complete the annual monitoring return

ARR06. Charity reporting: Interim arrangements and the annual monitoring return

ARR07. Independent examination of charity accounts: examiner's guide

ARR08. The trustees' annual report and public benefit reporting

This guidance provides information on the new accounting and reporting framework in place for registered charities from 1 January 2016, and an overview of The Charities (Accounts and Reports) Regulations (Northern Ireland) 2015. It is part of a suite of guidance and is intended to provide an introduction to, and overview of, the requirements. Read it in conjunction with other specific guidance documents to help you understand the accounting and reporting requirements for registered charities.

Section 2: About this guidance

Who does this guidance apply to?

This guidance is aimed at **charity trustees**, who may also be referred to by other terms, such as trustees, members of management committees, or directors of **charitable companies**, as well as anyone acting on behalf of a charity, for example a helper group, solicitor, accountant, agent or adviser.

The guidance applies to all types of charity, for example, charitable companies and charities that are not companies, such as unincorporated associations, industrial and provident societies and trusts.

What does this guidance cover?

This guidance provides an overview of the new accounting and reporting framework for registered charities in Northern Ireland as a result of the Charities (Accounts and Reports) Regulations (Northern Ireland) 2015. It applies to all registered charities with financial years beginning on or after 1 January 2016 or their date of registration with the Commission, if later.

It sets out the main requirements for registered charities to produce an annual report, a set of accounts, and an annual monitoring return effective for financial years (accounting periods) beginning on or after 1 January 2016. It provides an overview of the rules that apply when preparing your charity accounts depending on the size and type of your charity. It also sets out the requirements to have your accounts independently reviewed or audited and trustees' responsibilities when appointing someone to review their accounts.

For information on the accounting and reporting requirements that applied to previous financial years please refer to the Commission's guidance *ARR06. Charity reporting: Interim arrangements and the annual monitoring return*.

While this guidance does not cover the requirements for some charities, including those that are not yet registered, we strongly recommend that those organisations review the requirements and, as a matter of good practice, prepare their accounts and reports in accordance with them.

What does this guidance not cover?

This guidance does not cover the detailed content requirements of the **trustees' annual report**, or the charity's accounts. That information is covered in other documents that make up the suite of accounting and reporting guidance. Accounting and reporting requirements for investment funds, organisations classified as **Section 167** charities, and charities that have been linked by the Commission, for example **special trusts**, are not covered in this guidance. The reporting framework that applies to these types of charities will be set out at a later stage.

What will be published?

All charity accounts and reports will be published on the charity's entry on the online register of charities. All charity accounts and reports, including the trustees' annual report, will be published on the charity's entry on the online *register of charities*. The register will also display the compliance status of registered charities in relation to annual reporting. When a charity submits their annual reporting information within 10 months from the end of the reporting period, their entry on the register will display as 'Up-to-date'. However if a charity does not file their annual reporting information on time this will be displayed on the register as 'in default'. The register will also display some information provided through the annual monitoring return. Further information on what will be published is included in the Commission's *ARR05 How to complete the Annual monitoring return* guidance. For information on the Commission's approach to publishing decisions refer to the *Publishing our decisions* policy.

What are legal requirements and best practice?

In this guidance, where we use the word 'must' we are referring to a specific legal or regulatory requirement. We use the word 'should' for what we regard as good practice, but where there is no specific legal requirement. Charity trustees should follow the good practice guidance unless there is good reason not to do so. For example, registered charities **must** comply with the accounting and reporting regulations in relation to the preparation of their accounts and reports for the first full financial year beginning on or after 1 January 2016. Charities that are in the process of registering, or awaiting registration, **should** plan in advance for complying with the full accounting and reporting regulations. This will help them to be prepared for their annual reporting obligations following registration.

This guidance is not a legal document but an overall summary of the reporting and accounting framework for charities. It also details the deadline for submitting accounts and returns to the Commission, and when independent examination or professional audit of a charity's accounts is required.

Charity legislation

References in this document to 'the Charities Act' are to the **Charities Act (Northern Ireland) 2008**.

References to 'the accounting and reporting regulations' are to The Charities (Accounts and Reports) Regulations (Northern Ireland) 2015.

References to the 'annual return regulations' are to The Charities (Annual Return) Regulations (Northern Ireland) 2015, prescribed by the Charity Commission for Northern Ireland.

Key terms

The following are some key terms that it will be useful to understand when reading this guidance. These, and other terms, are also listed in a glossary at the end of this guidance. Please familiarise yourself with the terms below, even those that may not seem relevant at present. For example, a very small charity preparing receipts and payments accounts may, at some time in the future, due to an increase in income, be required to prepare accruals accounts. **Please note these terms are not listed in alphabetical order but in the logical sequence in which a charity will encounter them.**

Financial year (period): A charity's financial year or period is usually set out in its governing document. This will normally be 12 months but, in certain circumstances, it can be shorter or longer. This time period can vary but cannot be more than 18 months. Different rules apply for charities that are companies. Additionally, charities that are grant aided schools must not have a financial period of more than 15 months.

Receipts and payments accounts: This is a form of accounting that consists of a summary of all monies received and paid via the bank and in cash by the charity during its financial year, along with a statement of balances. Company law requirements mean that a charitable company cannot prepare its accounts on a receipts and payments basis.

Accruals accounts: Refers to accounts prepared on a 'true and fair' basis in accordance with accounting standards and the methods and principles of the applicable Statement of Recommended Practice (SORP). In contrast to receipts and payments accounts, where income and expenditure is accounted for only when the money is received or paid out, accruals accounts record the income of a particular activity when there is entitlement or probability about income, and expenses, when the liability is incurred. This is not necessarily the same date on which money is received or paid out. Accruals accounts prepared in accordance with the Charities SORP must contain a balance sheet showing the charity's financial position at the end of the year, a statement of financial activities (SoFA), a cashflow statement (if applicable) and explanatory notes to the accounts. The SoFA should show all incoming resources, and resources expended during the year (and for company charities only, an income and expenditure account, except where the SoFA incorporates the income and expenditure account).

Statements of Recommended Practice (SORPs): Statements of Recommended Practice (SORPs) supplement accounting standards and other legal and regulatory requirements in light of the special factors prevailing or transactions undertaken in a particular sector and their application is relevant to the 'true and fair' view required of charity accounts. For **general charities** this is the Accounting and Reporting by Charities: Statement of Recommended Practice FRS 102 (Charities SORP FRS102).

Charities SORP: means the Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102) issued by the Charity Commission for England and Wales and the Office of the Scottish Charity Regulator on 16 July 2014.

General charity: This means any charity other than a special case charity or an investment fund.

Special case charities: Special case charities are defined in the accounting and reporting regulations. Broadly, a special case charity is one which is:-

a) a registered housing association
b) an institution of further or higher education

Special case charities are permitted to use alternative SORPs when preparing accruals accounts.

Previous financial year: This means the financial year immediately preceding the current financial year.

Relevant financial year: This means the financial year in respect of which the charity accounts or group accounts are prepared.

Gross income: The Charities Act defines gross income to mean the gross recorded income from all sources including special trusts.

> For accounts prepared on a receipts and payments basis gross income is simply the total receipts recorded in the statement from all sources excluding the receipt of any **endowment**, loans and proceeds from the sale of investments or fixed **assets**.
> For accruals accounts this is the income from all sources in the accounting period, including the conversion of **endowment** to income, but excluding: gifts of endowment, net investment gains/(losses), all revaluation gains/(losses)on retained assets not due to impairment, actuarial gains/(losses) and such other gains(losses) that are excluded by accounting standards from the calculation of net income.

Independent examination: An independent examination is a simpler form of scrutiny than an audit but it still provides trustees, funders, beneficiaries, stakeholders and the public with an assurance that the accounts of the charity have been reviewed by an independent person. Depending on the size of the charity an independent examination may be carried out by either an independent person with the requisite ability and experience or by a person who is a member of one of the professional bodies listed in section 65(5) of the Charities Act.

Trustees' annual report: A trustees' annual report is produced by the charity trustees and, along with your accounts, tells people:

- about your charity's work
- where your money comes from
- how you've spent your money in the past year.

It must also include administrative information about the charity such as where the charity is based and who the charity trustees are. Minimum requirements are set out in the accounting and reporting regulations. Charities preparing accruals accounts must also incorporate the requirements set out in the Charities SORP. Larger charities must provide more detail within the trustees' annual report than smaller charities. All charities must explain how the activities undertaken during the year have furthered the charity's purposes for the public benefit. Further information can be found in *ARR08: The trustees' annual report and public benefit reporting*.

Annual monitoring return: Also referred to as the annual return, the annual monitoring return is the online form that registered charities must submit on an annual basis reporting on their activities during the year. The information required is streamlined according to level of gross annual income. The questions in the annual monitoring return are specified in the Charity Commission for Northern Ireland Annual Return Regulations for the relevant period.

Section 3: Your new legal obligations at a glance

It is a legal requirement for registered charities to report annually to the Commission. This is essential to keep the *register of charities* up to date, promote the transparency and accountability of the charitable sector, and to allow us to monitor and regulate charities in Northern Ireland effectively. At annual reporting, a charity **must**:

1. complete and submit an online annual monitoring return
2. submit the charity's annual accounts
3. submit the charity's trustees' annual report
4. submit an independent examiner's or **audit report**.

If you are a registered charity you must ensure your charity accounts and reports comply with the new accounting and reporting regulations. These apply to your **first full** financial year beginning on or after:

1 January 2016 **or**

The date of registration with the Commission if later than 1 January 2016.

