

1. Trustees' annual report

Introduction

- 1.1. Charities in all tiers must prepare a trustees' annual report. The trustees' annual report is a narrative account of what has happened in the charity in the financial period and helps to explain the numbers in the accounts.
- 1.2. The reporting tiers applied for module 1 are specified in the table below.

Table 1.1A: Tiered reporting requirements for module 1

Tier 1	Charities in tier 1 must consider all the requirements in tier 1 (as specified in the table at paragraph 1.11).
Tier 2	Charities in tier 2 must consider all the requirements in tier 1 and tier 2 (as specified in the table at paragraph 1.11).
Tier 3	Charities in tier 3 must consider all the requirements in tier 1, tier 2 and tier 3 (as specified in the table at paragraph 1.11).

Overview and the purpose of the trustees' annual report

- 1.3. The main 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. To communicate relevant information in the most helpful way, trustees should ask themselves:

- Who are the 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, members, beneficiaries and other stakeholders.

- 1.4. Trustees are responsible for preparing the report. They may seek the assistance of the charity's staff or professional advisers to do so. However, trustees must approve the final text of the report.
- 1.5. The report should provide a fair, balanced and understandable review of:
 - the charity's structure
 - the charity's purposes
 - objectives
 - activities
 - financial performance
 - financial position

The report provides an essential link between a charity's purposes as stated in its governing document, the charity's aims and objectives and the activities it undertakes to achieve them.

- 1.6. The report must meet the requirements of law and regulation. This guidance

incorporates the following requirements relating to the trustees' annual report:

- The Charities (Accounts and Reports) Regulations 2008
- The Charities Accounts (Scotland) Regulations 2006 as amended
- The Charities (Accounts and Reports) Regulations (Northern Ireland) 2015 (NI Regulations)

These regulations are in force at the time of publication, but preparers of the report will need to check for any subsequent changes. There may be other requirements in Charities Act 2011, Charities and Trustee Investment (Scotland) Act 2005 (as amended) and Charities Act (Northern Ireland) 2008 that need to be included. Users of this SORP should refer to the legislation for the jurisdiction in which they are reporting. There are particular requirements for charitable companies, see paragraphs 1.73 and 1.74 below and charities that apply total return should refer to SORP Module 20 '*Total return (investments) – (England and Wales only)*'.

- 1.7. All charities in England and Wales that are subject to audit and raise funds from the public must disclose information on fundraising practices in their trustees' annual report. These requirements are in the Charities (Protection and Social Investment) Act 2016.
- 1.8. 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). Information on how the charity achieves its mission is often the most important information need of stakeholder groups. Charities are encouraged to reflect carefully on how such a narrative is crafted in the trustees' annual report.
- 1.9. The report is an opportunity to reflect on the year and tell the charity's story, acknowledging both successes, failures and learnings. It should help the user to understand where the charity's money has come from and how 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.
- 1.10. Stakeholders increasingly want to understand how charities are responding to environmental matters and trustees may wish to consider how their report could best address these expectations.

How to use this module

1.11. The reporting requirements are split between 3 tiers to reflect the range of sizes of charity that are present in the sector.

Table 1: Relevant paragraphs for each tier

	Tier 1	Tier 2	Tier 3
Objectives and activities	1.20 to 1.23	1.20 to 1.27	1.20 to 1.27
Achievements and performance	1.28	1.28 to 1.33	1.28 to 1.34
Financial review	1.35 to 1.43	1.35 to 1.46	1.35 to 1.47
Plans for future periods	1.48	1.48 to 1.50	1.48 to 1.50
Structure, governance and management	1.51 to 1.52	1.51 to 1.55	1.51 to 1.55
Reference and administrative details	1.56 to 1.57	1.56 to 1.57	1.56 to 1.59
Sustainability	1.60	1.60	1.60 to 1.65

1.12. 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.

1.13. 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 particularly relevant to users of their accounts.

Other considerations

1.14. Charities are required to comply with all the applicable reporting requirements prefixed with a '**must**'.

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

1.16. Within the report, charity trustees can 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.

1.17. The report provides important, accompanying information to the accounts and therefore must be provided whenever a full set of accounts is made available. The report must show:

- the reporting period (financial year) of the charity to which it relates
- the date of its approval

One or more of the charity's trustees must sign and date the report on behalf of all the trustees to demonstrate it has been approved.

The content of the trustees' annual report

1.18. The SORP requirements that charities must follow are set out under the following headings:

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

1.19. 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.

Objectives and activities

Tier 1 charities must comply with the requirements in tier 1

Tier 2 charities must comply with the requirements in tier 1 and tier 2

Tier 3 charities must comply with the requirements in tier 1, tier 2 and tier 3

Tier 1

1.20. Charities must provide a summary of:

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

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
- 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 must include an explanation to help the user to understand the scale and nature of the activities undertaken by volunteers and the input from volunteers. This description is important as measurement issues, including valuing the contribution of general volunteers, often prevents this being included in the statement of financial activities (see the SORP module 6 '*Donated goods, facilities and services, including volunteers*').

