MARCHING ON...
Surveying trustees’ annual reports in the charity sector
September 2019
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If you are a charity, we recommend that you study the findings of this survey and then attempt to benchmark your own reporting against it. The result may surprise you; it may also give you more ideas as to what you could include in your annual reports. However, while a survey is full of interesting information, the result of any survey that is based on the random selection of samples ought to be treated with care.

All of the charities surveyed have websites, though one was ‘under construction’ at the time of the survey and 88% have accounts or financial information available on their website as well as accounts being available through the Charity Commission. In this digital age of easy access, stakeholders, and future stakeholders can, at a glance, cast their judgment over the charity’s performance. Therefore the message remains unchanged: high quality reporting, demonstrating sound financial management and good governance allows a charity to differentiate itself, prove its value, public benefit and impact on the society in which it operates.

May 2018 saw the introduction of GDPR and the publication of the Charity Commission Survey, which reported that trust in charities has not yet recovered from the events of the last few years.

Now is not the time for charities to sit back, but rather a time to drive impact reporting and publicise the valued activities in the sector.

As in previous years, we continue to challenge charities to tell their story in a clear and unambiguous way; a story that not only celebrates success, but one that reflects on improvements needed and plans for the future and above all demonstrates the impact of the charity on the public and its beneficiaries.
The purpose of preparing a trustees’ annual report and accounts is to discharge the trustees’ duty of public accountability and stewardship. The SORP sets out recommended accounting practice for this purpose. The report gives trustees the opportunity to stake their claim in an increasingly pressured world. A high quality report, providing insight into governance and a necessary link between the income generated and the objectives, strategies, activities and achievements that flow from it, is required.

The survey
The Deloitte review of trustees’ annual reports looks at the extent to which 50 from the Top 1000 charities produce reports that are both compliant and communicate effectively. It also provides guidance on where improvements to reports may be made.

Compliance
In our last survey, we were talking about the new SORP and change, since then there have not been significant developments in reporting: only two SORP bulletins and the introduction of mandatory reporting on fundraising. In this environment, accounts also have seemingly stood still. Whilst all charities surveyed responded to the new fundraising reporting requirements (in more or less detail); there has been little progress on existing requirements, and still only a third of the sample include key performance indicators (KPIs) and 14% still did not include the factors mitigating their risks.

A quarter of charities (as in 2017) were judged to have a strong correlation between the narrative in the front half and the activities reported financially in the back half of the accounts. Although all charities reported on their activities for the year and how these met goals or targets in words, only 36% of charities gave information on KPIs or reported clearly against targets or goals and presented a clear result for scrutiny. Partial information such as a target without a specific result or the year’s result and a comparative do not tell the whole story. It is not always clear whether the intervention or activity was successful or whether it more or less successful than anticipated or hoped. Of those surveyed reporting KPIs, 46% reported unmet KPIs, which did demonstrate some balance of reporting required by the SORP.

Charities have addressed the requirements set out in the SORP and compliance was high but not perfect in a number of areas: 80% of charities gave risks and mitigating factors, 90% included key management pay policies, 96% included some comment on the appointment of trustees and 92% discussed the induction process. 82% reported on public benefit, including both a statement of compliance and some further information on activities and beneficiaries. However some statements were limited, one only 25 words. This was not quite enough to demonstrate how public benefit was integrated into the activities and at the core of its objectives.

Reports continue to get longer with one trustees’ report and financial statements topping out at 110 pages: This is only two thirds of the average length of FTSE companies’ corporate reporting which rose from 155 to 164 pages this year. It is important that with length, clarity and focus remain. Use of graphs, graphics and visual stimuli both enhanced and expanded the reports in the sample this year.

The challenge for charities to demonstrate their impact and prove themselves worthy of trust increases all the time. In an uncertain economic and political climate, charities have the opportunity to be recognised for the work that they do in our society delivering their objectives and public benefit.
Clear vision and governance
Only 10% of charities surveyed had no financial information on their website (and the accounts of those charities were all considered not visually attractive). 88% had accounts available to download and 36% had annual reviews available to download. 70% of charities had either visually attractive accounts or an annual review. However, only 38% of charities used graphs and 30% case studies to bring their stories to life. No charity sampled outside the top 200 included an overview or highlights page.

