

## APPENDIX 1

### 1. Trustees' annual report

#### Overview and the purpose of the trustees' annual report

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1.1. The primary purpose of the trustees' annual report (the report) is to ensure that the charity is publicly accountable to its stakeholders for the stewardship of the funds it holds on trust. To **communicate relevant information in the most helpful way**, trustees should ask themselves:

- Who are the primary users of the report?
- What are the information needs of users of the report?

Users may vary from charity to charity but will normally include funders, donors, financial supporters, service users and other beneficiaries.

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

1.3. The report must meet the requirements of law and regulation. It should provide a fair, balanced and understandable review of the charity's structure, legal purposes, objectives, activities, financial performance and financial position. The report provides an essential link between a charity's legal purposes and the charity's aims and objectives and the activities it undertakes to achieve them.

1.4. Good reporting explains what the charity is set up to do, how it is going about it, and what is achieved as a result of its work. The report should help users to interpret the accounts by linking the activities and achievements reported with the sources of income used to finance them and the expenditure incurred on those activities. A charity's accounts focus on its financial position and financial performance. The report and accounts taken together should provide a picture of what the charity has done (its outputs); what it has achieved (its outcomes); and what difference it has made (its impact).

1.5. The report is an opportunity to reflect on the year and tell the charity's story, acknowledging both successes. It should help the user to understand where the charity's money has come from and why the money has been spent in the way it has; to assess the charity's progress against its objectives and to understand its plans in relation to its purposes.

1.6. Stakeholders are increasingly wanting to understand how charities are responding to environmental matters and trustees should consider how their report can best address these expectations.

1.7. For the report to be prepared in accordance with this SORP, charities are required to comply with all the applicable reporting requirements prefixed with a 'must'. The reporting requirements are split between 3 tiers to reflect the

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range of sizes of charity that are present in the sector. The reporting requirements are split between the 3 tiers as follows:

- Charities in tier 1 must comply with the requirements in tier 1
  - Charities in tier 2 must comply with the requirements in tier 1 and tier 2
- Charities in tier 3 must comply with the requirements in tier 1, tier 2 and tier 3.

1.8 The relevant paragraphs for each tier are outlined in Table xx:

	Tier 1	Tier 2	Tier 3
Objectives and activities	1.19 to 1.22	1.38 to 1.42	
Achievements and performance	1.23	1.43 to 1.48	1.56
Financial review	1.24 to 1.28	1.49 to 1.51	1.57 to 1.58
Plans for future periods		1.52 to 1.53	
Structure, governance and management	1.29 to 1.30	1.54	1.59
Reference and administrative details	1.31 to 1.32		1.60
Funds held as custodian trustee	1.36		
Sustainability			1.62 to 1.63

1.9. Additional information may be included within the report or may accompany the accounts if it is considered helpful for users, for example a Chairman's Report, an environmental report, or an impact assessment.

1.10 Trustees may present the contents of their report in any order and under any headings that they choose.

1.11 Within the report, charity trustees might usefully refer to other sources of information about the charity and what it is doing. Such information which is outside of the statutory reporting framework, is often tailored to the needs of particular audiences and presented through annual reviews, newsletters and websites. Although this information may be useful to users of the accounts, it is not a substitute for complying with legal requirements or the requirements of this SORP.

1.12 The report provides important accompanying information to the accounts and therefore should be provided whenever a full set of accounts is distributed or otherwise made available. The report must identify the reporting period (financial year) of the charity to which it relates and the date of its approval. One or more of the charity's trustees must sign and date the report on behalf of the trustees upon their approval of the report.

1.13. This module sets out:

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- reporting by tier 1 charities;
- content required of tier 1 charities;
- the additional content required of tier 2 charities;
- the additional content required of tier 3 charities;
- parent charities; and
- charitable companies.

### Reporting by tier 1 charities

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1.14. The reporting requirements take account of the size of the charity so tier 1 charities are not required to provide as much information as tier 2 or tier 3 charities.

1.15. However, tier 1 charities are encouraged to include some or all of the additional information required of tier 2 and tier 3 charities if the charity trustees consider such additional information relevant to their charity's stakeholders.

### The content of the trustees' annual report required of tier 1 charities

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1.16. The SORP's requirements that tier 1 charities must follow also apply to tier 2 and tier 3 charities and are set out in the following headings:

- objectives and activities;
- achievements and performance;
- financial review;
- structure, governance and management;
- reference and administrative details;
- exemptions from disclosure; and
- funds held as custodian trustee on behalf of others.