1.23. The report should explain the activities, projects or services identified in the accompanying accounts. Financial information provided in the report about the resources spent on particular activities should be consistent with the analysis provided in the statement of financial activities and in the notes to the accounts, see Tables 3 and 4 and section B, Expenditure of SORP module 4 '*Statement of*

financial activities'. This is important so that users of the accounts gain a greater understanding of the detail in the financial statements.

Tier 2 – in addition to tier 1 requirements

- 1.24. Charities meeting tier 2 requirements should provide the user with a more detailed understanding of their short term and longer term aims and objectives and how those in the short term relate to those in the longer term. 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.
- 1.25. The report must provide answers to the following questions:
- What aims and objectives have trustees set for the charity this year and what issues do they seek to address?
 - 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?
 - What are the changes or differences the charity 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?
- 1.26. The report must include an explanation of the use the charity makes of the following:
- grant-making: where this forms a material part of its charitable activities, the report must explain the charity's grant-making policy for the selection of individuals or institutions who are to receive grants
 - social investment: where this forms a material part of its charitable and investment activities, the report must provide an explanation of its social investment policies and explain how the investments contributed to the achievement of its aims and objectives
- 1.27. Charities reporting on the contribution of general volunteers should provide:
- information on the number of volunteers
 - an explanation of the activities that volunteers support or help to provide

Charities may provide details of the contribution in terms of volunteer hours or staff equivalents, if practicable.

Tier 3 – tier 1 and tier 2 requirements

Achievements and performance

Tier 1 charities must comply with the requirements in tier 1

Tier 2 charities must comply with the requirements in tier 1 and tier 2

Tier 3 charities must comply with the requirements in tier 1, tier 2 and tier 3

Tier 1

1.28. The report must contain a summary of the main achievements of the charity. To assist with this, trustees must provide answers to the following questions:

- 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 users.

Tier 2 – in addition to tier 1 requirements

1.29. The report must set 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.

1.30. The report must review investment performance against the investment objectives set where material financial investments are held.

1.31. The report must explain the impact the charity is making and must consider the long-term effect of its activities on individual beneficiaries and on society as a whole. The impact the charity has made is, arguably, the ultimate expression of its performance and charities are encouraged to demonstrate this in their report. In particular, the use of personal beneficiary or society-wide impact stories may be of value in communicating meaning.

1.32. The charity should include:

- a summary of the measures or indicators used to assess performance (including in relation to environmental or social issues, if applicable)
- an explanation of the outputs achieved by particular activities especially when numerical targets have been set (for example, the number of beneficiaries to be reached by a particular programme, or the number of events or interventions planned as part of an activity)
- information on activities, outputs, and outcomes (or impacts) in the context of how they have contributed to the achievement of the charity's aims and objectives

1.33. 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 influenced future plans. These factors might include relationships with employees, service users, beneficiaries and funders and the charity's position in the wider community.

Tier 3 – in addition to tier 1 and tier 2 requirements

1.34. Tier 3 charities must also report on their review of:

- the performance of material fundraising activities against the fundraising objectives
- if material expenditure was incurred to raise income, 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

Tier 1 charities must comply with the requirements in tier 1

Tier 2 charities must comply with the requirements in tier 1 and tier 2

Tier 3 charities must comply with the requirements in tier 1, tier 2 and tier 3

Tier 1

1.35. The report must contain a review of the charity's financial position at the end of the reporting period. Any financial details used in the report must be consistent with the figures in the accounts.

1.36. 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.

1.37. In this SORP the term "reserves" describes that part of a charity's unrestricted funds that is freely available to spend on its charitable purposes (see glossary for a fuller explanation).

1.38. The charity must explain:

- any policy it has for holding reserves
- state the amount of those reserves and why they are held
- if the trustees have decided that holding reserves is unnecessary, the report must disclose this fact and provide the reasons for this decision

1.39. The figure for reserves in the trustees' annual report must be consistent with the accounts and, where this is not evident, the charity must provide a reconciliation, either in the funds note or as a separate note.

1.40. The report must:

- compare the amount of reserves with the charity's reserves policy

- explain, where relevant, what steps the charity 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

1.41. The review of the charity's reserves must:

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

1.42. Going concern means the ability of an organisation to operate for the foreseeable future and its ability to pay its debts as they fall due (see paragraphs 3.17 to 3.19, module 3 '*Accounting standards, policies, concepts and principles, including estimates and errors*'). Where a charity has no reserves (or negative net assets on the balance sheet), it must explain why it is still operating as a going concern.