Whilst there has been little change in the statutory financial reporting, additional requirements and options have been introduced. A charity governance code has been introduced following our last report. The code is not a legal or regulatory requirement. It sets the principles and recommended practice for good governance and is deliberately aspirational. It takes an “apply or explain” approach. However, many of the larger charities are reporting on these in their financial statements. Additional requirements have been introduced around gender pay gap reporting which is made via the charity’s website as is the statement on modern slavery.

Only two charities (2017: one) in the sample had a paid trustee and fully disclosed that in both the trustees’ report and the notes to the accounts. As the reporting requirements, laws and regulations increase the need to have high quality, dedicated volunteer trustees becomes more of a challenge. As the corporate world focuses on women in the board room and how diversity can improve performance, we note that over 40% of trustee board members across our sample were women. As gender continues to be a topic for boardroom discussion as well as the levels of executive pay, we note about 40% of key management personnel were women in the charities surveyed where gender could be identified.

If you would like more detailed information or are seeking advice on specific application of the principles of the SORP, please contact Reza Motazedi (rmotazedi@deloitte.co.uk or 020 7007 7646) or any of the contacts listed in Appendix 3.
Section 2 – Reporting Requirements

This section summarises the regulatory requirements for narrative reporting applicable to charities subject to statutory audit in England and Wales. New fundraising reporting requirements have been introduced since our last report but other reporting requirements have remained unchanged from the prior year.

The requirements stem from the following main sources:

- the Charities Statement of Recommended Practice FRS 102 (the SORP);
- the Charity Commission’s guidance on public benefit reporting;
- the Companies Act 2006 (applicable to charitable companies only); and

Charities SORP
The SORP is the main source of requirements for charity accounting and disclosure for the accounts under review. Two bulletins have been published to update the original provisions and keep the SORP in line with FRS 102.

Although the SORP has not been written as a one stop shop it clarifies charity requirements through the ‘must’, ‘should’ and ‘may’ phrasing and provides guidance on the application of FRS 102 for charities. In certain areas, for example leases, there is little information in the SORP and charities must refer to the UK accounting guidance directly.

Update bulletin 1 to the SORP was issued in February 2016 reflecting the changes in UK GAAP applying from 1 January 2016, and the second update bulletin published on the 5 October 2018 and reflects the amendments made through the Financial Reporting Council triennial review of FRS 102 in December 2017.

Neither of the bulletins made any fundamental changes to the narrative reporting, but rather focussed on accounting amendments.

The SORP states that charity financial statements should be accompanied by information contained within the trustees’ annual report as many of a charity’s activities cannot be described in pure monetary terms. The trustees’ annual report should provide a fair review of the charity’s structure, aims, objectives, activities and performance to summarise what the charity has achieved in the year and what impact it has made.

The responsibility for preparing the trustees’ annual report rests with the charity trustees. As it provides important accompanying information to the financial statements it should be attached to them whenever a full set of financial statements is distributed or otherwise made available.

Paragraphs 41 to 59 of the Charities SORP summarise the specific content of the trustees’ annual report and are summarised into the following 7 categories:

1. Reference and administrative details of the charity, its trustees and advisers
2. Structure, governance and management
3. Objectives and activities
4. Achievements and performance
5. Financial review
6. Plans for future periods
7. Funds held as custodian trustee on behalf of others

We have included a checklist for the trustees’ report, based on the SORP, in Appendix 1.
Companies Act 2006
Charities that are also companies are, in addition, required to disclose specific matters in accordance with the Companies Act 2006. These are covered in sections 414A to 419 of the Companies Act 2006 and the relevant accounting regulations (Schedule 7 of the Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008 or Schedule 5 of the Small Companies and Groups (Accounts and Directors’ Report) Regulations 2008).

There is a requirement for large and medium-sized charitable companies to include a strategic report in addition to a directors’ report. We have included additional guidance on the strategic report in Appendix 2.

However, provided that the trustees’ annual report contains all the information required to be provided under the Companies Act 2006 and that the strategic report is clearly identified within the trustees’ annual report and separately approved by the trustees, a separate strategic report does not need to be prepared for charitable companies.

Companies Act amendments
Although not applicable to the accounts in our survey, Companies Act regulations have further developed the strategic and directors’ report requirements for large companies and this legislation will apply to charitable companies. Additional reporting required for year ends beginning on or after 1 January 2019 includes:

1. A statement in the Strategic Report of how trustees have complied with their duty to have regard to the matters in 172(1)(a) (f) – all companies (listed and unlisted) qualifying as large under the Companies Act 2006.