1.17. The headings used in the report may be amended to fit the preferences of the charity provided the information required by this module is clearly presented in the report.

1.18. Tier 2 charities must also refer to the section 'The additional content required of tier 2 charities' for their report to be compliant with the SORP. Tier 3 charities must refer to the sections 'The additional content required of tier 2 charities' and 'The additional content required of tier 3 charities' for their report to be compliant with the SORP.

#### **Objectives and activities**

1.19. The report provides information to help the user understand the charity's aims and objectives and how these fulfil its legal purposes. It should also explain the activities it undertakes and what it has achieved.

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### 1.20 Charities must provide a summary of:

- **the purposes of the charity as set out in its governing document;**
- **and**
- **the main activities undertaken in relation to those purposes.**

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### 1.21. Charities in England, Wales and Northern Ireland must also:

- explain the main activities undertaken to further the charity's purposes for the public benefit; and
- include in their report a statement confirming whether the trustees have had regard to the Charity Commission's guidance on public benefit.

1.22. The report should explain the activities, projects or services identified in the accompanying accounts. Numerical information provided in the report about the resources spent on particular activities should be consistent with the analysis provided in the accounts, see Tables 2a and 2b and section B, Expenditure, Module 4. This is important so that readers of the accounts gain a greater understanding of the detail in the financial statements.

### Achievements and performance

### 1.23. The report must contain a summary of the main achievements of the charity. To assist with this, trustees must consider the following questions:

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- **in what way has the charity's work made a difference to the circumstances of its beneficiaries?**
- **Has the charity's work provided any wider benefits to society as a whole?**

Use of infographics, statistics, beneficiary and volunteer testimonials may help communicate this information to readers.

### Financial review

1.24. **The report must contain a review of the charity's financial position at the end of the reporting period.** Numerical details should be consistent with the figures in the charity's financial statements where appropriate.

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1.25. **The charity must explain any policy it has for holding reserves and state the amount of those reserves (refer to glossary) and why they are held.** The reserves calculation should reconcile to figures in the financial statements and this should be shown in a note to the financial statements, either in the funds note or as a separate note. **If the trustees have decided that holding reserves is unnecessary, the report must disclose this fact and provide the reasons for this decision.**

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1.26. **The report must also identify any fund or subsidiary undertaking that is materially in deficit, explaining the circumstances giving rise to the deficit and the steps being taken to eliminate the deficit.**

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1.27. The charity should clearly explain how the level of reserves relates to their going concern note. For example, if the charity has negative reserves (as defined in the glossary), it should explain why it is still operating as a going concern.

1.28. If, at the date of approving the report and accounts, there are uncertainties about the charity's ability to continue as a going concern, the nature of these uncertainties should be explained.

### Structure, governance and management

1.29. The report must provide details of:

- the nature of the governing document (e.g. trust deed, memorandum and articles of association, Charity Commission scheme, Royal Charter, etc.);
- how the charity is (or its trustees are) constituted (e.g. limited company, unincorporated association, trustees incorporated as a body, charitable incorporated organisation, community benefit society, industrial and provident or friendly society etc.);
- the name of any person or body of persons entitled by the trusts of the charity to appoint one or more new charity trustees and a description of the method provided by those trusts for such an appointment; and
- the methods used to recruit and appoint new charity trustees, including details of any constitutional provisions for appointment, for example election to post. Where any other person or external body is entitled to appoint one or more of the charity trustees, the report should explain this and give the name of that person or body.

1.30. Charities may withhold certain governance and management details where the criteria for exemption from disclosure are satisfied (see 'Exemptions from disclosure').

### Reference and administrative details

1.31. The report must provide the following reference and administrative information about the charity and its trustees:

- the name of the charity, which in the case of a registered charity means the name by which it is registered;
- any other name which the charity uses;
- the charity registration number(s) for the jurisdiction(s) in which it is registered as a charity and, if applicable, its company registration number;
- the address of the principal office of the charity and, in the case of a charitable company, the address of its registered office;
- the names of all those who were the charity's trustees on

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**the date the report was approved or who served as a trustee in the reporting period;**

- **where a charity has any corporate trustees, the names of the directors of the body corporate on the date the report was approved; and**
- **the names of any trustee for the charity holding the title to property belonging to the charity (for example custodian trustee or nominee) on the date the report was approved; or**
- **who served as a trustee for the charity in holding the title to property belonging to the charity in the reporting period.**

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1.32. Charities may withhold certain reference and administrative details where the criteria for exemption from disclosure are satisfied (see 'Exemptions from disclosure').

