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 Social Development.

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

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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 are a means of communicating considerable information about the charity in a relatively concise way. A well prepared and informative set of accounts 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 and the trustees' annual report
ARR04. Accruals accounts and the trustees' annual report
ARR05. How to complete the annual monitoring return
ARR06. Charity reporting: Interim arrangements and the annual monitoring return
PBR1. Public benefit requirement guidance – 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

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, applicable for 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 requirements that applied to previous financial years please refer to the Commission's guidance *Charity reporting: Interim arrangements and the annual monitoring return*.

This guidance applies to all registered charities for financial years beginning on or after 1 January 2016.

While this guidance does not cover the requirements for some charities, including those that are not yet registered and section 167 charities, it is strongly recommended 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**, receipts and payments accounts or **accruals accounts**. This information is covered in other guidance 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. 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** apply the full accounting and reporting regulations to their accounts and reports prepared 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** apply the full accounting and reporting regulations to the preparation of their accounts and reports.

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. More details about these requirements are given in the sections which follow.

Charity legislation

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

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

References in this guidance 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 if you are a very small charity you may, at some time in the future, for example due to an increase in the charity's 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.**

Unincorporated charity: An unincorporated charity is one which is not a company or corporate body. Unincorporated charities may be a trust or association and have a trust deed, constitution, or will as its governing document. Unlike a charitable company, unincorporated charities do not have their own separate legal identity. Charity trustees of unincorporated charities are liable for what the charity does. You may need to take legal advice if you are uncertain of your liabilities.

Financial year (period): your financial year or period will normally be 12 months long but, in certain circumstances, it can be shorter or longer. For **unincorporated charities**, it can 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 of more than 15 months.

Receipts and payments accounts: this is a simplified method of cash accounting which summarises the money received, in cash and via the bank, and paid out, during the financial year along with a statement of assets and **liabilities**. Charities that are companies cannot prepare its accounts on a **receipts and payments** basis under company law.

Accruals accounts: refers to accounts prepared on a 'true and fair' basis in accordance with accounting standards and the SORP (Statement of Recommended Practice). 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 certainty about income, and expenses, when the liability is incurred. This is not necessarily the same date on which money is received or paid out.

Statements of Recommended Practice (SORPs): are sector-driven recommendations on accounting practices for specialised industries or sectors which supplement accounting standards and other legal and regulatory requirements in the light of the special factors prevailing or transactions undertaken in a particular industry or sector. Under charity law, general charities must apply the Accounting and Reporting by Charities: Statement of Recommended Practice FRS 102 (Charities SORP FRS102). Special case charities must apply as relevant either; the Statement of recommended practice: Accounting for further and higher education; or the Housing SORP 2014: Statement of Recommended Practice for registered social housing providers.

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

Special case charities: These charities are permitted to use alternative SORPs when preparing accruals accounts and are defined in the accounting and reporting regulations. Broadly, a **special case** charity is any charity which is:

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

Previous financial year: of a charity means that immediately preceding the current financial year.

Relevant financial year: 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 reporting 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 examiner: this is an independent person with the requisite ability and practical experience to carry out a competent examination of a charity's accounts. 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. Charity trustees should take steps to ensure that a competent examination takes place and they will therefore consider carefully the suitability and eligibility of a prospective independent examiner.

Connected: In the context of this guidance, the term 'connected' is applied when considering whether a person is independent of a charity and can undertake an independent examination of the charity's accounts. Whether a connection with the charity affects independence will depend upon the particular circumstances but the following persons will not normally be considered to be independent:

a) the charity trustees or anyone else who is closely involved in the administration of the charity

b) a major donor to or major beneficiary of the charity

c) a child, parent, grandchild, grandparent, brother or sister, spouse, civil partner, business partner or employee of any person who falls within sub-paragraph (a) or (b).