2. A statement in the Directors’ Report summarising how trustees have engaged with employees and taken account of their interests – all registered companies (listed and unlisted) with more than 250 UK employees.

3. A statement in the Directors’ Report summarising how trustees have engaged with suppliers, customers and others in a business relationship with the company – all companies (listed and unlisted) qualifying as large under the Companies Act 2006.

Fundraising
Under the provisions of section 13 of the Charities (Protection and Social Investment) Act 2016 (‘the Act’) charities must include extra information on their fundraising practices in the trustees’ annual report. It applies to all charities who must have their accounts audited for periods beginning on or after 1 November 2016. Disclosures include:

- the fundraising approach taken by the charity, or by anyone acting on its behalf, and whether a professional fundraiser or commercial participator carried out any fundraising activities
- details of any fundraising standards or scheme for fundraising regulation that the charity has voluntarily subscribed to
- details of any failure by the charity, or by any person acting on its behalf, to comply with fundraising standards or scheme for fundraising regulation that the charity or the person acting on its behalf has voluntarily subscribed to
- whether the charity monitored the fundraising activities of any person acting on its behalf and, if so, how it did so
- the number of complaints received by the charity, or by a person acting on its behalf for the purposes of fundraising, about fundraising activity
- what the charity has done to protect vulnerable people and other members of the public from behaviour which:
  - is an unreasonable intrusion on a person’s privacy
  - is unreasonably persistent
  - places undue pressure on a person to give money or other property

The Charity Commission has updated CC20 Charity fundraising: a guide to trustee duties to cover the new regulations. We have included the disclosures required in our checklist in Appendix 1.

4. Small charitable companies as defined by section 382 of the Companies Act 2006 are exempt from the strategic report requirements where they meet at least two of the following: income of less than £10.2m; funds less than £5.1m; and less than 50 employees.

5. Charitable companies qualifying as large under the Companies Act 2006 are those that meet at least two of the following criteria: turnover of more that £36m; balance sheet total of more than £18m; and more than 250 employees.
Section 172 covers the duty to promote the success of the Company. For a company this focuses around shareholder value, for a charity it is anticipated that the focus will be around the benefit to beneficiaries. The statement needs to be separately identifiable and must cover a number of key considerations:

- The likely consequences of any decision in the long term.
- The interests of the company’s employees.
- The need to foster the company’s business relationships with suppliers, customers and others.
- The impact of the company’s operations on the community and the environment.
- The desirability of the company maintaining a reputation for high standards of business conduct, and
- The need to act fairly as between members of the company.

The statement must be available on a website. However, for most of the charitable companies surveyed the accounts are already available on the charity’s website and therefore meet this requirement through publishing their annual report. A summary of the Companies Act 2006 requirements is included in Appendix 2.

Public Benefit Reporting
The Charity Commission has published guidance on public benefit reporting. In an overview, the Charity Commission commented that the Charities Act states that charity trustees must “have regard” to the Commission’s public benefit guidance “when exercising any powers or duties to which the guidance is relevant”. The relevant regulations require charity trustees to confirm that they have done so in their trustees’ annual report. “Having regard” to the public benefit guidance means charity trustees should be able to show that:

- they are aware of the guidance;
- they have taken it into account when making a decision to which the guidance is relevant; and
- if they have decided to depart from the guidance, they have good reasons for doing so.

Public benefit reporting remains an integral part of what every charity does and should be integrated into any overall report of the charity’s activities and performance during the year. Scottish charities are not required to report explicitly in their accounts on public benefit.

Although guidance has not been updated, the latest Charity Commission publication on public benefit highlighted the following as key areas they believed charities should focus on when discussing public benefit.

- Why the trustees believed that the charity’s activities provided public benefit;
- Who had benefitted from what the charity had done, whether a particular group of beneficiaries or the wider public; and
- The impact of what the charity had done, such as examples of how the charity’s services had led to improvements in people’s lives.

This is discussed in more detail in section 4.20.

Guidance on Going Concern and Liquidity Risk
The FRC has published best practice guidance on the going concern basis of accounting and reporting on solvency and liquidity risks for companies that do not apply the UK Corporate Governance Code. For both company and non-company charities this guidance provides further guidance on how to address the SORP requirements and highlights best practice for directors making the going-concern assessment and examples for drafting disclosures. The guidance states that the assessment process ‘should be proportionate to the size, complexity and the particular circumstances of the company’, but that it should be ‘documented in sufficient detail to explain the basis of the directors’ conclusion’. The guidance also highlights the link between going concern and the reporting of risks and uncertainties.

