



# CHARITY COMMISSION FOR ENGLAND AND WALES

## **Accounts monitoring review for the SORP Committee: Mandating the format of smaller charity accounts – Insights from a comparative review of receipts and payments accounts prepared by charities registered in England and Wales with charities registered in Scotland**

### **Why carry out a comparative review of receipts and payments accounts?**

There is no required format for receipts and payments accounts in England and Wales (see Section 133 of the Charities Act 2011). Our research into the quality of receipts and payments accounts has found that trustees who used the Commission's accounts pack (CC16a) to prepare their charity's accounts were much more likely to meet the legal requirements than trustees who did not (see Appendix 1). Mandating an accounts format could therefore help trustees prepare compliant accounts.

A comparative review of Scottish smaller charity receipts and payments accounts would provide further evidence. This is because there is a required format for receipts and payments accounts in Scotland (see Sections 9 and 11 of The Charities Accounts (Scotland) Regulations 2006).

A comparative review would also provide insight into whether mandating the format of the SOFA for smaller charities could help trustees prepare compliant accounts.

### **How did we compare the quality of smaller charity receipts and payments accounts in England and Wales with those in Scotland?**

In late 2020, we downloaded the public registers of both regulators. We then selected a random sample from each register of the most recent sets of accounts filed by 94/ 95 non-company charities with an income between £25,000 and £250,000. From these samples we identified the accounts that appeared to be prepared on a receipts and payments basis. There were 43 in the England and Wales sample and 57 in the Scotland sample.

We assessed the accounts using the compliance criteria in the CCEW's external scrutiny benchmark (see: [External scrutiny benchmark](#)). The criteria and the results of our assessments are listed in Appendix 2.

### **What are our key findings and conclusions?**

We found that accounts prepared using a mandated format or an accounts pack were of far higher quality than those where the trustees developed their own format. Nearly nine out of ten (88%) of Scotland accounts met the benchmark criteria compared with less than half (44%) in England and Wales. In England and Wales, nearly three quarters (73%) of the accounts prepared using the accounts pack met the benchmark compared with three out of ten (29%) that did not. All of the Scotland accounts prepared using the accounts pack met our benchmark.

In making comparisons, we should recognise that differences in legislation are not the only factor influencing accounts quality. In particular, until 2016 OSCR checked



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all accounts filings against a basic compliance standard and provided guidance to the trustees. OSCR continues to check the first filings of newly registered charities. In England and Wales, routine checking of paper filings ceased in the early 2000s.

### **Relevance to the SORP and the use of ‘natural classifications’**

In England and Wales receipts and payments accounts are predominantly in a ‘natural’ format based on the nature of the expense. Counter intuitively the freedom to format the accounts in any manner considered suitable by the trustees far from bringing high quality meaningful reporting, has instead resulted in often poor quality reporting.

The Scottish approach shows that providing a detailed format to follow, as the SORP already offers for activity based reporting, is likely to result in better quality reporting. Currently the SORP only sets minimal content requirements (paragraphs 4.24 to 4.26).



### **Appendix 1: Findings from our review of receipts and payments accounts**

We reviewed the 2017 accounts filed by 100 non-company charities with incomes between £25,000 (the filing threshold) and £250,000. We found that 46 charities had prepared receipts and payments accounts.

We assessed the receipts and payments accounts using the Commission's benchmark of the minimum standards it expects in an external scrutiny of a charity's accounts. You can find details of the benchmark at [External scrutiny benchmark](#).

Our results indicated a lack of awareness of basic charity accounting requirements amongst those who prepared (and indeed independently examined) many of the receipts and payments accounts in our sample.

Just over half, 52%, of the accounts met the benchmark. The main reasons why accounts did not meet the benchmark were:

- More than a third (35%) did not include the required statement of assets and liabilities
- A similar proportion (33%) did not specify the types of charitable funds held

<b>Criteria/ % met</b>	<b>46 charities</b>
There is a receipts and payments (R&P) account	80%
There is a statement of assets and liabilities (SoAL)	65%
The R&P account and SoAL are internally consistent	83%
The R&P account and SoAL add up	100%
Charitable funds are accounted for	67%

One positive finding was that the charities that had used our receipts and payments accounts template to prepare their accounts performed far better against the benchmark than the others in our sample.

Just under four out of 10 (37%) of the charities that filed receipts and payments accounts used our template and nearly nine out of 10 (88%) of them met our criteria. The preparers of those that failed had chosen to ignore validation errors showing that the closing bank balance per the receipts and payments account did not agree to the bank balance per the statement of assets and liabilities.



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## Appendix 2: Our assessments of the accounts against the benchmark criteria

Criteria/ % met	England and Wales (43 charities)	Scotland (57 charities)
Receipts and payments account present	81%	100%
Statement of assets and liabilities (E&W)/ Statement of balances (Scotland) present	67%	98%
Above statements internally consistent	81%	96%
Above statements add up	93%	100%
Charitable funds accounted for	70%	93%
<b>All accounts criteria met</b>	<b>44%</b>	<b>88%</b>
Used the regulators' accounts pack	73% (of 15 charities)	100% (of 18 charities)
Did not use the regulators' accounts pack	29% (of 28 charities)	82% (of 39 charities)
<b>All accounts criteria met</b>	<b>44%</b>	<b>88%</b>