Some registered charities will fall under interim reporting arrangements initially, and will have lesser requirements in terms of accounting and reporting for a short time only. For example, a charity that was registered in March 2015 and whose **financial year** begins on 1 April will be required to report on the financial period from the 1 April 2015 to 31 March 2016. As this period did not start on or after 1 January 2016, the charity may report in accordance with the interim reporting arrangements. For further information refer to the *ARR06.Charity reporting: Interim arrangements and the annual monitoring return* guidance on the Commission's website. However, charities that are in the process of registering, awaiting registration, or fall within the interim reporting programme **should**, as good practice, apply the full accounting and reporting regulations to the preparation of their accounts and reports.

Examples of the relevant reporting periods, and the arrangements that will apply, are set out in the table on the following page.

	Charity A	Charity B	Charity C
Registration date	17.02.15	11.12.15	01.01.16
Financial period end date	31 March	30 June	30 September
Reporting period (first full accounting period after registration)	01.04.15 to 31.03.16	01.07.16 to 30.06.17	01.10.16 to 30.09.17
Arrangements that apply	Interim arrangements	Full accounting and reporting arrangements	Full accounting and reporting arrangements

The full accounting and reporting requirements set out what you must do depending on the size and type of the charity. If you are a **general charity**, the legal requirements are:

- charities with an income of £250,000 or less, and that are not charitable companies, can prepare receipts and payments accounts or accruals accounts
- charities with an income of more than £250,000 **must** prepare accruals accounts
- all charities **must** have some form of independent examination or audit of their accounts, the nature of review varies depending on the income of the charity
- all charities **must** produce a trustees' annual report, the level of detail of which varies depending on the income of the charity
- groups with a combined income of more than £500,000 **must** prepare consolidated accruals accounts.

Additionally, it is important to remember that:

- A charity **must** comply with the requirements set out in its **governing document**
- Charities that are companies **must** also adhere to their obligations under company law
- Charities that are subject to any other legal requirements must comply with them also.

Charities that do not meet their legal requirements by submitting their accounts, a trustees' annual report, independent examination/audit report and annual monitoring return will be treated as a non-compliant organisation by the

Commission. The trustees of a non-compliant charity may also be guilty of an offence under section 71 of the Charities Act.

The Commission considers this type of non-compliance to be a serious issue; this will be marked clearly on the online register of charities and further regulatory action may be taken. Where the Commission identifies persistent non-compliance this may lead to the Commission taking further action.

More detail on the types of accounts you must prepare, and the level of external scrutiny they must have, is found at section 3.3, 4 and 5 of this guidance.

To help work out what requirements apply to your charity in the initial years of reporting please see Figure 1 on the following page. Additionally, the requirements are summarised in the table at Figure 2.

Figure 1: Annual reporting requirements for your charity

1. Is your charity registered with the Charity Commission for Northern Ireland?

No → Charities are **not** required to report to the Commission until they are placed on the Northern Ireland register of charities

Yes ↓

2. You **must** submit an annual return and accounts and reports to the Charity Commission for Northern Ireland.

↓

3. Are you reporting on a full financial year that follows your registration as a charity and **begins on or after 1 January 2016**?

No ↓

You fall under **interim reporting arrangements.** You must:

- complete and submit an annual monitoring return and
- produce and submit accounts and reports in their current format.

These requirements are temporary. For accounting periods beginning on or after 1 January 2016 full regulations apply. It is good practice, however, to prepare your accounts and reports in line with the full accounting and reporting regulations.

↓

For help understanding your requirements please refer to our guidance: ***ARR06: Charity reporting: Interim arrangements and the annual monitoring return***

Yes ↓

You fall under **full accounting and reporting regulations.** You must:

- complete and submit an annual monitoring return and
- produce and submit accounts and reports in line with charity accounting and reporting regulations.

↓

For help understanding your requirements please continue to read this guidance: ***ARR02: Charity reporting and accounting: the essentials***

Figure 2: Table of minimum accounting and reporting requirements under charity law

Gross income threshold	Types of accounts	External Scrutiny minimum requirements[1]	Trustees' annual report (annual report)[2]	Information to be sent Commission[3]
£0 - £250,000	**Receipts & payments** or accruals accounts in accordance with SORP	**Independent examination** (IE) by an independent person	**Trustees' annual report** must be prepared	**Annual Return** **Trustees' annual Report** **Accounts** **IE or Audit report**
£250,001 - £500,000	**Accruals accounts** in accordance with SORP	**Independent examination** (IE) by a prescribed/qualified person	**Trustees' annual Report** must be prepared	**Annual Return** **Trustees' annual Report** **Accounts** **IE or Audit report**
> £500,000	**Accruals accounts** in accordance with SORP	**Statutory audit** carried out by a registered auditor	**Trustees' annual Report** must be prepared	**Annual Return** **Trustees' annual Report** **Accounts** **IE or Audit report**
group income **>£500,000**[4]	**Consolidated accounts** on an **accruals basis** in accordance with SORP	**Statutory audit** carried out by a registered auditor	**Consolidated Trustees' annual report** must be prepared	**Annual Return (group)** **Trustees' annual Report** and **Accounts** **IE or Audit report**

1 Independent examination must be carried out by an Independent person or person registered with a specified professional body. The type of examiner required will depend on the income of the charity see section 4 for further information.
2 Charities that are companies must also prepare a directors' report under the Companies Act. In practice, the directors' report is expanded to include information required in the Trustees' Annual Report.
3 All documents must be filed with the Commission within 10 months of your charity's financial period end (note that company law requires a charitable company to file its accounts with Companies House within 9 months of the financial year end).
4 Where a charity has either charitable or non-charitable subsidiaries the gross income of the group is considered when determining requirements. See section 10 for information on consolidated or group accounts.

3.1 Working out what requirements apply to your charity

The framework for accounting by charities sets out different requirements for different sizes and types of charities. To understand how the requirements apply to your charity, you need to know the relevant financial period that is being reported on, the charity's income for the relevant reporting financial year and the structure of the charity, for example, if it is a company then it must also meet the requirements of company law. You will then be able to establish:

- what type of accounts must be prepared
- what information is needed in the trustees' annual report, and
- whether the accounts need an independent examination or an audit.

3.1.1 How do I establish the financial year of the charity?

The date of your charity's financial year end, or accounting reference date, is an important part of the information about a charity that is contained in the Northern Ireland *register of charities*. It is the date to which your charity's accounts are prepared.

Your financial period will normally be 12 months long but, in certain circumstances, it can be shorter or longer. For charities that are not companies, it may vary but cannot be more than 18 months. Different rules apply for charities that are companies. Charities that are grant aided schools must not have a financial period more than 15 months.

If your charity has changed its financial period, it is important you amend the details on the register of charities to show the correct financial period end date. You have a legal responsibility to keep your charity details on the register of charities accurate and up to date. This will ensure the correct deadline for submitting an annual return, your charity's accounts and reports is generated.

In accordance with regulation 3(7) of the accounting and reporting regulations for charities, a charity must not specify a new accounting reference date more than once in any three year period without the consent of the Commission.

3.1.2 How do I calculate gross income?

Broadly, **gross income** is the combined income from all sources in the relevant reporting period, with some exclusions, for example, gifts of endowment or net gains from investments. Use the definition to calculate your charity's gross income for the relevant financial period. Some additional information to assist you in understanding what you should be calculating is set out below.

If you prepare receipts and payments accounts then your gross income is the total of all the receipts recorded in the statement of accounts but not including any endowments, loans and proceeds from the sale of investments or fixed assets.

If you prepare accruals accounts then your gross income is the income from all sources in the reporting period, including the conversion of **Endowment funds** to income, but excluding: gifts of endowment, net investment gains/losses, all revaluation gains/losses on retained assets not due to impairment, actuarial gains/(losses) and such other gains(losses) that are excluded by accounting standards from the calculation of net income.

3.1.3 What financial records do I need to keep?

All charities, whether they are already registered with the Commission or are awaiting registration, must keep proper accounting records. For more information on what this involves please see section 6 of this guidance.

3.1.4 Do I need an audit or my accounts reviewed?

For full financial years beginning on or after 1 January 2016, or the date of registration with the Commission if later, all registered charities must have their accounts either independently reviewed or audited. Charities that are grant aided schools are not required to have their accounts independently examined or audited under charity law as they are already subject to Department of Education or Education Authority governance. For information on what type of review your charity accounts must have please see section 4 of this guidance.

3.1.5 Do I need to prepare a trustees' annual report?

All registered charities must prepare a trustees' annual report for accounting periods beginning on or after 1 January 2016 or the date of registration with the Commission if later. The level of detail you must provide in the trustees' annual report depends on the size and type of your charity. For more information on the trustees' annual report please see the relevant guidance depending on whether you are preparing a trustees' annual report alongside receipts and payments accounts or accruals accounts.

3.1.6 Do I need to submit an annual monitoring return?

All registered charities must complete and submit an annual monitoring return. The level of detail you must provide in the annual monitoring return depends on the size of your charity. For more information on the annual monitoring return please see section 8 of this guidance.

3.2 Charities not yet registered with the Commission

Charities that are not yet registered with Commission are not required to prepare their accounts in a particular format or have them reviewed or audited under charity law. This will change when they are placed on the register of charities and are preparing accounts for financial years beginning on or after 1 January 2016.

In order to prepare for the new, compulsory changes, and as a matter of good practice, charities should prepare accruals accounts for the financial year preceding the accounting and reporting regulations, if they believe they will fall under this category from 1 January 2016. This will also ensure that the charity has comparative figures to include in the first year of reporting, a compulsory aspect of SORP accounts.

Charities that are not companies and that are not registered with the Commission, or that are preparing accounts for a financial year that begins **before** 1 January 2016, must still keep proper accounting records and prepare a receipts and payments or an income and expenditure account under the Charities Act (Northern Ireland) 1964.