### Exemptions from disclosure

1.33. On occasions, the disclosure of the names of trustees or of the charity's principal address or the disclosure of the name(s) of any chief executive officer or other senior staff member(s) could lead to that person (or others) being placed in personal danger (e.g. in the case of a women's refuge). In such circumstances, the applicable law and regulations may permit the withholding of these details. Where a report omits the name of a trustee, chief executive officer or senior staff member or the charity's principal address, it should give the reason for the omission.

1.34. Charities in England and Wales may omit the names of those persons and the charity's principal address from their report provided the Charity Commission has given the charity trustees the authority to do this. In Scotland and Northern Ireland, there are also provisions under charity law for such information to be excluded.

1.35. The directors of charitable companies registered in the UK should note that, with the exception of the name of the auditor, or senior statutory auditor in the case of an audit firm (section 506 Companies Act 2006), there is no corresponding dispensation in relation to the disclosure of names.

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

1.36. If a charity is, or its trustees are, acting as custodian trustees, the charity must refer to the SORP module '[Accounting for funds received as agent or as custodian trustee](#)'.

### [The additional content required of tier 2 charities](#)

1.37. A greater degree of public accountability and stewardship reporting is expected of tier 2 and tier 3 charities. Tier 2 charities in compiling their report must meet the requirements placed on tier 1 charities as set out above and also provide the additional information detailed under the following headings:

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- objectives and activities;
- achievements and performance;
- financial review;
- plans for future periods; and
- structure, governance and management.

### Objectives and activities

1.38. Good reporting provides a coherent explanation of the charity's strategies for achieving its aims and objectives and explains how the charities' activities contributed to the achievement of those aims and objectives.

1.39. Charities meeting tier 2 requirements should provide the user with a more detailed understanding of their short-term and longer-term aims and objectives, including any environmental or social objectives where relevant. A charity should explain how the aims and objectives set for the reporting period relate to its longer-term aims and objectives. When explaining activities, it is important for the user to understand their scale and the resources used in their delivery; for example, it may be helpful to provide details of the amount spent on, or the number of staff engaged in, undertaking a particular activity.

1.40. In particular, the report must provide answers to the following questions:

- **What are the charity's aims and what issues does it seek to tackle?**
- **What are the changes or differences it seeks to make through its activities?**
- **What are the charity's strategies for achieving its stated aims and objectives?**
- **What criteria or measures does the charity use to assess success in the reporting period?**

and

- **What significant activities does the charity undertake (including its main programmes, projects or services provided) and how do these contribute to the achievement of the charity's stated aims and objectives?**

1.41. The report must include an explanation of the use the charity makes of the following:

- **Social investment, when this forms a material part of its charitable and investment activities. In particular, the report must provide an explanation of its social investment policies and explain how any programme related investments contributed to the achievement of its aims and objectives.**
- **Grant-making, when this forms a material part of its charitable activities. In particular, the report must explain the charity's grant-making policy and explain how its grant-making activities contribute to**

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Commented [DO25]: E&W regs have a provision "a description of the policies ...for the selection, retention and realisation of investments...including the extent to which social, environmental or ethical considerations are taken into account."

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### the achievement of its aims and objectives.

- **Volunteers**, when their contribution is significant to a charity's ability to undertake a particular activity. The explanation should help the user to understand the scale and nature of the activities undertaken. However, measurement issues, including attributing an economic value to the contribution of general volunteers, prevent the inclusion of their contribution in the statement of financial activities (see the SORP module '**Donated goods, facilities and services, including volunteers**').

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1.42. Charities reporting on the contribution of general volunteers may provide:

- information on the number of volunteers;
- an explanation of the activities that volunteers support or help to provide; and
- details of the contribution in terms of volunteer hours or staff equivalents.

### Achievements and performance

1.43. Good reporting sets out how well the charity and any subsidiaries carried out their activities and the extent to which the achievements in the reporting period met the aims and objectives set by the charity for the reporting period. Good reporting provides a balanced view of successes and failures along with the supporting evidence, and demonstrates the extent of performance and achievement against the objectives set and the lessons learned.

1.44. **In particular, the report must review:**

- **investment performance** against the investment objectives set where material financial investments are held.

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1.45. The report should provide a balanced picture of a charity's progress against its objectives, including any environmental related or social objectives. For example, it may explain progress by reference to the indicators, milestones and benchmarks the charity uses to assess the achievement of objectives. Use of infographics and statistics may help communicate this information to readers.