Trustees' annual report: should be 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

Smaller charities can prepare a simplified trustees' annual report while larger charities must provide more detail. All charities must explain how the activities undertaken during the year have furthered the charity's purposes for the public benefit. Further information on what must be contained within the trustees' annual report can be found in the following guidance documents:

ARR03. Receipts and Payments accounts and the trustees' annual report

ARR04. Accruals accounts and the trustees' annual report

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, governance and finances 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 2015.

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.

Examples of the relevant reporting periods and the arrangements that will apply are set out in the table below.

Charity	A	B	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

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 1 April 2015 to 31 March 2016 financial period but, because this period did not start on or after 1 January 2016, may follow the interim reporting arrangements. For further information refer to the *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.

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 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 fall under any other legislative requirements must comply with them also.

More detail on the types of accounts you must prepare, and the level of external scrutiny they must have, is found at Section 4 and Section 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.

3.1 Charities not yet registered with the Commission

Charities that are not registered with the Charity Commission for Northern Ireland, or that are preparing accounts for a financial year that begins **before** 1 January 2016, are not required to prepare their accounts in a particular way 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, or date of registration with the Commission if later. In order to prepare for the upcoming and 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 your charity has comparative figures to include in the first year of reporting, a compulsory aspect of SORP accounts.

Unincorporated charities 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 (NI) 1964.

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. Please proceed to box 3.

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: ***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: ***Charity reporting and accounting: the essentials***

Figure 2: Table of key 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	**Simplified Annual report** must be prepared	**Annual Return** **Annual Report** and **Accounts** **IE or Audit report**
£250,001 - £500,000	**Accruals accounts** in accordance with SORP	**Independent examination** (IE) by a prescribed person	**A full Annual Report** must be prepared	**Annual Return** **Annual Report** and **Accounts** **IE or Audit report**
> £500,000	**Accruals accounts** in accordance with SORP	**Statutory audit** carried out by a registered auditor	**A full Annual Report** must be prepared	**Annual Return** **Annual Report** and **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 Annual report** must be prepared	**Annual Return (group)** **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 depending on the income of the organisation see section 4 for further information
2 Charities that are companies must also prepare a directors' report under the Companies Acts. In practice, the directors' report is expanded to include information required in the Annual Report
3 All documents must be filed with the Commission within 10 months of your charity's financial period 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 9 for information on consolidated or group accounts

3.2 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, whether it is a company and therefore must meet the requirements of company law also. 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.

3.2.1 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 register of charities for Northern Ireland ("the register"). It is the date to which your charity accounts are prepared.

Your financial period will normally be 12 months long but, in certain circumstances, it can be shorter or longer. For **unincorporated charities**, it can 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.

3.2.2 How do I calculate gross income?

A definition of **gross income** is set out in the key terms section at the front of this document and in the glossary. Broadly, it 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** 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.

3.2.3 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.

3.2.4 What type of accounts do I need to prepare?

All charities must prepare accounts. Registered charities must prepare either receipts and payments accounts or accruals accounts for full accounting periods beginning on or after 1 January 2016, or the date of registration with the Commission if later. The type of accounts your charity must prepare depends on the size and type of your charity.

For further information on what should be included in receipts and payments accounts and accruals accounts please refer to the relevant guidance:

- *ARR03. Receipts and Payments accounts and the trustees' annual report*
- *ARR04. Accruals accounts and the trustees' annual report*

3.2.5 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 more information on what type of review your charity accounts must have please see Section 5 of this guidance.

3.2.6 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.

3.2.7 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 9 of this guidance.

Section 4: Preparing your charity's accounts

4.1 Determining the type of accounts you must 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**, regardless of level of 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).

