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# Transparency, Accountability and Compliance

**Alan Clarkin, Charity Information Compliance**

Supported by:



**CabinetOffice**  
Office of the **Third Sector**

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**Or**

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**“Please, sir, the  
dog’s eaten the  
accounts”**

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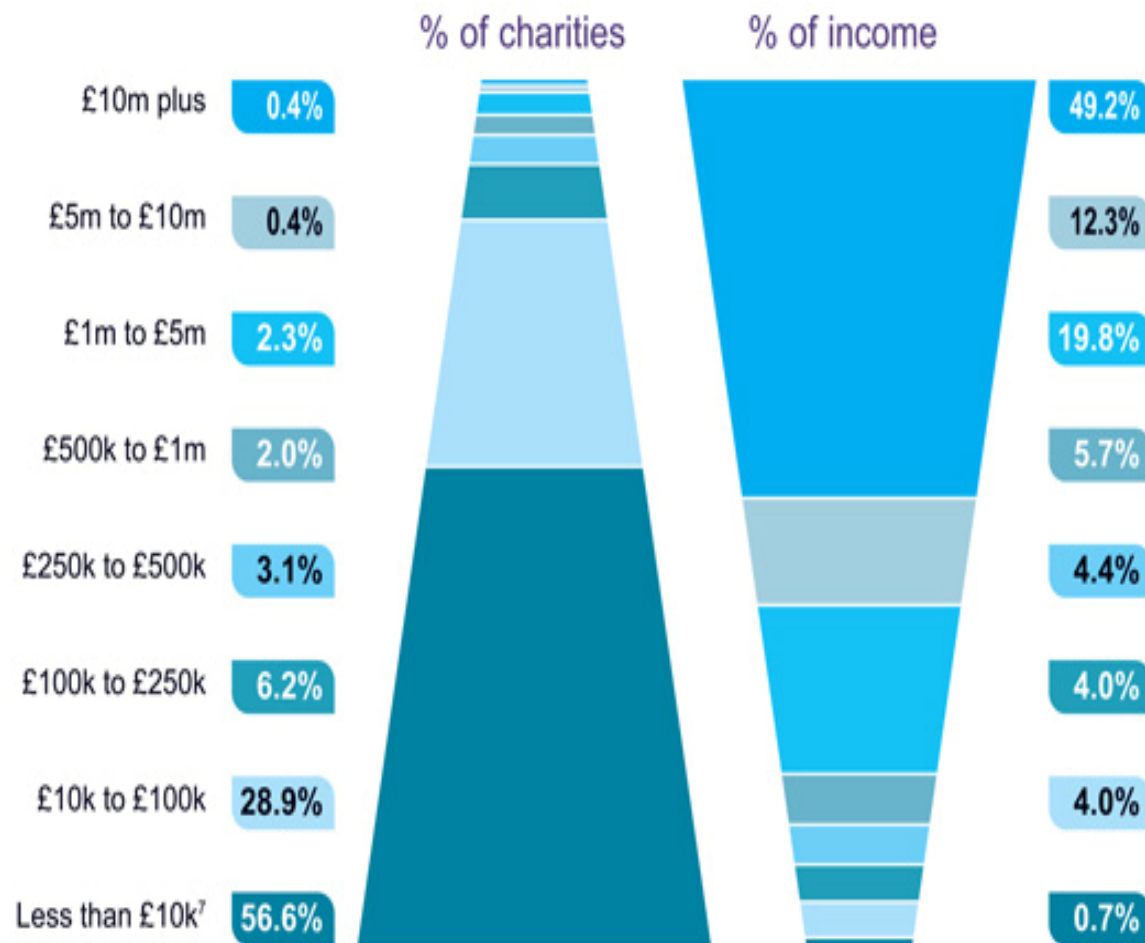
## **Registered Charities in England and Wales**

- 169,000 registered main charities 22,000 registered subsidiaries
- 73,000 charities are required to submit annual returns and accounts
- 54,000 accounts and reports displayed on CC website
- Total income in the region of £45bn

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## Sector income



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- 3% of charities have 81% of the income
- 85% of charities have less than 5% of the income
- 56% of charities do not have to send accounts to the Commission - they represent less than 1% of income

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**925,000**  
**trustees**

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## **The accounts don't say . .**

- On what?
- By whom?
- To achieve what?
- Why?
- How well?
- To what effect?

