HOW TO READ CHARITY ACCOUNTS

What has to be reported? Says who?

By law charities (over a certain size) are required to publish their accounts and submit them to the Charity Commission (England and Wales), the Office of the Scottish Charity Regulator (OSCR) or The Charity Commission for Northern Ireland each year.

Don't charities report less than businesses?

No. The opposite is true. While the basic principles of what information is reported are the same as businesses, charities are required to provide much more information on a range of issues including the recruitment of trustees and the state of their financial reserves.

The extra information is set out in a Statement of Recommended Practice (SORP) which applies across the UK and Republic of Ireland. The Charity Commission for England and Wales and Office of the Scottish Charity Regulator (OSCR) are responsible for creating the statement and ensuring charities meet its requirements, including those in Northern Ireland and the Republic of Ireland.

Watch out for 'annual reviews' v 'annual reports and accounts'

Charities must provide an 'annual report and accounts' document outlining key activities from the last year as well as the financial figures.

Please note, charities can also produce a shorter 'annual review' with some but not all financial information. If you plan to challenge or criticise a charity's accounts, make sure you are reading the full 'annual report and accounts' document to ensure you have the full story.

Get comfy on the SoFA (Statement of Financial Activities)

This is the main table you'll want to read showing total income and expenditure as well as showing levels of essential reserves. But, make sure you read the accompanying report as this will explain and clarify figures that may look strange at first glance. If you're still not sure, call the charity directly for an explanation.

What to look for?

What does the annual report say about the charity's priorities? Do the figures show this is where the money has been spent?

Is the charity sustainable? Do income and expenditure amount to the same? Or is the charity spending more or less than it earns? Don't forget to check the written report on this as it may be spending more or less for good reason. For example, a medical research charity might be funding a major research programme from reserves if they know they have more income pending from grants or major donors.

Charitable expenditure should include grant making

Charity law means charities have to report on any grants they make separately from other charitable expenditure. But on a practical level, grants are simply one way of spending charity money e.g. providing a grant to scientists to research a medical condition, so when you look at how much a charity spends on its cause, you should include any grant-making activity too.

How to avoid common pitfalls

1. Charity shops

Charities with shops have to report how much it costs to run the shop (e.g. leasing the building and paying staff) as well as how much the goods they've been donated are worth. If a charity is lucky enough to receive £50,000 worth of donated goods, this appears as a 'cost' to the charity in their Statement of Financial Activities. This means the 'cost' of running the shop, or shops, can look very high but doesn't mean the charity is spending recklessly. It's just how they're required to show the figures.

2. Restricted v Unrestricted funds

Unrestricted funds are cash or assets a charity can easily get its hands on to spend on whatever it wants.

Restricted funds, quite simply, are funds with strings attached. They're monies or assets donated for specific purposes, or they exist in ways that equity cannot immediately be released, such as endowments or property. A charity may have a legitimate funding crisis even with apparent money in the bank – if the money is all restricted in some way.

3. Writing about tax reliefs and Gift Aid?

It can be a confusing topic.

The basic principle underpinning all charitable tax relief is that money given for public benefit shouldn't be taxed.

For example, charities are entitled to business rate reductions because of the charitable work they carry out.

However, Gift Aid is actually a tax relief for the people who donate their money. Charities benefit from this tax relief. But Gift Aid is not a subsidy for charities nor a tax relief directly for them.

If you're writing about 'public money' given to charities, Gift Aid shouldn't be included. But grants and tax relief that go directly to charities by virtue of their status, should be included.

4. Public money and payment for services

Some charities receive unrestricted grants – or subsidies – from public funds that are not for specific services and charities can use to support their general activities.

The vast majority of charities receiving public funds are paid to deliver a specific service on behalf of the public sector. These contracts are similar to the agreements with private companies, and the money isn't 'given' as a gift to the charity.

Some charities do receive grants – which are freely given by the donor, with the timing, amount and frequency at the donor's discretion. However in most cases grants are restricted and for a specific purpose.

In 2003/04 the sector received more in grants (£6.1bn) than it did in contracts (£5.8bn). The situation has now completely reversed. In 2013/14 charities received £12.2bn in contracts compared with £2.8bn in grants.

When reporting on 'public money' for charity, it's important to be aware of this distinction.

Useful press contacts

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