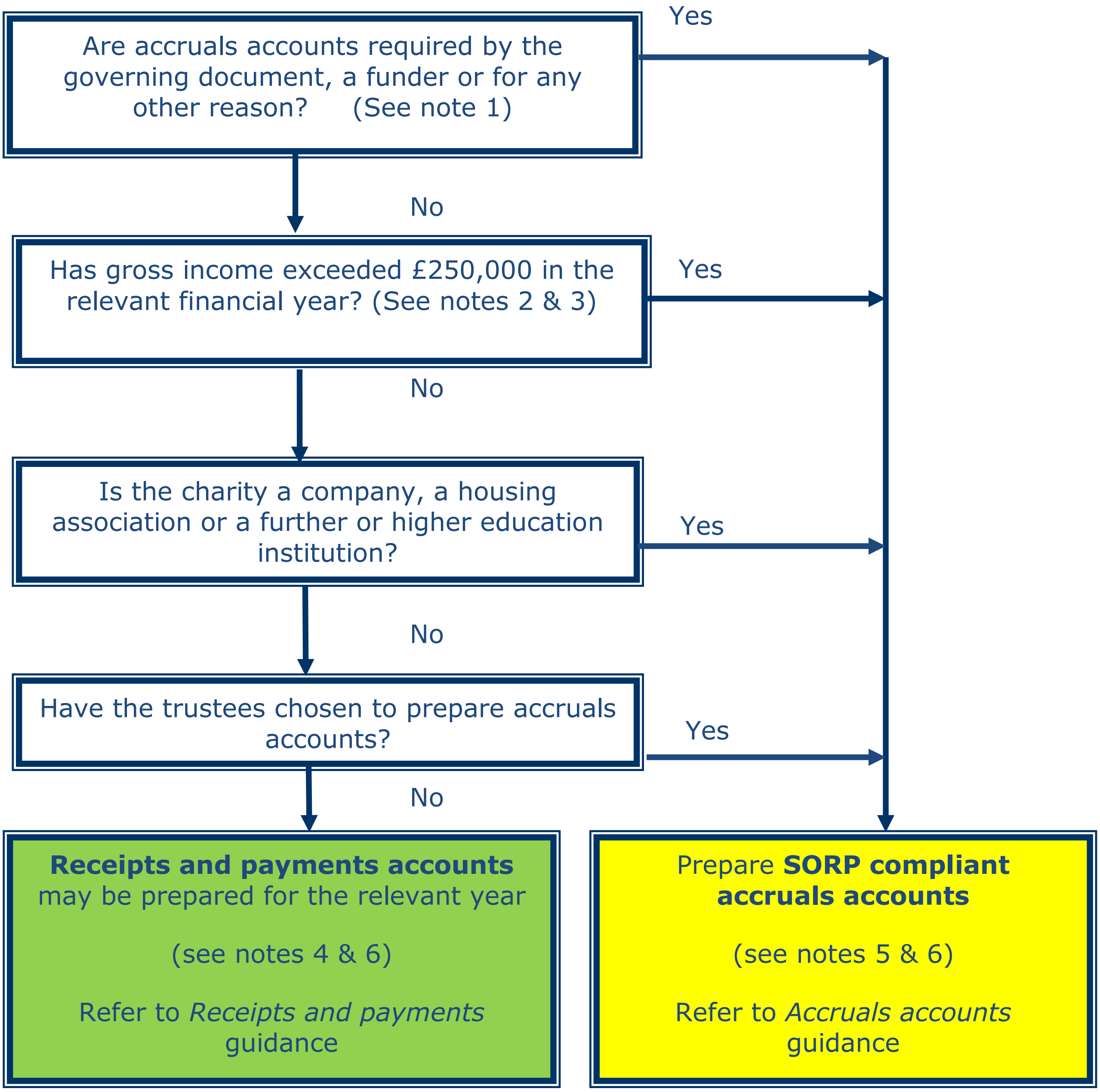
Apart from the statutory requirement, any constitutional or third party reference to accounts providing a 'true and fair view' of the financial affairs of the charity requires the preparation of accruals accounts.