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## **Accounts don't tell you..**

- The charity's aims and objectives
- The strategies for achieving them
- The activities that have taken place
- What was achieved
- Plans for the future
- How the charity is managed
- How decisions are made

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**What is  
a SORP?**

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## **What is a SORP ?**

- Statement of Recommended Practice – interpreting accounting standards in context of particular sectors and sector specific transaction
- Developed under an Accounting Standards Board Code of Practice

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## **Who does SORP apply to?**

Accounts (accruals) –

Exempt Charities – (Schedule 2) – Different SORP or other provision

Companies – Companies Act – True and Fair

All other Charities (including Excepted Charities) – Charities SORP

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## **Who does SORP apply to?**

- Annual reports

Exempt Charities – (Schedule 2) – Different SORP or other provision

Companies and all other Charities – Charities SORP

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## **What does the Charities SORP try to achieve?**

- Improved quality of financial reporting
- Relevant, comparable and understandable information
- Clarification, explanation and interpretation
- Assistance to those responsible for preparation of Reports and Accounts

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## **What is in the Charity SORP?**

- What to put in the Trustees' Annual Report
- What accounting statements to prepare for external reporting
- How to lay out the SoFA and Balance Sheet
- How to calculate what goes into the statements – when and how to recognise income and expenditure
- What to disclose in the notes to the accounts

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## **Accounts Inspections to date**

### **Work undertaken -**

- Inspect a sample of 650 accounts across all income bands
- Vetting for basic SoRP compliance
- Quality of TARs

### **Outcomes -**

- Advise individual charities on findings
- Feedback to SoRP Committee
- Articles/outreach to improve levels of transparency and compliance

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## **Compliance Checks – Trustees' Annual Report**

### **Routine:**

- Name, address, trustee details
- Governing document, recruitment & appointment of trustees
- Objects and activities
- Achievements and performance

### **Policy statements:**

- Reserves statement
- Risk statement (if required)
- Investment policy (if required)
- Grant making policy (if required)

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## Quality of TARs

### GRADING OF REPORT:

- **Poor** – token or wrong report, key policy statement(s) missing
- **Adequate** – all key information and policies present but lacking insight and transparency
- **Good** – all key information and policies present, informs about the years performance, transparent and promotional

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## **Compliance Checks – Financial Statements**

### **Routine:**

- Primary statements are present, correct and follow prescribed layout
- Scrutiny is present, correct for charity size and clean

### **Risk areas:**

- Financial statements account for funds correctly,
- Recognise income in accordance with SoRP
- Allocate governance costs correctly
- Value assets in accordance with FRS 15
- Full disclosure of employees
- Full disclosure of grants paid
- Related party transactions

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## Quality of TARs by Income Band

| Income Band         | Poor | Adequate | Good |
|---------------------|------|----------|------|
| £10,000 - £100,000  | 62%  | 30%      | 8%   |
| £100,000 - £250,000 | 43%  | 49%      | 8%   |
| £250,000 - £500,000 | 29%  | 57%      | 14%  |
| £500,000 - £1m      | 33%  | 47%      | 20%  |
| £1m - £5m           | 23%  | 39%      | 38%  |
| £5m plus            | 9%   | 38%      | 53%  |
| Total               | 24%  | 41%      | 35%  |

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## The Good News – Trustees' Annual Report

| Reported in TAR                          | Percentage Occurrence |
|--|-----------------------|
| Risk Statement (where required)          | 97%                   |
| Reference and administrative information | 97%                   |
| Investment policy (where required)       | 94%                   |
| Objectives and activities information    | 93%                   |
| Grant making policy (where required)     | 92%                   |