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

Tier 2 – in addition to tier 1 requirements

1.44. 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:

- 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
- 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 risks

1.45. Where the charity holds material financial investments, the report must explain the policies adopted by the charity trustees for the selection, retention and realisation of investments including the extent (if any) to which it takes social, environmental or ethical considerations into account.

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

- 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
- the impact of any material legacy income recognised in the accounts prior to the resources being received. This explanation is to help users of the accounts to understand the effect timing differences may have on resources available to the charity

Tier 3 – in addition to tier 1 and tier 2 requirements

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

Plans for future periods

Tier 1 charities must comply with the requirements in tier 1

Tier 2 charities must comply with the requirements in tier 1 and tier 2

Tier 3 charities must comply with the requirements in tier 1, tier 2 and tier 3

Tier 1

1.48. The report must provide a summary of the charity's plans for the future.

Tier 2 and tier 3

1.49. 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.

1.50. 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

Tier 1 charities must comply with the requirements in tier 1

Tier 2 charities must comply with the requirements in tier 1 and tier 2

Tier 3 charities must comply with the requirements in tier 1, tier 2 and tier 3

Tier 1

1.51. 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 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

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

Tier 2 – in addition to tier 1 requirements

- 1.53. The report must explain the charity's organisational structure and, where relevant, those of its subsidiary undertakings.
- 1.54. The report must explain the policies and procedures for the induction and training of trustees.
- 1.55. The report must provide the user with an understanding of how the charity is constituted and its governance and management structures. In particular, the report must explain:
 - 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
 - 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

Tier 3 – tier 1 and tier 2 requirements

Reference and administrative details

Tier 1 charities must comply with the requirements in tier 1

Tier 2 charities must comply with the requirements in tier 1 and tier 2

Tier 3 charities must comply with the requirements in tier 1, tier 2 and tier 3

Tier 1 and tier 2

- 1.56. 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 that 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, where appropriate, or an address where the charity can be contacted. A charitable company must provide the address of its registered office
 - the names of all those who were the charity's trustees on 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

- the names of any trustee for the charity
 - (i) holding the title to property belonging to the charity (for example, holding trustee or nominee) on the date the report was approved; or
 - (ii) who served as a trustee for the charity in holding the title to property belonging to the charity in the reporting period

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

Tier 3 – in addition to tier 1 and tier 2 requirements

1.58. 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
- 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

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

Tier 1 charities must comply with the requirements in tier 1

Tier 2 charities must comply with the requirements in tier 1 and tier 2

Tier 3 charities must comply with the requirements in tier 1, tier 2 and tier 3

Sustainability

Tier 1 and tier 2

1.60. Trustees are encouraged to explain in the report how the charity is responding to and managing environmental, governance and social matters.

Tier 3

1.61. The report must provide a summary of how the charity is responding to and managing environmental, governance and social matters.

1.62. 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.

1.63. In relation to governance and social matters, reporting may include details of social opportunity, privacy and data security, board diversity and business ethics.

1.64. Where the charity is already reporting on these matters but the detail is not included in the report, a link may be provided. Otherwise, the details must be provided in the

report.

- 1.65. Charitable companies which fall within the scope of [the Companies \(Directors' Report\) and Limited Liability Partnerships \(Energy and Carbon Report\) 2018 Regulations](#) must provide the disclosures required under these regulations. Charities in the Republic of Ireland which fall within the scope of the European Union (Corporate Sustainability Reporting) Regulations 2024 must provide the disclosures required under these regulations.

Exemptions from disclosure

- 1.66. 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 (for example, in the case of a women's refuge). In such circumstances, the applicable law and regulations may permit the withholding of these details in the annual report. Where the annual 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.
- 1.67. Under the Charities (Accounts and Reports) Regulations 2008, charities in England and Wales may omit the names of trustees or the charity's principal address (or registered office in the case of charitable companies) from their annual report provided the Charity Commission has given the charity trustees the authority to do this. In Northern Ireland, there is also provision under charity law for such information to be excluded. In Scotland, there is provision under charity law for information to be excluded where it is likely to jeopardise the safety or security of any person or premises.
- 1.68. 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 of Companies Act 2006), there is no corresponding dispensation in relation to the disclosure of names.

Funds held as holding trustee on behalf of others – all tiers

- 1.69. If a charity is, or its trustees are, acting as holding trustees, the charity must refer to the SORP module 19 '*Accounting for funds received as agent or as holding trustee*'.

Parent charities

- 1.70. Parent charities preparing consolidated accounts must expand their report to include relevant information about their subsidiary undertakings. Users of this SORP should also refer to the regulations for the jurisdiction in which they are reporting.

Charitable companies

- 1.71. 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-sized or large companies must provide a 'strategic report' that meets the requirements of company law. For more information see the SORP module 15 '*Charities established under company law*'.
- 1.72. 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.