3.3 What type of accounts do I need to prepare?

Normally a charity's gross income, and the nature of the organisation, will determine the type of accounts to be prepared for that particular year. If your charity is not a company, and has an annual income of £250,000 or less, then it will usually prepare receipts and payments accounts. If the charity has an income of more than £250,000 or is a **charitable company** of any income, then it must prepare accruals accounts. Finally, a charity that would otherwise be eligible to produce receipts and payments accounts will be required to produce accruals accounts if:

- the charity's governing document says it should
- the charity's trustees have taken a decision to prepare accruals accounts
- any **enactment** says that the organisation should prepare accruals accounts
- the charity is a housing association or a higher or further education institution (a special case charity).

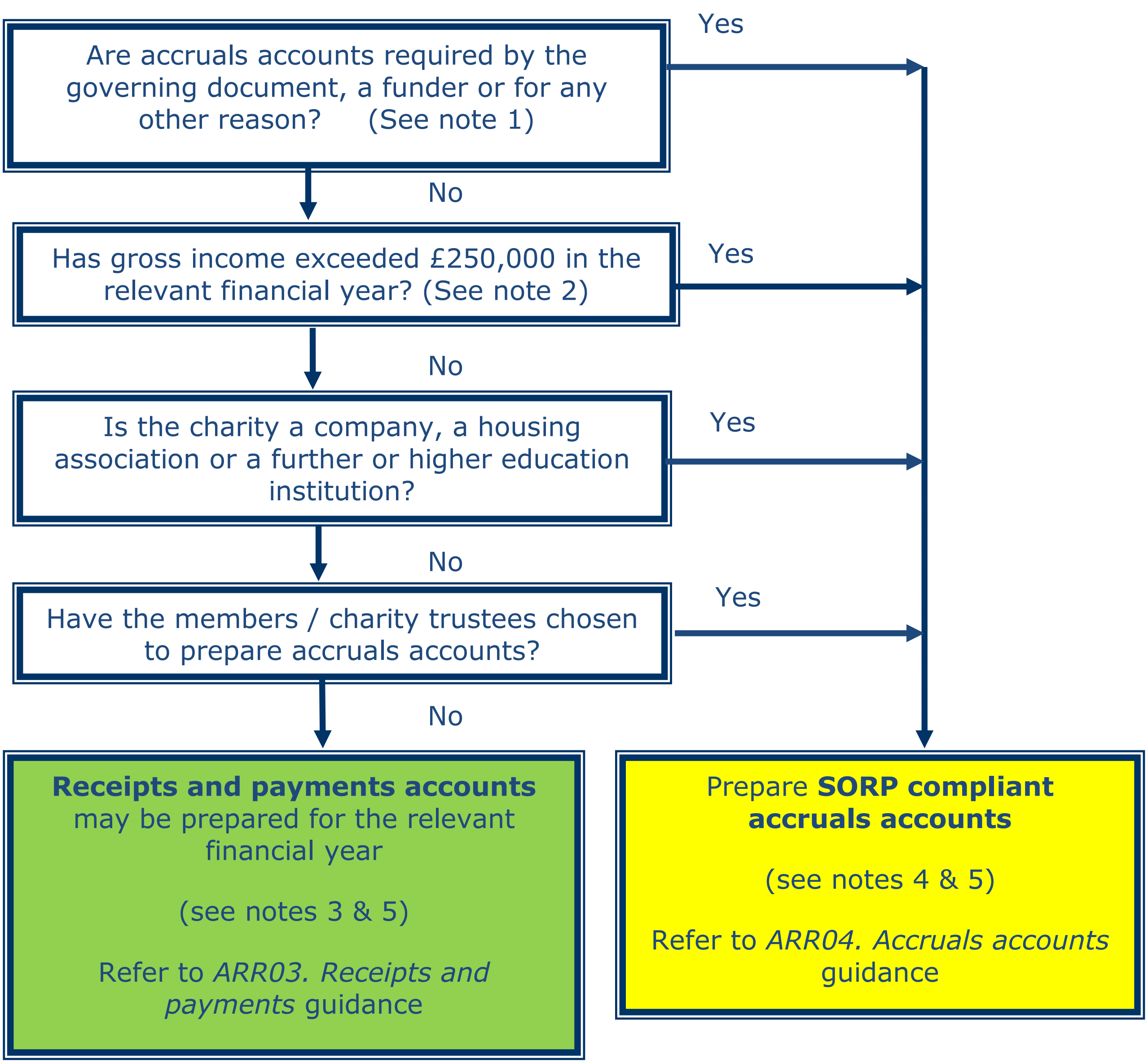
Apart from the statutory requirement, any constitutional or third party reference to accounts providing a 'true and fair view' of the financial affairs of the charity requires the preparation of accruals accounts.

Figure 3 on the following page will assist you in determining the type of accounts your charity must prepare in the relevant financial year. Please note that these requirements do not apply to grant aided schools, as alternative provision has been made in the accounting and reporting regulations for these types of charities. For further information please see section 10 of this guidance.

Once you have established the type of accounts required for the financial period, refer to the relevant guidance document for more detailed information on the requirements specific to the type of accounts you must prepare:

- *ARR03. Receipts and Payments accounts*
- *ARR04. Accruals accounts*

Figure 3 – Preparing Accounts



Notes

1. These requirements do not apply to grant aided schools under regulation 5(3) of the accounting and reporting regulations.
2. Charities must be registered with the Commission for the accounting and reporting regulations to apply and apply only to those registered with financial years beginning on or after 1 January 2016 or date of registration with the Commission if later.
3. Under section 64 (3) of the Charities Act (Northern Ireland) 2008.
4. Under regulation 8, 9 or 10 of the accounting and reporting regulations.
5. Charities should also be aware that, depending on their particular circumstances, the accounts they prepare may also need to comply with other legislative requirements.

Section 4: External scrutiny

4.1 Types of external scrutiny

To maintain public trust confidence in the work of charities, charity law requires **all** registered charities to have external scrutiny of their accounts. This applies to registered charities for full accounting periods that begin on or after 1 January 2016 **or** their date of registration with the Commission, if later. The aim of external scrutiny is to give stakeholders confidence in the words and figures presented in the accounts and to confirm that they have been prepared in accordance with the relevant regulations.

There are two main types of external scrutiny to which charities accounts are subject:

- independent examination
- audit

Precisely what type of scrutiny your charity accounts will need usually depends on your charity's gross annual income. Under charity law an **independent examination** is needed for all registered charities that have a gross income up to £500,000 in the relevant financial year. For charities with gross income exceeding £500,000 in the relevant financial year a statutory **audit** is required.

In addition to the statutory thresholds, you must be aware that your charity's governing document may contain specific provisions about the external scrutiny of accounts. For example, the governing document may state that the charity accounts must be audited however the gross annual income of the charity is less than or equal to £500,000. In such cases, you must follow the higher standard of scrutiny required by either the statutory framework or the governing document.

When determining whether your charity's accounts require an independent examination or audit you must ensure you comply with:

- charity law
- any other relevant legislation, for example, the Companies Act
- the charity's governing document.

The external scrutiny requirements under charity law have been summarised at Figure 4 on the following page.

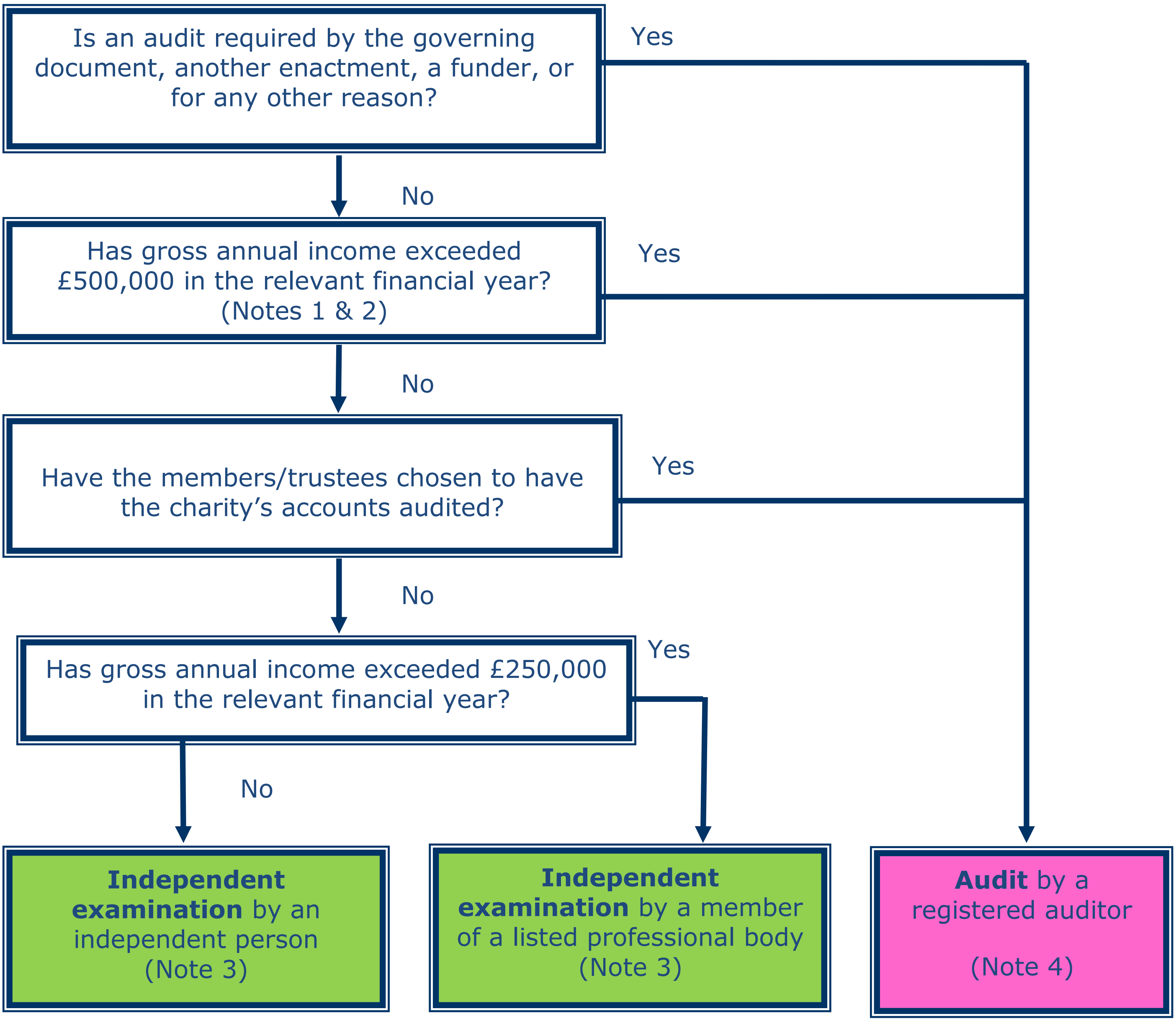
Figure 4: Determining level of scrutiny required