1.46. **In reviewing achievements and performance, charities must consider the difference the charity has made. (The explanation could refer to terms such as inputs, activities, outputs, outcomes and impacts.) When explaining impact charities must consider the long-term effect of a charity's activities on both individual beneficiaries and on society as a whole.** Charities are encouraged to develop and use impact reporting (impact, arguably, being the ultimate expression of the performance of a charity), although it is acknowledged that there may be major measurement problems associated with this in many situations.

1.47. When the charity provides evidence of its achievements in the reporting period, it should include a summary of the measures or indicators used to assess performance (including in relation to environmental or social issues).



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Explaining the outputs achieved by particular activities can be helpful, particularly when numerical targets have been set. Examples of such targets include the number of beneficiaries to be reached by a particular programme, or the number of events or interventions planned as part of an activity. However, information on activities, outputs, and outcomes (or impacts) should always be put in the context of how they have contributed to the achievement of the charity's aims and objectives.

1.48. The report should comment on those significant positive and negative factors both within and outside the charity's control which have affected the achievement of its objectives and, where relevant, explain how this has affected future plans. These factors might include relationships with employees, service users, beneficiaries and funders and the charity's position in the wider community.

### Financial review

1.49. **The report must also comment on the significant events that have affected the financial performance and financial position of the charity during the reporting period. In particular the report must explain:**

- **a description of the principal risks, including any risks arising from environmental issues, and uncertainties facing the charity and its subsidiary undertakings, as identified by the charity trustees, together with a summary of their plans and strategies for managing those risk.**

1.50. The financial review should also provide a narrative explanation of:

- the principal sources of income of the charity in the reporting period and how these resources have been spent to support the key objectives of the charity;
- the impact, if any, of a material pension liability arising from obligations to a defined benefit pension scheme or pension asset on the financial position of the charity;
- where legacies are a material source of income for the charity, how the income is shown in the financial statements, for example, to help users of the accounts to understand that a legacy may be recognised as income before the resources have been received; and
- where the charity holds material financial investments, the extent (if any) to which it takes social, environmental or ethical considerations into account in its investment policy.

1.51. **The review of the charity's reserves must:**

- **identify and explain any material amounts which have been designated or otherwise committed as at the end of the reporting period;**
- **indicate the likely timing of the expenditure of any material**

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amounts designated or otherwise committed at the end of the reporting period;

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- state the amount of reserves (refer to glossary) the charity holds at the end of the reporting period and present in the notes how the reserves figure agrees with the financial statements (see also paragraph 1.23 and 1.24 for other disclosures).

### Plans for future periods

1.52. The report must provide a summary of the charity's plans for the future, including its aims and objectives and details of any activities planned to achieve them.

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1.53. The report should explain the trustees' perspective of the future direction of the charity. It should explain, where relevant, how experience gained or lessons learned from past or current activities have influenced future plans and decisions about allocating resources to their best effect.

### Structure, governance and management

1.54. The report must explain:

- the policies and procedures for the induction and training of trustees.

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### The additional content required of tier 3 charities

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1.55. Tier 3 charities in compiling their report must meet the requirements placed on tier 1 and tier 2 charities as set out above and also provide the additional information detailed under the following headings:

- Achievements and performance
- Financial review
- Structure, governance and management
- Reference and administrative details
- Sustainability

### Achievements and performance

1.56. The report must review:

- the performance of material fundraising activities against the fundraising objectives; and
- if material expenditure was incurred to raise income in the future, the report must explain the effect this expenditure has had, and is intended to have, on the net return from fundraising activities for both the reporting period and future periods.

### Financial review

1.57 The report must explain any factors that are likely to affect the financial performance or position going forward.

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### 1.58. The review of the charity's reserves must:

- state the amount of the total funds the charity holds at the end of the reporting period;
- identify the amount of any funds which are restricted and not available for general purposes of the charity at the end of the reporting period;
- identify the amount of any fund that can only be realised by disposing of tangible fixed assets or programme related investments; and
- compare the amount of reserves with the charity's reserves policy and explain, where relevant, what steps it is taking to bring the amount of reserves it holds into line with the level of reserves identified by the trustees as appropriate given their plans for the future activities of the charity.

### Structure, governance and management

1.59 The report must provide the user with an understanding of how the charity is constituted, its governance and management structures, and how its trustees are trained. In particular, the report must explain:

- the charity's organisational structure and, where relevant, those of its subsidiary undertakings;
- how the charity makes decisions, for example which types of decisions are taken by the charity's trustees and which are delegated to staff;
- the arrangements for setting the pay and remuneration of the charity's key management personnel and any benchmarks, parameters or criteria used in setting their pay;
- if the charity is part of a wider network (for example if it is affiliated with an umbrella group), how, if at all, this impacts on the operating policies adopted by the charity; and
- relationships between the charity and related parties, including its subsidiary undertakings, and with any other charities and organisations with which it co-operates in the pursuit of its charitable objectives.

