

The Scope of These Guidance Leaflets

The Trustees of a charity have the ultimate collective responsibility for the proper governance of their charity in compliance with the Charity Act. Charity governance is the systems and processes concerned with ensuring the overall direction, effectiveness, supervision and accountability of a charity. <https://knowhow.ncvo.org.uk/governance/getting-started-in-governance/getting-started-in-governance-1>

For more detailed information and downloadable document & diagnostic tool see the Charity Governance Code website which has sections tailored for smaller, as well as larger, charities: <https://www.charitygovernancecode.org/en>

This leaflet is one of a series produced by Small Charity Support to give an overview of the things that will be helpful to consider when your Trustees are reviewing your charity's governance and the way it operates.

They are **NOT** a full and comprehensive guide to Charity Law and all the associated regulations. They are just an overview of the main points from the perspective of "[the person on the Clapham Omnibus](#)".



Please read the Disclaimer on the last page of this leaflet.



If you need qualified professional advice you should look elsewhere, eg: the "Other Resources" page of the Small Charity Support website: www.smallcharitysupport.uk/index.php/other-resources

The topics covered in this series are:

Responsibilities & Roles of ALL Trustees

Typical Responsibilities & Roles of the Chair

Typical Responsibilities & Roles of the Treasurer

Payments to Trustees

Accounts ALL Charities MUST Keep {This Leaflet}

More information on managing your charities finances can be found on the website page "Charity Accounting Made Easy" [HERE](#)

Minutes: Recording Events & Decisions

Policies & Procedures

Some example policies & procedures which you might be able to adapt for your charity's own use can be found on the website page "Example Policies" [HERE](#)

Outputs & Outcomes

Demonstrating the charity's delivery of value-for-money charitable benefits

The Bank Account(s)

The Trustees' Annual Report & Financial Statements

Your comments and suggestions (to comments@smallcharitysupport.uk) on how these leaflets could be improved to make them clearer and more useful would be much appreciated.

What Accounts ALL Small Charities MUST Keep

The following notes attempt to give a simple, “everyday” language, summary of what the Charities Act requires **ALL** small charities to do about keeping their accounts – *ie*: showing where their money comes from and how it is spent.

It DOES NOT apply to charities which are also companies registered with Companies House, or to exempt charities. Nor does it apply to charities which are part of a group of charities (eg: a local branch of a national charity). For those, different rules apply.

This leaflet is just about what the Charities Act 2011 says, and is in two parts:

- 1: It starts off with a summary in “everyday language” of what the Charities Act says in “legalese”. The paragraph numbers are the numbers of the relevant sections, 130-134, in the Act;
- 2: And for those who want to see what the “legalese” looks like, the leaflet then goes on to give the exact wording of paragraphs 130-134 which have been simply copied & pasted from Chapter 1 of Part 8, of the Charities Act 2011 (<http://www.legislation.gov.uk/ukpga/2011/25/part/8>).

Some Introductory Notes

“Accounts” is one of those words which has a variety of meanings/interpretations depending on the context in which is used (a good recipe for confusion and misunderstandings – which is why “Accounts All Charities MUST keep” is rife with confusions & misunderstandings)!



“Accounts” can (and often does) mean: the records (on paper, or now more usually on computer) that the charity keeps of its financial transaction” – *ie*: what financial commitments it has entered into; who with; what for; at what cost/price; and when the cost/price was (or is expected to be) paid;



“Accounts” can (and often does) mean: the aggregating and analysis of the charity’s financial transactions records to produce the management reports (*eg*: budget, cash-flow, outstanding payments) to ensure that the charity’s funds and resources are being used wisely and responsibly to ensure “value-for-money” in delivering its charitable outputs & outcomes to its beneficiaries;



“Accounts” can (and often does) mean: the reports that the charity is required to produce annually to the Charity Commission (and, usually, to its donors, funders and members) to demonstrate how the charity’s resources have been used over the previous financial year for the public benefit.

But all-too-often (particularly for small charities), the last of those three – the legal requirement to produce an annual report in a defined format which is of little practical use to the trustees – makes it the dominant driver of the charity’s “accounting” procedures, overshadowing the other two.

Instead, the second of the three – ensuring that the charity’s financial resource are used “**E**fficiently, **E**ffectively & **E**conomically”¹ to deliver the charity core objects and values in a “value-for money” way – should be the dominant driver of a charity’s “accounting” procedures. In that case, the charity’s annual financial statements should be little more than a summary the routine management reports that the trustees would be receiving in the last month of the charity’s financial year anyway.

That issue is dealt with in greater detail – along with suggestions for how its adverse consequences can be mitigated – in other Small Charity Support leaflets on the “[Accounts Made Easy](#)” webpage.