Gross annual income	Independent examination by an independent person	Independent examination by a prescribed/qualified person*	Full statutory audit
£250,000 or less	√		
£250,001 up to £500,000		√	
£500,001 or more			√

*A prescribed/qualified person is a member of one of the professional bodies listed in the Charities Act. See section 4.2 for the full list of professional bodies.

The answers to the questions in Figure 5 overleaf will determine the type of external scrutiny under charity law your charity accounts should have. Please note these requirements do not apply to grant aided schools, see section 10 of this guidance for further information.

Figure 5: External scrutiny requirements



Notes

1. These requirements do not apply to grant aided schools under regulation 5(3) of the accounting and reporting regulations see section 10
2. External scrutiny rules for 'parent' charities apply to the gross annual income of the group see section 9.
3. Details about the two types of independent examination are given in section 4.2 of this guidance.
4. A registered auditor is someone who is eligible for appointment as a statutory auditor under Part 42 of the Companies Act 2006 (c46).

4.2 Independent examination

Provided a charity is not required by law, or its governing document, to have an audit then trustees may choose a simpler form of external scrutiny called independent examination.

An independent examination is a form of external scrutiny of the accounts which is less rigorous than an audit and offers an assurance that nothing has been found that needs to be brought to the attention of readers of the accounts. It does not offer the positive expression of a professional opinion based on an audit. Although independent examination is a simpler form of scrutiny than an audit, it still provides trustees, funders, beneficiaries, stakeholders and the public with an assurance that the accounts of the charity have been reviewed by an independent person.

Provided a charity is not otherwise required by law or its governing document to have an audit, charity trustees of registered charities may opt for an independent examination so long as the charity's gross income does not exceed £500,000.

The Charities Act sets out the requirements for who may carry out the independent examination depending on the size of your charity.

1. For charities with a gross annual income of £250,000 or less, it must, at a minimum, be an independent examination carried out by an independent person who is reasonably believed by trustees to have the requisite ability and experience to carry out a competent review.

2. For charities with a gross annual income falling between £250,001 and £500,000, it must be, at a minimum, an independent examination by an **independent examiner** who is a **member of one of the professional bodies** listed in section 65 of the Charities Act:

    - Association of Charity Independent Examiners
    - Institute of Chartered Accountants in England and Wales
    - Institute of Chartered Accountants of Scotland
    - Institute of Chartered Accountants in Ireland
    - Association of Chartered Certified Accountants
    - Association of Authorised Public Accountants
    - Association of Accounting Technicians
    - Association of International Accountants
    - Chartered Institute of Management Accountants
    - Institute of Chartered Secretaries and Administrators
    - Chartered Institute of Public Finance and Accountancy
    - Institute of Financial Accountants
    - The Certified Public Accountants Association.

The Commission has published Directions and guidance for independent examiners, ARR07: Independent Examiners guidance. These Directions set out the procedural basis that must be followed when carrying out any independent examination of charity accounts. Further information on the appointment, rights and duties of independent examiners can be found in section 5 of this guidance.

4.3 Audit

If your charity's gross annual income is more than £500,000, your charity accounts must have a statutory audit by a **registered auditor.**

An audit provides reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity error. This is achieved by the expression of a professional opinion by the auditor on whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Many charity governing documents use the word audit and this may be intended to cover a range of different types of external scrutiny from full audit by a registered auditor to an independent check by someone who does not have to be an accountant. 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. The Commission recommends that trustees keep a record of how they interpret the charity's governing document and, if in doubt, consult the Commission regarding their interpretation. If the term audit is used in a charity's governing document in isolation, the charity must have its accounts audited by a registered auditor.

In addition, many funding bodies require the charities they fund to have their accounts 'audited'. Charities whose gross income means they could carry out an independent examination under the accounting and reporting regulations may wish to discuss with their funding bodies what is meant by the term 'audit', and whether or not external scrutiny by an independent examiner, as required under the accounting and reporting regulations, would be sufficient.

Further information on appointing, rights and duties of auditors can be found in section 5 of this guidance.

4.3.1 Audit report for accruals accounts

Where a charity has prepared accruals accounts and requires an audit, the audit must be carried out by a **registered auditor**. An audit opinion for accruals accounts must state whether, in the auditor's opinion, the accounts comply with the 'true and fair' view requirements.

The auditor must prepare a report on the accounts for the charity trustees that:

- states the name and address of the auditor and name of the charity
- is signed by the auditor or someone authorised to sign on behalf of the company or partnership
- specifies that it is a report in respect of an audit carried out under section 65(2) or 65(3)(b) of the Charities Act
- states the date of the report and specifies the financial year or period of the accounts to which the report relates.

The **audit report** must contain the grounds for forming any opinions. In preparing the audit report the auditor must carry out such investigations as are necessary to enable an audit opinion to be formed.

Specific requirements, depending on how the accounts have been prepared, are set out below.

- Where, the auditor has formed the opinion that:

    - The accounts comply with regulations 8, 9 or 10 of the accounting and reporting regulations as applicable, dealing with accruals accounts and
    - The accounts give a 'true and fair view' of the financial affairs of the charity at the end of the financial year, and of the incoming resources and their application in that financial year
      or
    - Proper accounting records have not been kept
    - The accounts do not agree with the records
    - There is a material difference between the accounts and the annual report prepared by the trustees
    - Information to which the auditor is entitled has been withheld

  then statements to that effect must appear in the audit report.

4.3.2 Audit requirements for charitable companies

If you are a company charity you must comply with the requirements of both company law and charity law.

The Charities (Accounts and Reports) Regulations (Northern Ireland) 2015, made a change to Northern Ireland company law and, as a result, the specific audit requirements for charitable companies under the Companies (Northern Ireland) Order 1986, no longer apply. The new threshold rules apply to all registered charities, including charitable companies, for accounting periods that begin on or after 1 January 2016, and only those with an income of more than £500,000 are required, under the regulations, to have a full audit of their accounts.

Section 5: Appointment, rights and duties of the independent examiner and registered auditor

In appointing an independent person, examiner or auditor, **charity trustees** should consider the degree of complexity of the charity's accounts and structure, in addition to the statutory requirements. The more complex the organisation and its accounts, the higher the level of qualification or experience required of the independent examiner or auditor. The trustees must ensure that the person appointed:

- is independent of the management and administration of the charity
- is eligible under the accounting and reporting regulations to act as an independent examiner or auditor
- is eligible under their professional body's rules and the accounting and reporting regulations to act as an independent examiner or auditor (if applicable) and
- has the requisite ability and experience to competently scrutinise the charity accounts.

5.1 Independence

It is critical that any independent examination or audit is carried out by someone who is independent of the charity, and seen to be so. Independence is not possible if you are:

- one of the charity's trustees
- a major donor or major beneficiary of a charity
- anyone else involved in the management, control or administration of the charity.

In relation to independent examination, as this relates to the charity's finances, there are certain people within a charity who could not appropriately act as an examiner. These include the charity's treasurer or book-keeper who keep the day to day records from which the formal accounts are prepared. This is because, if they carried out the independent examination, they would end up checking the integrity of their own work.

This does not mean, however, that the independent examiner cannot put the charity accounts into statutory format in addition to carrying out the independent examination, providing they were not involved in keeping the underlying financial records of the charity. Charity trustees using the Commission's *Receipts & Payments Workpack* may be able to prepare the accounts themselves, leaving the independent examiner to carry out only the external scrutiny. This could help to reduce costs, particularly for smaller charities.

Where the independent examiner or auditor does prepare the accounts in the correct statutory format, the trustees are still ultimately responsible for the accounts. The accounts must be agreed and signed by the trustees before the examiner or auditor signs their report.

Being a member or supporter of the charity does not mean you cannot be considered independent for accounting purposes. Where a potential independent examiner is a member of the charity, for example, a member of a church congregation or a member of a Parent Teacher Association (PTA), and they are not also a trustee of the charity, they may act as examiner provided:

- they have not been involved in the day to day decision making or administration of the charity, for example, by serving on a committee or sub-committee convened by the charity and
- are not connected with the charity trustees so as to compromise their independence (see below for more information) and
- the trustees are satisfied that they have the necessary ability, experience and qualifications required.

The right to take part or attend as a member in an annual general meeting (AGM) would not preclude someone from conducting an independent examination. However, active participation in the administration of the charity would potentially preclude you from being independent, for example, through tabling resolutions at an AGM.