The SORP states that:

The trustees must make their own assessment of their charity’s ability to continue as a going concern to assure themselves of the validity of this assumption when preparing their accounts. In making this assessment, a charity’s trustees should take into account all available information about the future for at least, but not limited to, 12 months from the date the accounts are approved.

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7. Charities (Accounts and Reports) Regulations 2008
8. Accounts Monitoring Review: Public benefit reporting by charities, published by the Charity Commission 20 December 2018
10. FRS 102 SORP 3.14
Section 3 – The Survey’s objectives and basis

The main objective of the survey was to consider how particular requirements regarding the content of the trustees’ annual report as required by the FRS 102 SORP have been applied by charities.

In previous years, we also considered a number of additional areas such as going concern disclosures, key management personnel, KPIs and risk disclosures which are now incorporated in the SORP requirements. We have not considered the specific Companies Act 2006 requirements regarding matters required to be disclosed in either the strategic or directors’ report aside from the reporting of KPIs and the disclosure of principal risks and uncertainties, which have been introduced in the SORPs and are therefore relevant to all charities.

The survey was conducted by obtaining a list of the Top 1000 charities by income in the United Kingdom from the Top 3000 Charities publication produced by CaritasData. The sample selected comprised 50 charities from the list of the top 1000 charities by income who had already published their accounts on their website or submitted their accounts to the Charity Commission or Companies House. Ten of these 50 charities were randomly selected from the top 100 charities, ten from charities ranked 101 to 200 and the remainder from the top 1000 charities.

The split of the charities surveyed by year end was as follows:

**Figure 3.1 Year ends of charities sampled**

In certain instances, we have provided results split by top 100 charities, charities ranked 101-200 and other charities in the top 1000 for the interest of the reader.

**Figure 3.2 Median income, expenditure and funds of charities sampled**

In Appendix 1, we have included a trustees’ annual report disclosure checklist which has been based on the SORP’s disclosure requirements. We have included, at Appendix 2, additional requirements for charitable companies’ trustees’ annual reports reflecting the Companies Act 2006 requirements.
This section sets out our survey findings in respect of the elements of the trustees’ annual report.

4.1 Time to report
The deadline date for submission of the financial statements to the Charity Commission is ten months after the date of the year end. Where relevant, company accounts are required to be filed at Companies House nine months after the date of the year end. We were unable to determine the dates that the financial statements were filed with OSCR (where relevant) as this information is not made available on OSCR’s website.

We note that the importance of filing early with either the Charity Commission or Companies House appears diminished with the trend for accounts to become publically available on the charities’ own websites often months in advance of accounts being filed. The Charity Commission in its December 2018 follow-up review of reporting matters of material significance encouraged trustees to submit their audited accounts as soon as they are available so that public information is up to date.

4.2 Signing of the trustees’ annual report and strategic report
The Charities SORP requires that both the annual report and accounts be approved by the charity trustees as a body and should be signed on behalf of the charity’s trustees by one trustee authorised so to do or as otherwise required by law but does not require any particular trustee to sign the report.

In 84% (2017: 84%) of our sample one trustee signed on behalf of all the trustees; in 84% (2017: 82%) of reports this was the chair or president. Only 16% (2017: 16%) of reports had two signatories, and none (2017: none) had more than two signatories. Where the chair did not sign the trustees’ report the signatory was, in most cases, defined as ‘trustee’, although in one case it was the ‘clerk’. The second signatories were split evenly between trustee and treasurer as in the prior year.

68% (2017: 68%) of the charities within our sample were charitable companies. Of those 6% (2017: 6%) did not include a strategic report, and based on the audit reports, were entitled to take that exemption, although the charities themselves did not state the fact.
Charity Commission guidance dictates that where a separate report is not prepared the approval of the trustees’ report should specifically include the approval of the strategic report. 18% (2017: 21%) of the charitable companies in our sample did not include this specific approval.

Of those in our sample preparing a strategic report, only 3% (2017: 3%) prepared and signed the strategic report separately from the trustees’ report.