Figure 3 - 'Preparing Accounts' will assist you in determining the type of accounts your charity must prepare in the relevant financial year. Please note that these rules do not apply to grant aided schools, provision has been made in the accounting and reporting regulations for these types of charities. For further information please see section 11 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 and the trustees' annual report*
- *ARR04. Accruals accounts and the trustees' annual report*

Figure 3 – Preparing Accounts



Notes

1. These rules do not apply to grant aided schools under regulation 5(3) of the Charities (Accounts and reports) regulations Northern Ireland 2015
2. Charities must be registered with the Commission for the form and content regulations to apply
3. Charities must apply this test for the relevant financial year. This must begin on or after 1 January 2016 or date of registration with the Commission if later
4. Under section 64 (3) of the Charities Act (Northern Ireland) 2008
5. Under regulation 8,9 or 10 of The Charities (Accounts and Reports) Regulations (Northern Ireland) 2015 Applicable SORP – see technical terms at Section 1
6. 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 5: External scrutiny

5.1 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 £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.

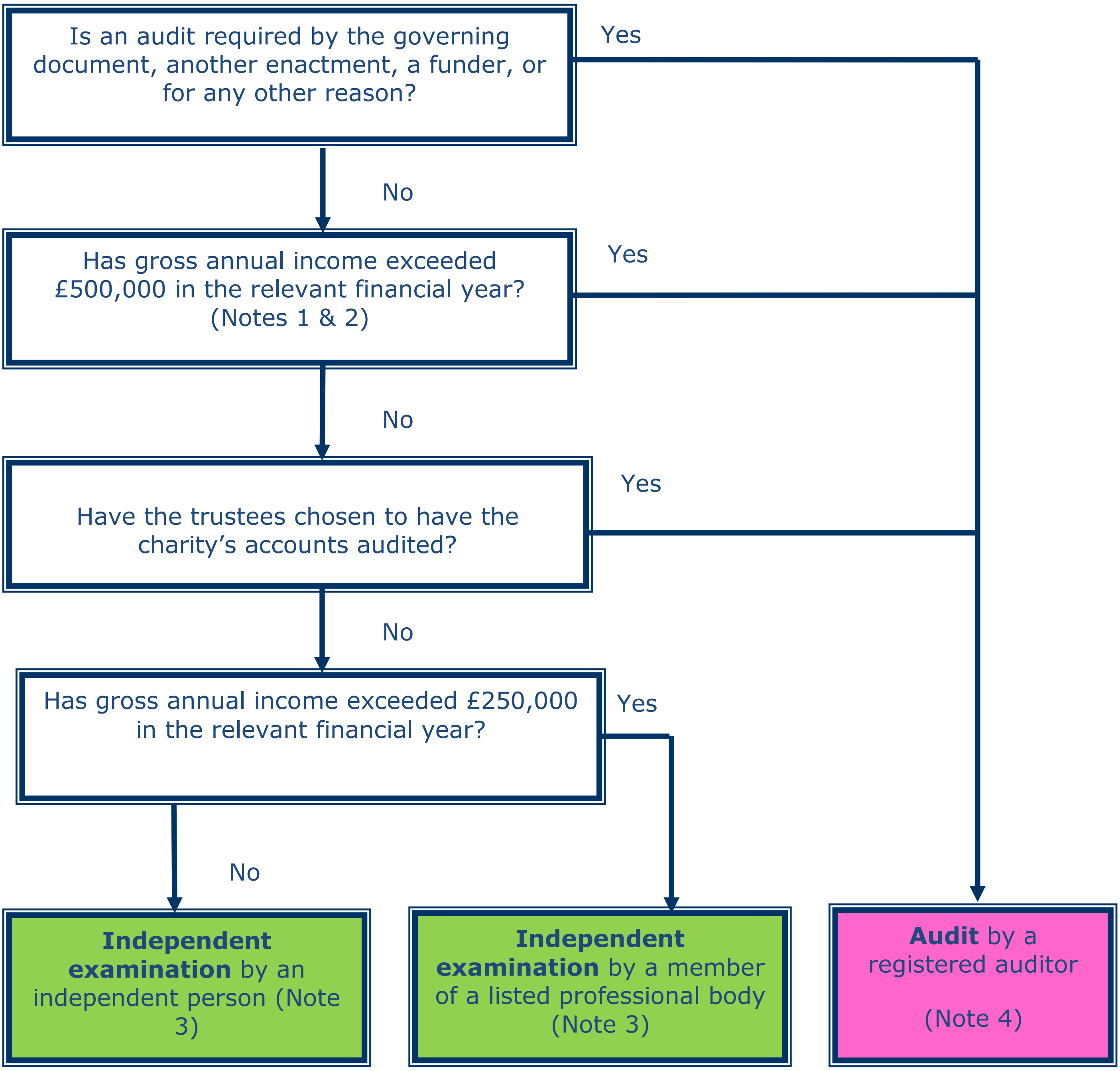
Figure 4: Determining level of scrutiny required