Independence can also be compromised by being connected to the charity. Such a connection can arise because of:

- a family relationship, for example, the parent, child, spouse or partner of a trustee or senior employee
- a financial or commercial relationship, for example, a representative of a body which funds the charity or an individual or body contracted by the charity to provide it with certain services other than independent examination.

Where the connection is financial or commercial:

- the connection is only relevant if it is significant to the charity's operations. For example, the person providing an advertising contract to a charity is probably not connected in a significant way, whereas the landlord of the charity's premises probably is
- the connection is not only relevant where it concerns an individual relationship, it may also relate to any organisation or business that you work for. For example, if you work for a small veterinary practice whose main source of income comes from a contractual relationship with an

animal welfare charity, it is likely that you will be connected and not be independent.

If, however, there is a connection, it may be possible to put arrangements in place within an organisation or firm so that there is sufficient distance between those managing any contractual relationship and the person carrying out the independent examination. These arrangements need to be thought through and planned very carefully. They should not simply pay lip-service to the concept of independence and all parties should be satisfied that they address the issue adequately.

Particular groups who need to give this aspect of independence special consideration are those who act for the charity as accountants or financial advisors and/or who prepare the charity’s formal accounts. Again, there is scope for arrangements to be put in place to safeguard independence, but these must be considered carefully in advance. To protect independence in such a case, the basic underlying principle is that any person involved in keeping the ongoing accounting records for the charity, ie, providing bookkeeping services, or involved in the administration of the charity should not be involved in providing independent examination services to the same charity.

5.2 Selection of an independent examiner

The selection of a good independent examiner is important for a charity in fulfilling its regulatory requirements. However, the selection process is likely to be influenced by the individual charity’s circumstances and operations. In this section, a number of different areas are outlined for consideration by charity trustees in selecting an examiner. The detail within each may differ between charities depending on individual circumstances. It is recommended that charity trustees consider the selection of an independent examiner at the earliest possible opportunity and do not leave such a decision until the time when the accounts are prepared. In selecting an independent examiner, charity trustees should consider the points in the table on the following page.

Please note this is not an exhaustive checklist and trustees may need to include other considerations in the selection of an independent examiner.

Checklist 1: Selecting an independent examiner

	Help notes	Comments
1. Consider the type of accounts that must be prepared by the charity	• Is the charity eligible to prepare receipts and payments accounts? • Are accruals accounts required?	
2. Ensure you understand the required form of independent examination the charity must have	• Income less than or equal to £250,000: examiner needs to be an independent person with the required skills and experience to carry out a competent examination • Income more than £250,000 up to £500,000: examiner must be a **professionally qualified person** (in accordance with section 65(4) of the Charities Act 2008), and have the required skills and experience to carry out an independent examination.	
3. Have you determined what skills are needed by the independent examiner?	It is up to the charity trustees to ensure that the accounts are prepared and externally scrutinised in line with the statutory requirements. Therefore, they should satisfy themselves that they understand these requirements and are aware of the skills that the examiner will need to carry out their duties. For example: • charities that prepare accruals accounts (for whatever reason) and are below the threshold for the requirement for a professionally qualified independent examiner, may nevertheless wish to consider appointing a professionally qualified person to review their accounts given the complex nature of accruals accounts • if the charity engages in specialist activities, it may be advantageous for the examiner to have some relevant knowledge in that area so that they may understand the nature and type of transactions being entered into by the charity.	

4. Do you consider the prospective individual is independent to the charity?	There are various aspects to consider in terms of independence of the examiner from the management and control of the administration of the charity – these should be carefully thought about by the charity trustees.	
5. Have you assessed the prospective independent examiner before appointment?	As part of the selection process, you may wish to use the following questions as a guide to assessing whether the person seeking appointment has the appropriate skills and abilities to carry out the relevant duties. The list below is not intended to be exhaustive but should guide trustees to the appropriate areas for consideration.	
	5a. Can you see a set of charity accounts that the examiner has previously examined?	
	5b. Do you know how many charities the examiner acts for?	
	5c. If this is the individual's first appointment as an independent examiner, have you asked what experience they have that makes them feel able to carry out the work?	
	5d. If the examination is of receipts and payments accounts, have you checked that they are familiar with the Commission's Receipts and Payments Workpack?	
	5e. If the examination is of accruals accounts, have you checked that they are familiar with the Charities SORP?	
	5f. If the individual is required to be a member of a professional body, have you checked what body they are registered with and the level of membership they hold?	
	5g. Have you confirmed with the individual that they have checked with their professional body that they are eligible to carry out the examination?	
	5h. Have you asked them to confirm whether they are aware of any reason why they might not be perceived as independent to the charity?	
	5i. Have you checked they are aware of and intend to follow the Commission's Directions and guidance for independent examiners?	

Charities may feel that they are unable to find someone willing to take on the role of independent examiner, particularly if they are seeking the service for free. However, it is important for charity trustees, and the general public, to understand the value of the work of the independent examiner and to recognise that this may have a legitimate cost implication for the charity. The use of charitable funds to pay reasonable independent examination fees is acceptable. This is an integral element of expenditure that is often necessary to ensure that the charity complies with the relevant legal requirements and is transparent and accountable to the public. Such costs would be categorised as 'governance costs' within the charity's accounts.

5.3 Recording the appointment of an examiner

Once the charity trustees have chosen an independent examiner, there should be a formal record of the agreement between the charity trustees and the examiner to ensure that both parties understand the services to be provided and the extent of the duties and rights of both the charity trustees and the examiner.

One method of formalising the relationship between the charity trustees and the independent examiner is by way of an 'engagement letter'. This is most commonly used by independent examiners who are providing such services on a commercial basis, that is, they are charging a fee for such work. An 'engagement letter' is usually a formal letter written by the person who is being engaged to act as an independent examiner, however, it can be issued by the trustees. An engagement letter from the independent examiner is addressed to the charity trustees and sets out the services that the independent examiner will provide, their fee, and the duties that they have, as an examiner, under the relevant legislation. The letter should include details regarding the timetable for the independent examination and a schedule of the work to be carried out.

The examiner will prepare and sign two copies of the letter and send them to the charity trustees for consideration and signature. Thereafter, one copy will be returned to the independent examiner and the other retained by the charity trustees for their own records.

It is recognised that, where a person provides independent examination services to a charity for no charge, it is more likely that a simple letter of appointment or email exchange will be used. This is essentially a written communication that agrees the terms of appointment. Charity trustees are encouraged, as a matter of best practice, to actively consider the merits of formalising their relationship with the independent examiner by having a method of setting out the services that are expected via a letter of appointment. This will enable both parties to understand and appreciate the extent of the work and duties involved in the independent examination process.

For smaller charities, where the examiner is an unpaid volunteer, for example, an email could be adequate if the charity trustees and independent examiner feel that this is appropriate.

To assist in the preparation of a letter of appointment, an example is provided at Appendix 2. This example may be used to agree the terms between the charity trustees and an independent examiner, particularly where the role is undertaken by an unpaid volunteer. Where additional services are also provided, for example the preparation of the charity's accounts, an additional agreement is recommended.

5.4 Selecting a registered auditor

If your charity must have a statutory audit by law or as required in the charity's governing document the accounts must be audited by a **registered auditor**. In undertaking an audit, a registered auditor must comply with the UK and Ireland Auditing Standards issued by the Financial Reporting Council (FRC). These standards set out the basic principles and essential procedures with which external auditors in the United Kingdom and the Republic of Ireland are required to comply. 'Practice Note 11: The Audit of Charities in the United Kingdom' has been issued by the FRC to assist auditors in applying auditing standards in the charity sector. Auditors are recommended to refer to the FRC website for more information.

You can check the audit register quickly and easily to verify if the auditor you wish to appoint is qualified to act for you. This register is updated regularly: www.auditregister.org.uk/Forms/Default.aspx.

5.5 Access to information for independent examiners and auditors

Under regulation 26 of the accounting and reporting regulations, independent examiners and auditors have the right of access to any books, documents or other records that relate to the charity which they consider necessary to carry out their work.

During the course of an examination it is very likely that the examiner will need to ask some questions, or clarify matters that arise, and past or present trustees, officers or employees of the charity are required by law to assist. The examiner is entitled to seek information and explanations on any matter that is considered by him/her to be necessary for the purposes of carrying out the examination.

5.6 Duty of independent examiners and auditors to report matters to the Commission

Under the Charities Act, independent examiners and auditors **must, immediately in writing,** report to the Commission any matter they become aware of regarding a charity, or any connected organisation, which they believe is likely to be of 'material significance' to the Commission in carrying out its functions. If they believe the matter may not be of material significance, but may still be relevant to the Commission carrying out its functions, they **may** still report the matter.

Please note that the Commission, along with the Charity Commission for England and Wales (CCEW) and the Office of the Scottish Regulator (OSCR), is holding a joint UK wide consultation in relation to the proposed policy for matters of material significance, with the consultation due to close in September 2016. We are seeking views on what should constitute 'matters of material significance' that all independent examiners and auditors should report.

The draft matters currently under consultation have been included at Appendix 3. For further information, refer to the Commission's website www.charitycommissionni.org.uk. Once the revised matters are agreed, they will be published by the Commission.

Section 6: Accounting records

Section 63 of the Charities Act requires all registered charities which are not companies to keep proper accounting records. Under section 63 and the requirements of trust law a charity must ensure that **accounting records** are kept in respect of the charity and that those records are sufficient to show and explain all the charity's transactions. In particular they must be able to:

- distinguish the different funds of the charity
- show, day by day, the money received and spent by the charity
- record the assets and liabilities of the charity with appropriate supporting documents
- disclose the financial position of the charity at that time
- produce a statement of account in line with the accounting and reporting regulations.