**Figure 4.2 Has the strategic report been separately prepared and signed (%)?**

<table>
<thead>
<tr>
<th>Length</th>
<th>0%</th>
<th>20%</th>
<th>40%</th>
<th>60%</th>
<th>80%</th>
<th>100%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Longest</td>
<td>18%</td>
<td>6%</td>
<td>3%</td>
<td>3%</td>
<td>73%</td>
<td></td>
</tr>
<tr>
<td>Shortest</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>3%</td>
</tr>
<tr>
<td>Median</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>73%</td>
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**4.3 Length of the trustees’ annual report**

The median length of the combined financial statements and the trustees’ annual report surveyed was 59 pages (2017: 54 pages). The median length of the trustees’ annual report was 29 pages (2017: 28 pages). The longest trustees’ report and accounts at 110 pages was produced by a charity in the 101-200 band (2017: 88 pages by a charity in the 101-200 band). The shortest report and accounts was 20 (2017: 15) pages long. Figure 4.3a shows that trustees’ reports tend to be longer for top 100 charities.

**Figure 4.3a Length of the trustees’ annual report, including the strategic report (pages)**

The length of the financial statements ranged from 10 to 38 pages, however the trustees’ report length showed the greatest variation ranging from 7 pages for a charity in the 201-100 band to 63 pages, relating to a charity in the top 100 sample. For charities in the top 200 the median report and accounts were split roughly one third accounts and two thirds trustees’ report and other narrative, whereas in the 201-1000 band the split between financial statements and reporting was roughly equal. The graphs below show the range of page lengths, with the box covering the middle 50%, and the whiskers the upper and lower 25%. Any points outside those ranges would be considered outliers.

**Figure 4.3b What is the length of the trustees’ annual report compared with the financial statements (pages)?**

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This demonstrates the importance placed on the ability to tell the story. This is discussed further in section 4.22 below where we looked at the visual impact and nature of the reporting.

However, the trend to longer reports does not necessarily mean drier or more difficult to read. This year we looked at the amount of additional information provided by charities, including the number of pages devoted to pictures and titles used to signpost the story telling.

The financial statements accounted for 32% of the median annual report. Pages of pictures, contents and titles were 15% of the median annual report and 10% of the report was other separate statements and the audit report, which in its new form added, in general, an additional page to the annual report.

As can be seen from the median report analysis above a variety of additional information was included, for example 64% (2017: 64%) of charities included either or both a chair’s introduction and a chief executive report. 46% of our sample included an overview of the year or highlights page(s) which provided key information on achievements.

Figure 4.3d Does the annual report include a report from the Chair or Chief Executive (CEO)

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Both Chair and CEO reports</td>
<td>36%</td>
</tr>
<tr>
<td>Just Chair’s report</td>
<td>26%</td>
</tr>
<tr>
<td>Just CEO’s report</td>
<td>36%</td>
</tr>
<tr>
<td>Neither a Chair nor CEO report</td>
<td>2%</td>
</tr>
</tbody>
</table>

Figure 4.3e Does the annual report include an overview of the year or a highlights page(s)

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Both overview of the year and highlights</td>
<td>6%</td>
</tr>
<tr>
<td>Just an overview of the year</td>
<td>24%</td>
</tr>
<tr>
<td>Just highlights</td>
<td>54%</td>
</tr>
<tr>
<td>Neither an overview of the year or highlights</td>
<td>16%</td>
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4.4 Trustees disclosures
The charity governance codes, both for smaller and larger charities, recommend that a board of at least five and no larger than twelve is good practice.

Figure 4.4a How many trustees does the charity have?

The median number of trustees was 12 (2017: 11), with the maximum being 36 (2017: 44) and the minimum 4 (2017: 4). For charities with a corporate trustee, we have considered the number of directors on the board of the corporate trustee. Whilst there are still clearly some outliers, these are slightly less extreme this year than in the prior year. The majority of charities are within the range recommended by the charity governance code. As figure 4.4b below shows the smallest charities surveyed are those with the broadest range of board numbers, although 40% of the top 100 charity boards were also outside the charity governance code recommendations. The comparison with the prior year shows that more charities in our sample were moving towards having a board of 5 to 12 trustees.

Figure 4.4b Number of trustees (%)

We have also looked and the percentage of women on the boards. 90% of charities surveyed with trustees gave sufficient detail, first name or title, for us to identify the number of female trustees. The maximum number of female trustees was 92% (2017: 91%) and the minimum 9% (2017: none). The median was 43% compared with the prior year 36%.