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

*A qualified person is a member of one of the professional bodies listed in the Charities Act. See section 5.2 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 rules do not apply to grant aided schools, see section 11 of this guidance for further information.

Figure 5: External scrutiny requirements



Notes:

1. These rules do not apply to grant aided schools under regulation 5(3) of the Charities (Accounts and reports) regulations NI 2015 see section 11
2. External scrutiny rules for 'parent' charities apply to the gross annual income of the group see section 10.
3. Details about the two types of independent examination are given in section 5.2 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).

5.2 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.

Trustees of registered charities may opt for an independent examination provided the charity's gross income does not exceed the statutory threshold of £500,000.

There are two main types of independent examination your charity may have depending on the size of your charity.

1. For charities with a gross annual income of £250,000 or less: Independent examination by an independent person

2. For charities with a gross annual income falling between £250,001 and £500,000: 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.

Please note the Commission is consulting on Directions for independent examiners. These Directions will set out the procedural basis that must be followed when carrying out any independent examination of charity accounts. Once determined, the Commission will produce full guidance on Directions for independent examiners.

Further information on the appointment, rights and duties of independent examiners can be found in section 6 of this guidance.

5.3 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 6 of this guidance.

5.3.1 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, revokes the savings in the Companies Act 2006 for small charitable companies in Northern Ireland.

This means requirement under the Companies (Northern Ireland) Order 1986 relating to the audit of charitable companies, no longer applies.

Section 6: Appointment, rights and duties of the independent examiner and external auditor

6.1 Appointing someone to carry out the external scrutiny

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).

The independent person, examiner or auditor must have no connection with the charity trustees that might inhibit their ability to carry out an impartial examination ie they must be independent of the charity whose accounts are being reviewed. Independence means that the examiner is not influenced, or perceived to be, by either close personal relationships with the trustees of the charity or by a day to day involvement in the administration of the charity being examined. Further information on what might constitute a connection is available in the key terms section at the start of this guidance and in the glossary.

An examiner cannot independently review their own work and so the person who is the charity's book-keeper cannot be the charity's examiner. However, this does not mean an examiner cannot be a member or supporter of the charity. 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) who are not also trustees, 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
- 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 the examiner from conducting an independent examination. However, active participation in the administration of the charity would, for example, through tabling resolutions at an AGM.

6.2 What skills are required to carry out the external scrutiny?

The appointment of an independent person or examiner is made by the trustees who must reasonably believe that the person selected has the requisite ability, practical experience and, if applicable, qualifications, to carry out a competent examination of the accounts.

An independent examiner must be competent for the task and familiar with accounting methods, but they need not be a practising accountant. However, where charity law requires the independent examiner to be a member of a professional body, for example to examine the accounts of a charity with an income of more than £250,000, then this must be adhered to.

If your charity must have a statutory audit by law, 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.