Section 63 of the Charities Act also specifies that charities, which are not companies, must keep records for **at least 6 years** from the end of the financial year/ period in which they are made. This is the case even when a charity ceases to exist, unless the Commission consents in writing to the records being destroyed or otherwise disposed of. However, charity trustees should be aware that the length of time they need to keep records may also be governed by other legislation or by agreement with funding bodies. The records kept by charities will vary depending on circumstances and may be manual or computerised. Below are three examples of records that a charity should keep and three examples of records which a charity may keep:

Should keep

- a cash book recording day to day income and expenditure
- Bank statements which are reconciled regularly (eg monthly) with cash book records
- vouchers, invoices, receipts and other supporting evidence of income and expenditure.

May keep

- a general ledger with supporting purchase and sales ledgers, recording day to day income and expenditure but also any sales or purchases that have not yet been paid
- computer spreadsheets
- commercial accounting software and supporting data.

For charities that are companies, section 386 of the Companies Act 2006 sets out the requirements for companies to keep adequate accounting records. Section 388 provides that private companies must keep records for **at least three years** and public companies for **at least six years** from the date on which they are made. Charities must also comply with any other legal requirements that apply to the preparation of their accounts.

Section 7: The trustees' annual report

7.1 Requirements for all charities

All registered charities must prepare a trustees' annual report for their first full accounting period after 1 January 2016 **or** their date of registration with the Commission if later. The purpose of the trustees' annual report is to ensure that the charity is publicly accountable to its stakeholders.

The responsibility for preparing the report rests with the charity trustees. Although charity trustees may seek the assistance of the charity's staff or advisors in drafting the report, the charity trustees must approve the final text of the report.

A charity's financial accounts alone do not provide all the information a reader would need to gain a full picture of the work of the charity. For example, the charity accounts cannot easily explain:

- what the charity has done – its outputs
- what the charity has achieved – its outcomes
- what difference the charity has made – its impact and benefits.

A key requirement is that all charities must report on how their activities undertaken during the year have furthered their charitable purposes for the public benefit. To find out what must be included in the trustees' annual report, and for help preparing it, you can refer to the Commission's guidance *ARR08. The trustees' annual report and public benefit reporting*.

Section 8: Annual reporting to the Charity Commission

To keep the register of charities up to date, and allow the Commission to monitor and regulate charities, registered charities are required to provide certain information on an annual basis. All registered charities must complete and submit an **annual monitoring return** under section 70 of the Charities Act.

8.1 The annual monitoring return

As a charity trustee, by law, you must keep your charity's details on the online register of charities up to date.

Every year, **all** registered charities must complete and submit an annual monitoring return to the Commission. The charity's accounts and reports for the relevant financial year must also be attached and submitted with the return. This must be done within **ten months** of the end of each financial reporting period.

The annual monitoring return asks questions about your charity's activities, governance and finances during the relevant financial year. The amount of information you must provide in the annual monitoring return depends on the income of your charity.

You can complete your charity's annual monitoring return as soon as you approve its latest accounts and trustees' annual report. It is the trustees' responsibility to ensure the return is completed on time. If you delegate this task, for example to a member of staff, make sure they know what to do and when it is due. If the charity's annual monitoring return is not submitted, your charity's entry on the public register of charities will mark you as non-compliant with charity law. This may also result in the Commission opening a compliance investigation into your charity.

8.2 Filing the annual monitoring return, accounts and reports with the Commission

You must file annual reporting information using an online process which is accessed through *Online Services* on the Commission's website www.charitycommissionni.org.uk

The Commission's guidance *ARR05. How to complete the annual monitoring return* includes screenshots of the online process to help you complete the form.

When you were registered as a charity by the Commission you received an email with your password for *Online Services*. This password is unique to your organisation. It is important that you keep your password secure at all times, as you would a PIN number. Log onto *Online Services* using your NIC Northern Ireland charity number and this password.

You must take care to ensure you attach the correct documents when submitting your accounts and reports. This information will be automatically uploaded to the public register of charities.

Charities must NOT include copies of charity bank account statements in place of, or attached to, the accounts submitted to the Commission. Accounts and reports submitted to the Commission will automatically display on the public *register of charities*.

8.3 Processing and monitoring of the annual return, accounts and reports

The information collected from the annual monitoring return will help the Commission maintain a regulatory system in which the public can have confidence and in which charities can grow and flourish. It will also provide statistics on the sector that will be useful to policy makers and the sector itself.

The monitoring process carried out by the Commission involves a review of the accounts to ensure that the following key components are present:

- the trustees' annual report
- report of the independent examiner or auditor
- statement of receipts and payments(receipts and payments accounts) or a **statement of financial activities** (accruals accounts)
- statements of assets and liabilities (receipts and payments accounts) or balance sheet
- signatures and dates on both the accounts and reports
- the NI charity number.

The accounts will be failed where they do not contain a compliant:

- statement of receipts and payments (receipts and payments accounts) or statement of financial activities (accruals accounts)
- statement of assets and liabilities (receipts and payments accounts) or balance sheet (accruals accounts)
- report of an independent examiner or auditor, as appropriate.

Charities will be required to resubmit accounts in order to remain in compliance with their obligations under the Charities Act.

8.4 Failure to comply

You **must** submit your charity's annual monitoring return, trustees' annual report, accounts and audit/independent examiner's report within 10 months of the relevant financial year end.

If you do not submit this information on time your charity's entry on the public register of charities will mark you as non compliant with charity law. Please note this may result in the Commission opening a compliance investigation into your charity as failure to submit annual documents may be considered mismanagement and / or misconduct in the administration of the charity. Under Section 71 of the Charities Act, failure to submit annual documents, when required, is a criminal offence.

Once all information has been received by the Commission your charity's entry on the register of charities will display that you are up to date and compliant with charity law. This will allow members of the public and other stakeholders, including donors and funders, to see if a charity has complied with their legal requirements to submit annual reporting documents on time. An indication of compliance at this stage relates only to the submission of accounts on time and does not indicate that the quality of the information is sufficient.

Section 9: Group accounts

Some charities are part of a group structure with one or more subsidiaries. Producing **group accounts**, also known as consolidated accounts, for the whole group provides an accurate picture of the charity and its undertakings. The law and regulations which govern the production of group accounts can be found in section 72 and Schedule 6 of the Charities Act and regulations 11-17 of the accounting and reporting regulations.

Group accounts combine the activities, funds, assets and liabilities of the reporting parent charity with those of the subsidiaries it controls. They present the financial performance and financial position of the accounting group as though it were a single economic entity.

Group accounts are prepared by the reporting 'parent' charity which controls or exercises dominant influence over one or more charitable or non-charitable subsidiaries. **Accounting standards** and the Charities SORP, sets out the rules for determining whether 'control' exists. A parent charity must prepare group accounts to include all of its subsidiary entities where the accounts preparation is a requirement of:

- **company law** or
- charity law or
- any other statutory or mandatory framework applicable to the charity.

Under the Act, a parent charity must produce and submit consolidated group accounts if the combined gross annual income of the group exceeds **£500,000**. These requirements apply to the parent charity for the first full accounting period beginning on or after 1 January, or the date of registration with the Commission if later.

Where group accounts are required the parent charity must:

- prepare consolidated group accounts in accordance with **UK accounting standards** and using the methods and principles of the applicable **Statement of Recommended Practice (SORP)**
- prepare a consolidated trustees' annual report for the charity and its subsidiaries
- have the group accounts audited
- complete and submit a group annual monitoring return.

Parent charities preparing group accounts must expand their trustees' annual report to include relevant information about their subsidiary undertakings, for full information on the disclosure requirements for group accounts please see the Charities SORP.

Charities that are subsidiaries must still produce and submit their own individual accounts and reports as required by the accounting and reporting regulations.

These documents must be submitted annually to the Commission, within ten months of the parent charity's financial year end.

Where a charity is a company and is required by section 399 of the Companies Act 2006 to prepare group accounts, those group accounts are prepared under the Companies Act 2006, as well as under charity law and the accounting regulations.

9.1 Group gross income definition

To calculate the gross annual income for the group, you must include the gross annual income of the parent charity and the charitable and non charitable subsidiaries it controls, after deducting intra group transactions and **consolidation adjustments**.

When calculating a group's gross income it is important to understand the following terms:

- **Gross income** means, in relation to a non-charitable subsidiary undertaking, the amount of income that would be construed as its gross income were it a charity (refer to the applicable SORP for more information about what constitutes income for a charity), and
- **Intra group** transactions are those transactions between the parent charity and its subsidiary or between the subsidiary and its parent which are netted off as part of the consolidation adjustments when preparing the group accounts.

Section 10: Charities that are grant-aided schools

The accounting and reporting regulations make provision for charities that are grant-aided schools in terms of accounting and reporting arrangements, as these charities are already subject to the Department of Education or Education Authority governance.

Under the accounting and reporting regulations grant-aided schools must prepare:

- consecutive statements of account consisting on each occasion of—
  - (i) an income and expenditure account relating to a period of not more than 15 months; and
  - (ii) a balance sheet relating to the end of that period.
- A trustees' annual report

Charities that are grant aided schools must prepare a trustees' annual report in accordance with the accounting and reporting regulations. The regulations set out the content requirements for grant aided schools and charities that prepare receipts and payments accounts. For more information on what you must include in the trustees' annual report please see the Commission's guidance *ARR08. The trustees' annual report and public benefit reporting.*

All registered charities, including grant-aided schools must complete and submit an annual monitoring return, with the required annual reporting documents attached, to the Commission, within 10 months of their financial year end.

For more information on schools and charity registration in Northern Ireland please see the Commission's website.