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## Common Breaches of SoRP

| Details of non compliance  | Percentage Occurrence |
|--|-----------------------|
| The reserves statement in the TAR does not detail the level of reserves held                 | 26%                   |
| The methods adopted for the recruitment and appointment of trustees are missing from the TAR | 19%                   |
| The TAR does not report on the investment performance  | 17%                   |
| The financial statements report governance costs which appear excessive                      | 16%                   |
| The TAR has not changed from the previous year end   | 14%                   |

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**5% of accounts  
do not balance!**

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## **SoRP Committee – October 2007**

- Significant findings reported to the SoRP Committee
- Information sheet to be published offering clarification to ambiguous areas
- Findings to be considered for publication of SoRP 2010
- Article summarising findings for charity press

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## **SoRP Committee – October 2007**

- SoRP 2005 has improved the overall quality of accounts – impression of an improving picture
- Greatest improvements within accounts of medium sized charities

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# What's in a Trustees' Annual Report

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## **Changes - disclosures**

- the name of the Chief Executive (or senior staff);
- the induction and training provided for new trustees;
- details of any social or programme related investments;
- principal funding sources; and
- details of any social, environmental and ethical concerns taken account of in investment policy

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## **Changes - Structure**

- Reference and Administrative details
- Structure, Governance and Management
- Objectives and Activities
- Achievements and Performance
- Financial Review
- Plans for future periods

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## **Administrative details and trustees**

- Name, address, charity number
- Names of
  - managing trustees and custodian trustees at end of year and who served during year.
  - names of CEO (or senior staff) to whom day to day management is delegated
- Names and addresses of:
  - key advisers; auditors, bankers, solicitors etc.
- Exemptions where personal danger

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## **Structure, Governance and Management**

- Details of the charity's governing document
- How trustees are recruited, appointed and inducted
- Organisational structure and how decisions are made
- Relationships with related charities or other organisations
- A statement relating to risks

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## **Objectives and Activities**

- Summary of legal objects
- Explanation of aims
- The objectives for the year
- The charity's strategy for achieving its objectives.
- Significant activities
- Grantmaking policy
- Investment policy
- Policy relating to volunteers

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## **Achievements and Performance**

- A review of charitable activities and performance achieved against objectives set
- Fundraising activities and performance against objectives set
- Investment performance
- Factors within and outside the charity's control which impact on achievement of objectives

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## Reporting performance

- The difference between activities, outputs and results (or outcomes)
- Objectives (outputs or outcomes) that relate to the strategic mission or aims
- Activities - the means to achieving objectives Activities do not necessarily contribute to objective
- Planning processes will facilitate good reporting
- Time horizon will always be difficult

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## Financial Review

- A policy on reserves :-
  - the level of reserves
  - what the reserves are being held for
  - when the reserves are likely to be expended
- Comments on deficits
- Investment policies
- Principal funding sources and how expenditure has supported key objectives of charity
- Ethical stance of investment policy

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## **Plans for the future and Custodian Trustee**

### **Plans for the future**

- aims and key objectives for the future

### **Funds held as custodian on behalf of others**

- A description of the assets held
- Details of charity on whose behalf the assets are held
- Arrangements for holding assets.

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# Submission of Annual Returns and Accounts

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## **What do we get in?**

- 75% of accounts and annual returns (updates)
- 99% of all income

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## **Thresholds and making it easier**

- Over 100k charities do not have to forward accounts
- After 2009 a further 23,000 will not have to forward accounts to us
- Under £500k income - simplified returns

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## **On line option**

- Introduced in stages
- 70% take up in first full year
- 84% of over £500k charities
- Simplified completion
- Improved procedure

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CHARITY  
COMMISSION

## Annual Return 2007 - Charity Information

[Using this System](#) [Online Home](#)

[Charity Information](#)

[Submit / Check](#)

[Print Draft](#) [Log out](#)

### DUMMY CHARITY 23 - REGISTERED AS 3000023 - 3000023

#### Activities

Text for charity activity, unstructured and of variable length

confirm

#### Where

confirm

#### Classification

What (does your charity do)