For information on the content requirements of an audit report under the new accounting and reporting regulations, please see the relevant guidance; *ARR03. Receipts and Payments accounts and the trustees' annual report* or *ARR04. Accruals accounts and the trustees' annual report.*

6.3 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.

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

Under the Charities Act, independent examiners and auditors **must** 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), intends to hold a joint UK wide consultation in relation to the proposed policy for matters of material significance later in 2016. At that time we will seek your views on what should constitute 'matters of material significance' that all Independent Examiners and auditors should report. CCEW and OSCR currently have an agreed, shared list of matters of material significance that applies to Independent examiners and auditors in Scotland, England and Wales, which are summarised below. These are used as examples only to assist independent examiners and auditors; however they should not be seen as exhaustive:

- matters suggesting dishonesty and fraud involving a significant loss of, or a major risk to, charitable funds or assets
- failure(s) of internal controls, including failure(s) in charity governance, that resulted in significant loss or misappropriation of

charitable funds, or which leads to significant charitable funds being put at major risk

- matters leading to the knowledge or suspicion that the charity or charitable funds 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
- matters leading to the belief 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
- evidence suggesting that, in the way the charity carries out its work relating to care and welfare of beneficiaries, the charity beneficiaries have been or were put at significant risk of abuse or mistreatment
- significant or recurring breach(es) of either a legislative requirement or of the charity's trusts
- 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
- the notification on ceasing to hold office or resigning from office, of those matters reported to the charity's trustees.

Section 7: Accounting records

Section 63 of the Charities Act requires all registered charities which are not companies to keep proper accounting records. By law, charity trustees 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:

- 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 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 (e.g. 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 3 years** and public companies for **at least 6 years** from the date on which they are made.

Section 8: The trustees' annual report

8.1. 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's trustees. Although trustees may seek the assistance of the charity's staff or advisors in drafting the report, the 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 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 relevant guidance:

- *ARR03. Receipts and Payments accounts and the trustees' annual report*
- *ARR04. Accruals accounts and the trustees' annual report*

Section 9: Annual reporting to the Charity Commission

To keep the register of charities up to date, and allow the Commission to monitor and regulate charities, all 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. Sections 22 and 23 of the Charities Act give the Commission the power to make enquiries about, and obtain information from, charities.

9.1 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 on your charity's activities, governances 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 and is proportionate.

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.

9.2 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*.

9.3 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, or a **statement of financial activities**
- statements of balances 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 balances (receipts and payments accounts) or balance sheet (accruals accounts)
- report of an independent examiner or auditor, as appropriate.

9.4 Failure to comply

You **must** submit your charity's annual monitoring return, accounts and reports 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. Inclusion on the register at this stage does not indicate that the quality of the information is sufficient.

Section 10: 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.

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

Under new charity law, 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 **SORP**
- prepare a consolidated trustees' annual report for the charity and its subsidiaries
- have the group accounts examined or audited, depending on the gross annual income of the group see section 5
- 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.

10.1 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 11: Charities that are grant-aided schools

The Charities (Accounts and reports) regulations 2015 make provision for charities that are grant-aided schools in terms of accounting and reporting arrangements, given they 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 2015 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 *AAR03 Receipts and Payments accounts and the trustees' annual report*.

All registered charities 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.

If you would like more information on schools and charity registration in Northern Ireland please see the Commission's website.

Appendix 1: Glossary

Term	Definition
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.
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.
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 certainty 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).

Term	Definition
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. E.g. property, equipment, vehicles, etc. Other assets can only be owned for a short term (usually less than 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 e.g. 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 ISAs (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 • 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.