Figure 4.4c Male:female trustees (%) and the median number of trustees


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4.5 The executive team
The SORP 2015 requires disclosures for key management, including the need to disclose the pay policy for key management and disclosure of the aggregate benefits paid, including national insurance (NI) contributions and pension contributions. Charities have now had a couple of years to come to grips with these disclosures and the media attention upon pay continues to make this a point of focus. For the first time this year bandings disclosures will be required in the annual return and will be made public through the Charity Commission website. This may mean that bandings become more easily comparable than previously. Whilst the highest paid employee information will be collected by the Charity Commission that will not be disclosed. We look further at employee pay disclosures in section 4.8 and note that 34% of the charities surveyed are already disclosing the chief executive’s salary.

2% (2017: 2%) of our charities surveyed only had trustees as key management personnel and did not have any employees and a further 2% did not discuss their key management personnel. A ‘typical’ team included 2-5 members of key management. 81% (2017: 77%) of those remaining charities surveyed disclosed the names or roles of the members of the senior management team to whom day to day management of the charity is delegated in sufficient detail to understand the role and identify the male/female split between senior employees. Of the remainder, the number of key management personnel was given but the names and roles were not disclosed. Of those charities disclosing the number of key management personnel, the median number of key management listed was 7 (2017: 7), the maximum 13 (2017: 16) and the minimum 3 (2017: 1).

Just over 65% of those surveyed naming roles had directors associated with raising funds and 60% of charities named specialist roles, such as veterinary, medical or artistic directors related directly to the charitable aims of the charity. Just over a fifth of charities surveyed had an information or data senior team member.

88% (2017: 88%) of our sample included a discussion of their arrangements for senior management remuneration, we noted that an additional 4% gave remuneration policies although they did not specifically mention key management personnel or equivalent in their policy.
As with trustees we have also looked at the split between male and female senior management. The highest percentage of women in key management positions was 80% and the lowest none (2017: 80% and none). The median was 43% (2017: 44%), with the charities in the top 100 banding in our sample having marginally higher female representation. Although the median has fallen representation is more consistent across all of our sampled charities than in the prior year sample (shown in figure 4.5d) where the top 100 charities sampled had the lowest percentage of female key management personnel in our sample.

**Figure 4.5c 2018 Male:female key management personnel (%) and the median number of key management personnel**

![Chart showing the percentage of male and female key management personnel and the median number of key management personnel in 2018](chart1.png)

**Figure 4.5d 2017 Male:female key management personnel (%) and the median number of key management personnel**

![Chart showing the percentage of male and female key management personnel and the median number of key management personnel in 2017](chart2.png)

In our sample all (2017: 96%) of charities with staff disclosed the aggregate benefits of their key management personnel. 6% (2017: 12%) of charities with staff disclosed the aggregate pay but did not describe clearly who the key personnel were. Some descriptions just vaguely referred to the executive team and others which had clearly listed the executive team in the reference and administrative details then noted that key management personnel included the chief executive, executive team and heads of department with no detail of the number of heads of department included. The median average salary costs for key management personnel was just over £110,000 (2017: £108,000) in our charities sampled.

**Figure 4.5e How do the average salaries paid to key management personnel compare (£)**

![Chart showing the median average salaries paid to key management personnel in 2017 and 2018](chart3.png)

However we note there was inconsistency in the disclosures as it was not clear in all cases what the charity was including in the calculation. The SORP glossary definition is:

*Employee benefits are all forms of consideration paid by a charity in exchange for the service rendered by employees, including trustees, and include all remuneration, salary, benefits, profit-sharing and bonuses, employer’s pension contributions and any termination payments made. For employers with employee members of a defined benefit pension scheme, employee benefits include the change in the net defined benefit liability arising from employee service rendered during the reporting period and the cost of plan introductions, benefit changes, curtailments and settlements.*

13. Aggregate salary for key management personnel divided by number of key management personnel. Note these figures will be inconsistent as some included NI and pension contributions, some excluded them and some did not make clear what was included or excluded.
4.6 Structure, governance and management

As part of the SORP requirements on the structure, governance and management of the charity, there is a requirement that the annual report provides the reader with an understanding of how the trustees are appointed and trained. Of the charities surveyed, 100% (2017: 98%) complied with the requirement to explain the method of appointing trustees and 98% (2017: 94%) included details of the procedures for the induction and training of trustees.