¹ The “**3-Es**” of being “Business-like” to which many charities add (*one or more of*) the “**3-Es**” of being “charity-like”, *ie*: **E**thical, **E**quitable, **E**cological

Summary of the Charities Act 2011

In Everyday Language

NOTE: Apart from charitable companies and exempt charities, the following guidance on preparing and maintaining accounts applies to ALL charities, **WHETHER OR NOT THEY ARE:**

1: Registered with the Charity Commission

(*ie:* even if their annual income is less than £5,000)

2: Required to submit their accounts to the Charity Commission

(*ie:* even if their annual income is less than £10,000)

3: Required to have their accounts Independently Examined

(*ie:* even if their annual income is less than £25,000)

PART 8, CHAPTER 1: Individual accounts

130 Accounting records

- (1) The Trustees of the charity must keep clear, accurate and up-to-date records of where their charity's money is coming from, and how it is being spent, in a way that everyone can easily understand
- (2) The accounts must show the detail of individual transactions – the dates, amounts and what they were for – and how much money (*eg:* in its bank account, petty cash box, and elsewhere), and any other property of value, the charity has.

131 Preservation of accounting records

- (1-3) The charity's accounts must be kept for 6 years after the end of the financial year to which they relate (even if the charity ceases to exist), unless the Charity Commission gives permission for them to be destroyed.

132 Preparation of statement of accounts

- (1-3) The layout and content of a charity's accounts must conform to the relevant regulations (*ie:* be consistent with the Charity Commission's guidance CC15b on Charity Reporting and Accounting) (<https://www.gov.uk/government/publications/charity-reporting-and-accounting-the-essentials-cc15b/charity-reporting-and-accounting-the-essentials>)
- (4) There are special provisions for maintaining privacy for charitable trusts.

133 Account and statement an option for lower-income charities

Charities with an annual income of less than £250,000 can opt for using the "Receipts & Payments" method of accounting, rather than the more onerous "Accruals" method (provided that their governing document does not require the charity to use the Accruals method)

134 Preservation of statement of accounts or account and statement

- (1-3) This paragraph 134 adds nothing significantly new or extra.
It is just a duplication of paragraph 131 with a little bit more detail !

Text of The Charities Act 2011:

Part 8. Charity accounts, reports and returns

CHAPTER 1: Individual accounts

130 Accounting records

- (1) The charity trustees of a charity must ensure that accounting records are kept in respect of the charity which are sufficient to show and explain all the charity's transactions, and which are such as to—
 - (a) disclose at any time, with reasonable accuracy, the financial position of the charity at that time, and
 - (b) enable the trustees to ensure that, where any statements of accounts are prepared by them under section 132(1), those statements of accounts comply with the requirements of regulations under section 132(1).
- (2) The accounting records must in particular contain—
 - (a) entries showing from day to day all sums of money received and expended by the charity, and the matters in respect of which the receipt and expenditure takes place, and
 - (b) a record of the assets and liabilities of the charity.

131 Preservation of accounting records

- (1) The charity trustees of a charity must preserve any accounting records made for the purposes of section 130 in respect of the charity for at least 6 years from the end of the financial year of the charity in which they are made.
- (2) Subsection (3) applies if a charity ceases to exist within the period of 6 years mentioned in subsection (1) as it applies to any accounting records.
- (3) The obligation to preserve the accounting records in accordance with subsection (1) must continue to be discharged by the last charity trustees of the charity, unless the Commission consents in writing to the records being destroyed or otherwise disposed of.

132 Preparation of statement of accounts

- (1) The charity trustees of a charity must (subject to section 133) prepare in respect of each financial year of the charity a statement of accounts complying with such requirements as to its form and contents as may be prescribed by regulations made by the [F1Secretary of State].
- (2) Regulations under subsection (1) may in particular make provision—
 - (a) for any such statement to be prepared in accordance with such methods and principles as are specified or referred to in the regulations;
 - (b) as to any information to be provided by way of notes to the accounts.
- (3) Regulations under subsection (1) may also make provision for determining the financial years of a charity for the purposes of this Act and any regulations made under it.
- (4) But regulations under subsection (1) may not impose on the charity trustees of a charity that is a charitable trust created by any person ("the settlor") any requirement to disclose, in any statement of accounts prepared by them under subsection (1)—

- (a) the identities of recipients of grants made out of the funds of the charity, or
 - (b) the amounts of any individual grants so made,
- if the disclosure would fall to be made at a time when the settlor or any spouse or civil partner of the settlor was still alive.

133 Account and statement an option for lower-income charities

If a charity's gross income in any financial year does not exceed £250,000, the charity trustees may, in respect of that year, elect to prepare—

- (a) a receipts and payments account, and
- (b) a statement of assets and liabilities,

instead of a statement of accounts under section 132(1).

134 Preservation of statement of accounts or account and statement

- (1) The charity trustees of a charity must preserve—
 - (a) any statement of accounts prepared by them under section 132(1), or
 - (b) any account and statement prepared by them under section 133,for at least 6 years from the end of the financial year to which any such statement relates or (as the case may be) to which any such account and statement relate.
- (2) Subsection (3) applies if a charity ceases to exist within the period of 6 years mentioned in subsection (1) as it applies to any statement of accounts or account and statement.
- (3) The obligation to preserve the statement or account and statement in accordance with subsection (1) must continue to be discharged by the last charity trustees of the charity, unless the Commission consents in writing to the statement or account and statement being destroyed or otherwise disposed of.