Appendix 1: Glossary

Term	Definition
Accounting standards	Accounting standards are authoritative standards for financial reporting and are the primary source of generally accepted accounting principles (GAAP). Accounting standards specify how transactions and other events are to be recognised, measured, presented and disclosed in financial statements in a way that reflects economic reality and hence provides a true and fair view.
Independent Examination	An independent examination is a simpler form of scrutiny than an audit but it still provides trustees, funders, beneficiaries, stakeholders and the public with an assurance that the accounts of the charity have been reviewed by an independent person. Depending on the size of the charity an independent examination may be carried out by either an independent person with the requisite ability and experience or by a person who is a member of one of the professional bodies listed in section 65(5) of the Charities Act.
Section 167 charities	Under section 167 of the Charities Act these are organisations which are not charities under the law of Northern Ireland, and have their main base outside of Northern Ireland, but which operate for charitable purposes in or from Northern Ireland. These organisations may be required to apply for registration with the Commission however their annual reporting obligations may be different. Section 167 institutions will not be called forward until the Department for Communities has made regulations outlining the financial statements and statements of activities which such institutions will be required to submit to the Commission. Further details will be available once the regulations are made and consulted on.
Accounting and reporting by Charities: Statement of Recommended Practice (SORP)	This means Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102) issued by the Charity Commission for England and Wales and the Office of the Scottish Charity Regulator on 16 July 2014, also known as the Charities SORP. It provides a comprehensive framework that enables charities to adopt a consistent interpretation of UK financial reporting standards (FRS) as well as account for those transactions that arise when undertaking charitable activities. The Charities SORP applies to all general charities that prepare accounts on an accruals basis.
Accruals accounts	Refers to accounts prepared on a 'true and fair' basis in accordance with accounting standards and the methods and principles of the applicable Statement of Recommended Practice (SORP). In contrast to receipts and payments accounts, where income and

Term	Definition
	expenditure is accounted for only when the money is received or paid out, accruals accounts record the income of a particular activity when there is entitlement or probability about income, and expenses, when the liability is incurred. This is not necessarily the same date on which money is received or paid out. Accruals accounts prepared in accordance with the Charities SORP must contain a balance sheet showing the charity's financial position at the end of the year, a statement of financial activities (SoFA), a cashflow statement (if applicable) and explanatory notes to the accounts. The SoFA should show all incoming resources, and resources expended during the year (and for company charities only, an income and expenditure account, except where the SoFA incorporates the income and expenditure account).
Annual monitoring return	Also referred to as the annual return, the annual monitoring return is the online form that registered charities must submit on an annual basis reporting on their activities during the year. The information required is streamlined according to level of gross annual income. The questions in the annual monitoring return are specified in the Charity Commission for Northern Ireland Annual Return Regulations for the relevant period.
Assets	An asset is something of value that an organisation owns. Some assets can be owned over the long term (usually more than 1 year), and these are called fixed assets, for example, property, equipment, vehicles, etc. Other assets can only be owned for a short term (usually equal to 1 year), and these are called current assets. In accounting for charities, current assets will normally refer to either cash or something that can be converted into cash within short time, for example, amounts owed to the charity.
Audit	An audit is an examination of an organisation's accounts carried out by someone eligible to act as an auditor under Part 42 of the Companies Act 2006. In conducting an audit of financial statements, the overall objectives are to: 1. obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and 2. report on the financial statements and communicate, as required by International Auditing Standards (UK and Ireland), the auditor's findings.
Audit report	An audit report is required to contain a clear expression of professional opinion on the financial statements taken as a whole. To form an opinion on the financial statements the auditor concludes as to whether: • sufficient appropriate audit evidence has been obtained

Term	Definition
	• uncorrected misstatements are material, individually or in aggregate • the financial statements are prepared, in all material respects, in accordance with the requirements of the relevant financial reporting framework, including the requirements of applicable law. An auditor in preparing their report is required to comply with all International Auditing Standards (UK and Ireland) and Ethical standards. The opinion on accruals accounts will state whether the accounts give a 'true and fair' view of the financial affairs of the organisation. A 'true and fair' view cannot be given on receipts and payments accounts and the auditor's opinion will state whether the statement of accounts properly present the receipts and payments and its statement of assets and liabilities.
Charitable company	This is a charity which is formed and registered under the Companies Act 2006 or a charity which was already established under previous companies legislation. It is registered with Companies House. Its governing document is its articles of association and it has its own legal identity. It must be established for exclusively charitable purposes.
Charities Act (Northern Ireland) 2008	The Charities Act (Northern Ireland) 2008 is the main piece of legislation establishing the Charity Commission for Northern Ireland and setting out its functions and powers. References to 'the Charities Act' are to the Charities Act (Northern Ireland) 2008. The full content of the Charities Act can be found at www.legislation.gov.uk Not all of the sections of the Charities Act are in force yet. Details of the sections that are in force are available on the Commission's website www.charitycommissionni.org.uk
Charity trustees	These are the people who are legally responsible for the control and management of the administration of a charity. In the charity's governing document they may be called trustees, managing trustees, committee members, governors or directors or they may be referred to by some other title. Some people are disqualified by law from acting as charity trustees. These disqualifications are set out in the Charities Act and broadly include but are not limited to anyone who: • has been convicted of an offence involving deception or dishonesty, unless the conviction is a spent conviction under the Rehabilitation of Offenders (NI) Order 1978 • is an undischarged bankrupt or has made an arrangement with

Term	Definition
	creditors • has previously been removed as a trustee by the Commission or by the Courts • is subject to disqualification under company legislation.
Company law	Throughout this guidance, references to company law are to the Companies Act 2006. The full content of the 2006 Act can be found at www.legislation.gov.uk
Consolidation adjustments	Adjustments that need to be made in the process of the consolidation of the accounts of a group of organisations. If there have been intra-group transactions, such as sales from one subsidiary company to another, any profits or losses resulting from these transactions should be eliminated from the consolidated financial statements. For example, if one group undertaking has sold a fixed asset to another at a profit, the profit should be eliminated from both the profit and loss account and the consolidated balance sheet. All charities preparing consolidated accounts, whether as a requirement of company or charity law or on a voluntary basis, must follow the requirements of the applicable SORP and Financial Reporting Standard FRS102.
Enactment	An Act, Order or other piece of legislation.
Endowment funds	In simple terms, an endowment fund is a gift of property or money given to a charity as a restricted fund. Trust law requires a charity to invest the assets of an endowment, or to retain them for the charity's use in furtherance of its charitable purposes, rather than apply or spend them as income. The income generated from endowment funds held for investment, are then used to further the purposes of the charity.
Financial year	A charity's financial year or period is usually set out in its governing document. This will normally be 12 months but, in certain circumstances, it can be shorter or longer. This time period can vary but cannot be more than 18 months. Different rules apply for charities that are companies. Additionally, charities that are grant aided schools must not have a financial period of more than 15 months.
General charity	This means any charity other than a special case charity or an investment fund.
Governing document	A charity's governing document is any document which sets out the charity's purposes and, usually, how it is to be administered. It may be a trust deed, constitution, memorandum and articles of association, conveyance, Will, Royal Charter, scheme of the Commission or other formal document.

Term	Definition
Gross income	The Charities Act defines gross income to mean the gross recorded income from all sources including special trusts. For accounts prepared on a receipts and payments basis gross income is simply the total receipts recorded in the statement from all sources excluding the receipt of any endowment, loans and proceeds from the sale of investments or fixed assets. For accruals accounts this is the income from all sources in the accounting period, including the conversion of endowment to income, but excluding: gifts of endowment, net investment gains/(losses), all revaluation gains/(losses)on retained assets not due to impairment, actuarial gains/(losses) and such other gains(losses) that are excluded by accounting standards from the calculation of net income.
Group accounts	Group accounts, also known as consolidated accounts, combine the activities, funds, assets and liabilities of the reporting parent charity with those of the subsidiaries it controls. They present the financial performance and financial position of the accounting group as though it were a single economic entity. The responsibility to prepare group accounts lies with the reporting 'parent' charity which controls or exercises dominant influence over one or more charitable or non-charitable subsidiaries. Group accounts must be prepared in accordance with legal requirements and UK accounting standards.
Liability	Liability is an obligation to pay for something. Liabilities include, but are not limited to, loans, creditors, and bank overdrafts.
Previous financial year	This means the financial year immediately preceding the current financial year.
Receipts and payments accounts	This is a form of accounting that consists of a summary of all monies received and paid via the bank and in cash by the charity during its financial year, along with a statement of balances. Company law requirements mean that a charitable company cannot prepare its accounts on a receipts and payments basis.
Registered auditor	A registered auditor is one registered with a recognised supervisory body in accordance with Part 42 of the Companies Act 2006. An audit required by Part 8 of the Charities Act, is the scrutiny of accounts by a registered auditor who, as an audit professional, will apply auditing standards applicable in the UK and Ireland, issued by the Financial Reporting Council (FRC).
Relevant financial year	This means the financial year in respect of which the charity accounts or group accounts are prepared.
Special case charities	Special case charities are defined in the accounting and reporting regulations. Broadly, a special case charity is one which is:- a) a registered housing association

Term	Definition
	b) an institution of further or higher education Special case charities are permitted to use alternative SORPs when preparing accruals accounts.
Special trust	A special trust means funds or property held and administered on its own separate trusts by or on behalf of a main charity for any special purposes of that charity. It follows that the purposes of a special trust must be narrower than those of the main charity. Sometimes these funds are separate charities, run and administered by its own trustees, and at other times the funds are part of a main charity.
Statement of Financial Activities (SoFA)	The SoFA is a single accounting statement that shows all incoming and outgoing resources by activities and by fund. It shows where the resources come from, what they are spend on, and different types of fund as well as a year on year comparison.
Statements of Recommended Practice (SORPs)	Statements of Recommended Practice (SORPs) supplement accounting standards and other legal and regulatory requirements in light of the special factors prevailing or transactions undertaken in a particular sector and their application is relevant to the 'true and fair' view required of charity accounts. For general charities this is the Accounting and Reporting by Charities: Statement of Recommended Practice FRS 102 (Charities SORP FRS102).
Trustees' annual report	A trustees' annual report is produced by the charity trustees and, along with your accounts, tells people: • about your charity's work • where your money comes from • how you've spent your money in the past year. It must also include administrative information about the charity such as where the charity is based and who the charity trustees are. Minimum requirements are set out in the accounting and reporting regulations. Charities preparing accruals accounts must also incorporate the requirements set out in the Charities SORP. Larger charities must provide more detail within the trustees' annual report than smaller charities. All charities must explain how the activities undertaken during the year have furthered the charity's purposes for the public benefit. Further information can be found in *ARR08: The trustees' annual report and public benefit reporting*.
W3C Standards	W3C accessibility standards consist of a set of guidelines for making content accessible especially to those web users who have a disability. This standard is recognised internationally.