Although the majority of charities complied with the SORP requirements, compliance remained in many cases minimal. 40% (2017: 46%) of charities were still considered to give insufficient detail about appointment and recruitment to be easily understood; there are still charities disclosing that trustees are elected in accordance with the articles or by other trustees without any further explanation of how individuals may be nominated, selected or assessed. Induction details were often similarly brief, stating merely that trustees are inducted, 46% of the charities surveyed gave little or no detail (2017: 52%).

The question of whether NI payments should be included was further clarified in the SORP implementation information sheet 1, so that:

When calculating employee benefits for the disclosure of remuneration and benefits received by key management personnel, per paragraph 9.32 of the SORP, the definition of employee benefits should be in accordance with paragraph 28.1 of FRS 102. As a result, Employers National Insurance Contributions (NIC) should be included, in accordance with paragraph 28.4(a) of FRS 102.

However, when identifying numbers of employees to disclose who received employee benefits of more than £60,000 (or 70,000 euros if in the Republic of Ireland), per paragraph 9.30, Employers NIC should be excluded.

Therefore the details given regarding highest paid employees and key management staff are non-comparable: bandings disclosure is just salary and benefits, excluding pension contributions and NI; key management personnel costs should be all costs including NI and pension. Of our charities sampled very few gave complete information regarding what had been included in the disclosures, with many mentioning pension contributions, but fewer disclosing the treatment of NI costs.

This variety of calculation means that the aggregate salary information is unlikely to be directly comparable between organisations and can only provide an interesting starting point.

Figure 4.5f Number of charities including explanation of the key management personnel aggregate salary calculation (%)
90% (2017: 94%) of our charities surveyed paid trustees’ expenses; payments disclosed included both travel and subsistence and indemnity insurance.

The main type of expenses reimbursed to trustees were travel, subsistence and other directly reimbursed expenses, which were incurred by 82% (2017: 84%) of those charities surveyed.

Figure 4.7c illustrates the range of expenses paid on behalf of an individual trustee. Indemnity insurance was paid by 42% (2017: 44%) of the charities surveyed. 71% of charities paying indemnity insurance disclosed a value and values ranged from just over £1,200 to £14,000.

These requirements have been in place for over 10 years (all charities for the recruitment of trustees, and induction for those larger charities), yet still a small proportion of our sample do not comply.

4.7 Trustee remuneration and contribution

One key type of related party to any charity will be the trustees. In addition to the trustees’ annual report disclosures on appointment and training of trustees, the Charities SORP includes requirements relating to the disclosure of the level of trustees’ expenses, remuneration and any related party transactions. We have focused here on remuneration, expenses and donations.

The SORP requires that all charities disclose in the notes to the accounts the remuneration of trustees or confirmation that no remuneration is paid. All charities in our survey made these disclosures. Of those charities surveyed, 10% made some kind of payment to a trustee or trustees as shown in figure 4.7a. 60% of those making payments also included details of the payment in their trustees’ report.
4.8 Payments to employees and higher paid employees

The SORP requires a discussion of key management remuneration policies and the total aggregate key management benefits as discussed at in section 4.5. In addition charities are required to disclose total wages and salaries and the number of employees paid over £60,000 in bandings of £10,000. A separate remuneration report or the disclosure of the chief executive’s salary is not required for charitable companies.

A new requirement for quoted companies (applicable for year ends beginning on or after 1 January 2019) is to provide the ratio of their CEO’s total remuneration to the median, 25% and 75% percentile full time equivalent remuneration of their UK employees. Whilst this does not apply to charities, a number of charities in our sample gave some information on these ratios in their accounts.

In our survey we have looked at some gross ratios and figures available from the accounts: including the average pay per employee\(^{14}\); the average pay of those paid over £60,000\(^{15}\) and remuneration of the highest paid employee\(^{16}\). As averages relating to key management personnel will be inflated by NI and pension costs they have not been included in this comparison. Averages for key management personnel are shown in figure 4.5e.

Median pay per employee was around £29,000 (2017: £29,000) for all charities. The median per higher paid employee was £84,000 (2017: £83,000) and £135,000 (2017: £125,000) for the highest paid employee.