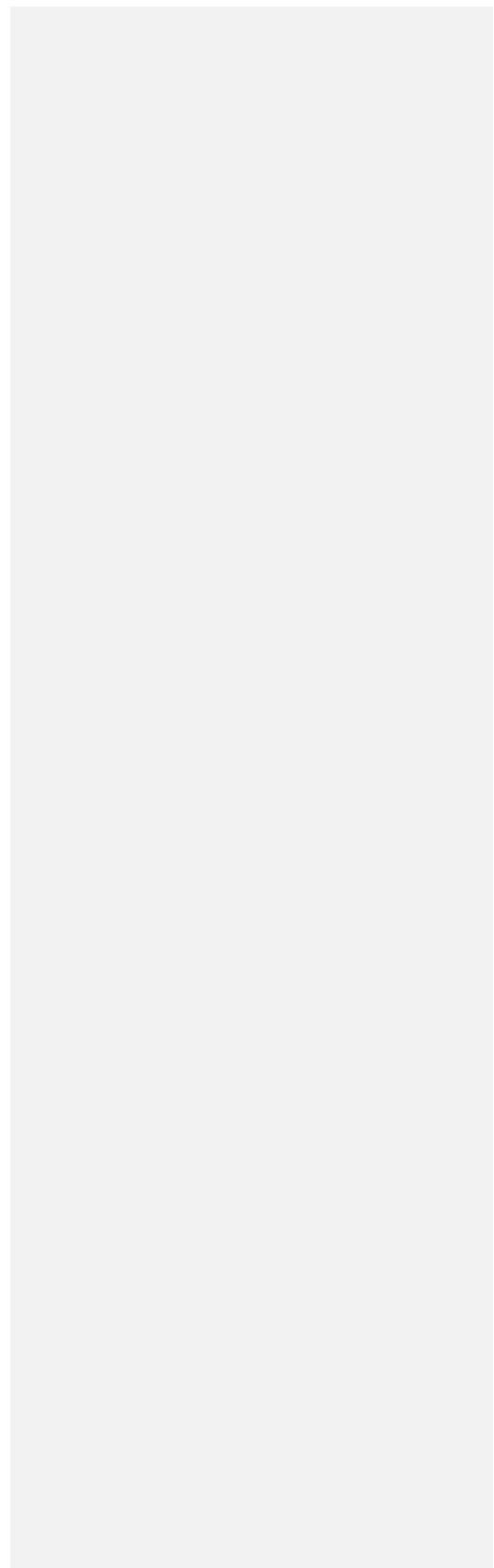
### Reference and administrative details

1.60 The report must state to whom the trustees' delegate day-to-day management of the charity and from whom trustees are taking advice. In particular, the report must provide:

- the name of any chief executive officer or other senior management personnel to whom the charity trustees delegate day-to-day management of the charity on the date the report was approved or who served in such a position in the reporting period in question; and
- the names and addresses of any other relevant organisations or persons providing banking services or professional advice to the charity, including its solicitors, auditor and investment advisers.

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1.61 Certain details may be withheld where the criteria for exemption from disclosure, as set out in the 'Exemptions from disclosure', are met.



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### Sustainability

1.62. **The report must provide a summary of how the charity is managing environmental, governance and social issues.** For example, the report could provide details of the key performance indicators used to assess progress against targets used to manage climate-related risks and realise climate-related opportunities and a description of the calculations on which those key performance indicators are based. In relation to governance and social issues, reporting may include details of social opportunity, privacy and data security, board diversity and business ethics.

1.63. Where the charity is currently reporting on these issues but the detail is not included in the report, a link may be provided. Otherwise, the details must be provided in the report.

#### Parent charities

1.64. Parent charities preparing consolidated accounts must expand their report to include relevant information about their subsidiary undertakings.

#### Charitable companies

1.65 Trustees of charitable companies must also prepare a directors' report as required by company law. A separate trustees' annual report is not required provided that any statutory directors' report prepared also contains all the information that this SORP requires to be provided in the trustees' annual report. UK charitable companies that qualify as medium or large companies must provide a 'strategic report' that meets the requirements of company law. For more information see the SORP module 'Charities established under company law'.

1.66 FRS 102 does not specify any requirements for narrative reporting though the Financial Reporting Council (FRC) does issue guidance on the strategic report. This module specifies this SORP's requirements for a trustees' annual report and its content.