Appendix 2: Example engagement letter

The charity trustees

XYZ Charity

Date

Dear charity trustees

Charity Name

The aim of this letter is to set out the basis on which I act as Independent Examiner for the charity.

Roles

As charity trustees, you are responsible for maintaining proper accounting records and preparing the financial statements. You are also responsible for making available to me all of the charities accounting records and related papers as required.

As Independent Examiner, I have a responsibility to report whether the accounts are drawn up in a manner consistent with the founding documentation of the charity, the Charities Act (Northern Ireland) 2008 and The Charities (Accounts and Reports Regulations (Northern Ireland) 2015. The responsibilities for any other services provided will be agreed in advance through a further Letter of Appointment.

Timetable

As we discussed, the following is a proposed timetable:

Books received from charity trustees:	date
Expected completion of examination:	date
Date of Trustees' Finance Meeting:	date
Date of Annual General Meeting:	date

Fees

My work is undertaken on a voluntary basis and no fee shall be raised to the charity for my examination.

Or

My fee for the independent examination will be £X and is due on completion of the examination.

Proceeds of Crime Act 2002 and Serious Organised Crime and Police Act 2005

Under certain circumstances, the above legislation may require me to make a money laundering disclosure in relation to information obtained during my examination.

In addition, in some cases I have a statutory duty to report matters to the Charity Commission for Northern Ireland.

I should be grateful if you could confirm in writing your agreement to the terms of this letter by signing below. Once agreed this letter will remain effective from date of signature until it is replaced. You or I may agree to vary or terminate this appointment at any time, which must be given in writing.

Yours faithfully,

____

Signed

____

Date

I confirm, in signing this engagement letter, that I have authority of all charity trustees to sign on their behalf

Appendix 3: Proposed matters of material significance

Consultation: proposed matters of material significance	
1	Matters suggesting dishonesty or fraud involving a material loss of, or a material risk to, charitable funds or assets.
2	Failure(s) of internal controls, including failure(s) in charity governance that resulted in, or could give rise to, a material loss or misappropriation of charitable funds, or which leads to material charitable funds being put at major risk.
3	During the audit/independent examination knowledge or suspicion that the charity or charitable funds or the charity's bank account(s) have been used for money laundering or such funds are the proceeds of serious organised crime or that the charity is a conduit for criminal activity.
4	Matters leading to the knowledge or suspicion that the charity, its trustees, employees or assets, have been involved in or used to support terrorism or proscribed organisations in the UK or outside of the UK, **with the exception of matters related to a qualifying offence as defined by Section 3(7) of the Northern Ireland (Sentences) Act 1998.**
5	During the audit/independent examination evidence suggesting that in the way the charity carries out its work relating to the care and welfare of beneficiaries, the charity's beneficiaries have been or were put at significant risk of abuse or mistreatment.
6	Single or recurring breach(es) of either a legislative requirement or of the charity's trusts leading to material charitable funds being misapplied.
7	During the audit/independent examination evidence suggesting a deliberate or significant breach of an order or direction made by a charity regulator under statutory powers including suspending a charity trustee, prohibiting a particular transaction or activity or granting consent on particular terms involving significant charitable assets or liabilities.
8	On making a modified audit opinion, emphasis of matter, or issuing of a qualified independent examiner's report identifying matters of concern to which attention is drawn, notification of the nature of the modification/qualification/ emphasis of matter or concern with supporting reasons including notification of the action taken, if any, by the trustees subsequent to that audit opinion/examiner's report.
9	Evidence that, without reasonable cause, trustees have not taken action on matters identified by the auditor or examiner in their scrutiny of accounts for a previous year.
10	During the audit/independent examination evidence that conflicts of interest have not been managed by the trustees in accordance with guidance issued by the charity regulator and/or related party transactions have not been fully disclosed in all the respects required by the applicable SORP.

Useful contacts

Association of Charity Independent Examiners (ACIE)	The Gatehouse White Cross South Road Lancaster LA1 4XQ **Telephone:** 01524 34892 **Website:** www.acie.org.uk
Charity Commission for England and Wales (CCEW)	PO Box 211 Bootle L20 7VX **Telephone:** 0300 066 9197 **Website:** www.gov.uk/government/organisations/charity-commission
Companies House	Companies House Northern Ireland Second Floor, The Linenhall 32 - 38 Linenhall Street Belfast, BT2 8BG **Telephone:** 0303 1234 500 **Website:** www.gov.uk/government/organisations/companies-house
Department for Communities	Lighthouse Building 1 Cromac Place Gasworks Business Park Ormeau Road Belfast BT7 2JB **Telephone:** 028 9082 9000 **Website:** www.communities-ni.gov.uk
HM Revenue and Customs (HMRC)	HM Revenue & Customs Charities, Savings and International 2 HM Revenue and Customs BX9 1BU United Kingdom **Telephone:** 0300 123 1073 **Website:** www.hmrc.gov.uk/charities

Northern Ireland Council for Voluntary Action (NICVA)	61 Duncairn Gardens Belfast BT15 2GB **Telephone:** 028 9087 7777 **Website:** www.nicva.org
Office of the Scottish Charity Regulator (OSCR)	OSCR 2nd Floor Quadrant House Dundee **Telephone:** 01382 220446 **Website:** www.oscr.org.uk
The Charity Tribunal	Tribunals Hearing Centre 2nd Floor, Royal Courts of Justice Chichester Street Belfast BT1 3JF **Telephone:** 0300 200 7812 **Website:** www.courtsni.gov.uk/en-GB/Tribunals/CharityTribunal
The Law Society of Northern Ireland	96 Victoria Street Belfast BT1 3GN **Telephone:** 028 9023 1614 **Website:** www.lawsoc-ni.org.uk

Useful links and guidance

ARR01. Charity reporting and accounting: guidance summary

ARR02. Charity reporting and accounting: the essentials

ARR03. Receipts and Payments accounts

ARR04. Accruals accounts

ARR05. How to complete the annual monitoring return

ARR06. Charity reporting: Interim arrangements and the annual monitoring return

ARR07. Independent examination of charity accounts: examiner's guide

ARR08. The trustees' annual report and public benefit reporting

PBR1 Public benefit requirement guidance

CCNI EG046 Making payments to trustees

CCNI EG043 Equality guidance for charities

CCNI EG024 Running your charity

Receipts and payments toolkit

The Charities (Accounts and Reports) Regulations (Northern Ireland) 2015

Department for Business Innovation & Skills - publishes a number of helpful leaflets explaining the requirements of company law.

HM Treasury - HM Treasury guidance on the Proceeds of Crime Act 2002 and associated Money Laundering Regulations

If you are dissatisfied with our service

The Commission is committed to delivering a quality service at all times. However, we know that sometimes things can go wrong. If you are dissatisfied with the service you have received, we would like to hear from you, and have a procedure that you can use. You will find further information on these processes in our guidance, *Making a complaint about our services*, which is on our website www.charitycommissionni.org.uk

Freedom of information and data protection

Data Protection

Any information you give us will be held securely and in accordance with the rules on data protection. Your personal details will be treated as private and confidential and safeguarded, and will not be disclosed to anyone not connected to the Charity Commission for Northern Ireland unless you have agreed to its release, or in certain circumstances where:

- we are legally obliged to do so
- it is necessary for the proper discharge of our statutory functions
- it is necessary to disclose this information in compliance with our function as regulator of charities where it is in the public interest to do so.

We will ensure that any disclosure made for this purpose is proportionate, considers your right to privacy and is dealt with fairly and lawfully in accordance with the Data Protection Principles of the Data Protection Act.

The Data Protection Act 1998 regulates the use of "personal data", which is essentially any information, whether kept in computer or paper files, about identifiable individuals. As a "data controller" under the Act, the Charity Commission for Northern Ireland must comply with its requirements.

Freedom of Information

The Freedom of Information Act 2000 gives members of the public the right to know about and request information that we hold. This includes information received from third parties.

If information is requested under the Freedom of Information Act we will release it, unless there are relevant exemptions. We may choose to consult with you first if this relates to your consultation or application. If you think that information you are providing may be exempt from release if requested, please let us know.

Charities must NOT include copies of charity bank account statements in place of, or attached to, the accounts submitted to the Commission. Accounts and reports submitted to the Commission will automatically display on the public *register of charities*.

Further information on our activities is available from:

Charity Commission for Northern Ireland
257 Lough Road
Lurgan
Craigavon
BT66 6NQ

www.charitycommissionni.org.uk

Email: admin@charitycommissionni.org.uk
Tel: 028 3832 0220
Fax: 028 3832 5943
Textphone: 028 3834 7639

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