Term	Definition
	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 any companies that were already established under previous legislation. Charitable companies are registered with Companies House. It will usually have memorandum and articles of association as its governing document 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, as amended. The full content of the 2008 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 creditors • has previously been removed as a trustee by the

Term	Definition
	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
Connected	In the context of this guidance, the term 'connected' is applied when considering whether a person is independent of a charity and can undertake an independent examination of the charity's accounts. Whether a connection with the charity affects independence will depend upon the particular circumstances but the following persons will not normally be considered to be independent: a) the charity trustees or anyone else who is closely involved in the administration of the charity b) a major donor to or major beneficiary of the charity c) a child, parent, grandchild, grandparent, brother or sister, spouse, civil partner, business partner or employee of any person who falls within sub-paragraph (a) or (b).
Consolidation adjustments	Adjustments that need to be made in the process of the consolidation of the accounts of a group of organizations. 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

Term	Definition
	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. For unincorporated charities, it can 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 of more than 15 months.
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.
Gross income	Section 180 of the Charities Act 2008 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 generally the total receipts recorded in the statement of accounts excluding endowments, loans and proceeds from sale of investments or fixed assets. For charities using these pro forma accounts, their gross income is the total receipts shown in section A1 of the pro forma accounts. For accounts prepared on an accruals basis gross income is the total incoming resources as shown in the Statement of Financial Activities (prepared in accordance with the Statement of Recommended Practice for charities) for all funds but excluding any endowment and including any amount transferred from endowment funds to income funds during the year so as to be available for expenditure.
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

Term	Definition
	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.
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. There are two main types of independent examination a charity may have depending on the size of the charity; independent examination by an independent person or independent examination by a person who is a member of one of the professional bodies listed in section 65(5) of the Charities Act.
Liability	Liability is an obligation to pay for something. Liabilities include, but are not limited to, loans, creditors, and bank overdrafts.
Receipts and payments accounts	These are a simple form of accounting that consist 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 (c46). 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).
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 Social Development has made regulations outlining the financial statements and statements of activities

Term	Definition
	which such institutions will be required to submit to the Commission. Further details will be available once the regulations are made and consulted on.
Special case charities	These charities are permitted to use alternative SORPs when preparing accruals accounts and are defined in the accounting and reporting regulations. Broadly, a special case charity is any charity which is: a) a registered housing association b) an institution of further or higher education.
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.
Statements of Recommended Practice (SORPs)	Statements of Recommended Practice (SORPs) supplement accounting standards and other legal and regulatory requirements in the 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).
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.
Trustees' annual report	A trustees' annual report should be produced by the charity trustees and, along with the charity accounts, tells people: • about the charity's work • where its money comes from • how the charity money has been spent. Smaller charities can prepare a simplified trustees' annual report while larger charities must provide more detail. The content requirements of the trustees' annual report are prescribed by the Charities (Accounts and Reports) Regulations (Northern Ireland) 2015, and the Charities SORP.

Term	Definition
	All charities must explain how the activities undertaken during the year have furthered the charity's purposes for the public benefit.
Unincorporated charities	An unincorporated charity is one which is not a company or corporate body. Unincorporated charities may be a trust or association and have a trust deed, constitution, or will as its governing document. Unlike a charitable company, unincorporated charities do not have their own separate legal identity. Charity trustees of unincorporated charities are liable for what the charity does. You may need to take legal advice if you are uncertain of your liabilities.
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.

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 1227 Liverpool L69 3UG **Telephone:** 0845 300 0218 **Website:** www.charitycommission.gov.uk
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 Social Development (DSD) Voluntary and Community Unit	Lighthouse Building 1 Cromac Place Gasworks Business Park Ormeau Road Belfast, BT7 2JB **Telephone:** 028 9082 9416 **Website:** www.dsdni.gov.uk
HM Revenue and Customs (HMRC)	HM Revenue & Customs Charities Correspondence S0708 PO Box 205 Bootle L69 9AZ **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 and the trustees' annual report

ARR04. Accruals accounts and the trustees' annual report

ARR05. How to complete the annual monitoring return

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

PBR1 Public benefit requirement guidance – public benefit reporting

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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