#### Financial Year

##### Income and Expenditure

Gross Income:  £

Total Expenditure:  £

##### Financial Year Dates

FY Start Date: 

FY End Date: 

Next FY End Date:


confirm

#### Charity's Main Bank / Building Society Account

Bank/Building Society Name:

Sort Code:

#### Contact

 Dummy Person 23  
23 HAYMARKET  
LONDON  
  
SW1Y 4QX

Title:  
Personal Names: PERSONAL NAMES  
HERE  
Family Name: FAMILY NAMES HERE  
Preferred Name: Dummy Person 23  
Suffixes:  
Date of Birth: 24/01/1950

confirm

#### Trustees

Click 'Check' to edit and confirm your

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## What's the difference

2007

- Under £10k – Annual Update including area of operation
- Over £10k & under £25k - Annual Return including area of operation
- Over £25k & under £500k - Annual Return with serious incident reporting
- Over £500k Annual Return with serious incident reporting and Part B Financial Information
- Completing online is the preferred option
- A bespoke designed product

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## **Why change? The Commission's perspective**

- Proportionate regulation
- Collecting relevant information
- Better process for capture of information
- In-built validation
- More efficient
- Cost/time saving
- Responsive to customer demand

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## **Why change? The Charity's perspective**

- Proportionate response
- Automatic selection of form based on income
- Submitting relevant information
- In-built validation
- Easier process for submission of information
- More efficient
- Cost/time saving
- Responsive to customer demand
- Bespoke advice

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## **The process**

- Letter/email sent out
- Invitation to submit on line
- Unique password
- Option to select under £10k Update or over £10k Annual Return based on known income

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## **The process**

- Insert income and expenditure to access relevant form
- Confirm existing entry or edit to update
- Trustees – check – edit/confirm and save

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- You can update at any time throughout the year (view/amend)

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## **Sections on the form**

- Activities
- Financial Year
- Contact
- Where
- Charity's Main Bank/Building Society Account
- Classification
- Trustees
- Internet

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- **Please note...**

- You can click on the symbol  for guidance on the details required.
- The symbol  shows details that are published on our public Register of Charities.
- The symbol  shows details that are mandatory. You will not be able to move on to complete your return without filling these in.

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**Help line**

**0845 3000 197**

**enquiries@charitycommission.gsi.gov.uk**

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## **What is in the public domain?**

- Charity number and name
- Activities
- Where the charity operates
- Classification (What, who and how)
- Gross income/Total expenditure
- Financial year start and end dates

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## **What is in the public domain?**

- Name and address of charity contact
- Trustees (preferred name only)
- Charity email address
- Charity web site details
- Financial information (over £500k)
- Summary Information Return (SIR) (Over £1m)

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## **Further online options**

- Accounts
- Trustees' Annual reports
- Summary Information Return
- Serious Incidents

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## **Confirmation and bespoke advice**

- Confirmation issued
- Bespoke advice created based on information received
- Directs to existing advice and guidance
- Available to trustees

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## **Timeliness**

- 10 months
- Confirmation of compliance

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. . . And if  
you don't?

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## **Removal of inactive charities**

- Compliance is evidence of activity
- Failure to comply may lead to removal from the register
- Checks for charities with significant assets or risks

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## **Removal of inactive charities**

- Pilot exercise undertaken
- 53 agreed to be removed
- 27 agreed to comply
- Majority no response

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## Procedure

- Notification to be removed after 12 months (from the 10 month deadline)

### Year 2

- Notification to be removed after 6 months (from the 10 month deadline)

### Persistent offenders

- Notification to be removed after 2 months (from the 10 month deadline)

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## **Removal of inactive charities**

- Less burdensome for smaller charities to wind-up
- Guidance to be given on web site

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# **The New Register**

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## **Coming soon**

- Early July
- Ownership of entry by trustees
- New financial profile (£500k+)
- Compliance status

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## **Further Information**

**[www.charitycommission.gov.uk](http://www.charitycommission.gov.uk)**

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**Liverpool**

**L69 3UG**

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