Figure 4.8a Median pay per employee, higher paid employees and the highest paid employee

The SORP also requires disclosure about donations from trustees, where a condition is placed on the donation it should be recorded specifically and an aggregate figure is required for donations without conditions. This was later clarified by the SORP information sheet 1 to only be necessary where donations from trustees were considered material in the context of total income from donations and legacies. No charity surveyed identified any donation with a condition that required disclosure. 32% (2017: 34%) of charities disclosed a figure for donations from trustees. There was a significant range of total donations given by trustees and it is clear that some charities are giving the aggregate disclosure where it is not strictly required.

Figure 4.7c Range of expenses paid per trustees (£)

Figure 4.7d Range of aggregate valuation of donations given by trustees to a charity (£)

14. Average pay for employee for each charity calculated by taking the total (for the charitable group where applicable) wages and salaries costs, divided by the number of employees disclosed (group where applicable)

15. Average pay for higher paid employees calculated by totalling the pay of higher paid employees (number of employees disclosed by the mid-point of each band) and then dividing by the number of higher paid employees.

16. Highest paid employee salary is taken from the mid-point of the highest disclosed band.
When considered as part of the overall workforce the numbers of higher paid employees represent just less than 3% (2017: 3%) of those employed and the salaries paid to the higher paid staff represent 9% (2017: 8%) of the total wage bill.

The ratios of the median highest paid employee per banding to the median of the average paid employee per banding are shown in figure 4.8b. For the top 100 charities the ratio was nearer 7:1 but for the 201-1000 charities it was just above 4:1. Overall the charities surveyed had a ratio of around 4.5:1. The range is shown in figure 4.8f.

The number of employees included in the higher paid employees disclosure ranged from 188 to 1 (2017: 188 to 1) with a median of 14 (2017: 12). All charities in our sample with employees had at least one employee with remuneration of over £60,000 as in the prior year.

The medians for higher paid employees were very consistent in our sample across all charities. The median for the average of all employees, in our sample was higher in the 201-1000 banding of charities. Our figures here reflect the fact that our sample includes some charities which had a small number of relatively well paid staff. The ranges of the average salaries for all staff are shown in figure 4.8b. The range of salaries for the highest paid member of staff also had considerable variation as shown in figure 4.8c.

Figure 4.8b All employee average salary ranges (£’000)

Figure 4.8c Highest paid employee salary ranges (£’000)

When considered as part of the overall workforce the numbers of higher paid employees represent just less than 3% (2017: 3%) of those employed and the salaries paid to the higher paid staff represent 9% (2017: 8%) of the total wage bill.

The ratios of the median highest paid employee per banding to the median of the average paid employee per banding are shown in figure 4.8e. For the top 100 charities the ratio was nearer 7:1 but for the 201-1000 charities it was just above 4:1. Overall the charities surveyed had a ratio of around 4.5:1. The range is shown in figure 4.8f.

Figure 4.8d Number of employees paid over £60,000

The number of employees included in the higher paid employees disclosure ranged from 188 to 1 (2017: 188 to 1) with a median of 14 (2017: 12). All charities in our sample with employees had at least one employee with remuneration of over £60,000 as in the prior year.
Charitable companies are required to include a description of the principal risks and uncertainties facing the charity. The SORP also requires the disclosure of principal risks and uncertainties by larger charities and those charities are also required to disclose mitigating actions.

In our sample 40% of our charities surveyed gave additional information on the pay of executives and key management personnel. 4% gave a remuneration report covering the salaries of all their executives, and just over a quarter of the charities surveyed disclosed the salary of the chief executive or equivalent (‘CEO’). In addition, a further 4% gave ratios of the highest paid member of staff to the median.

2% (2017: 2%) of charities surveyed failed to give details of their principal risks. 14% (2017:18%) failed to give mitigating factors for some of all of the risks they listed. The median number of risks disclosed was 5 (2017: 5) with the maximum being 14 (2017: 20) risks and the minimum 1 (2017: 1) risk.
The total number of reported risks were assessed to identify those which were most commonly reported by the different bands of charities. Figure 4.9c lists the most reported risks and shows that the concerns across the sector are broadly similar. For smaller charities, data protection has moved up the rankings but for the larger charities it is slightly lower, although it is clear that concerns over business continuity, data protection and cyber security are high in the sector. The main mover between years is the increased focus this year on strategic direction, governance and fraud. Figure 4.9d illustrates further the trends identified in the risks reported by our sample of charities.

Figure 4.9c What major risks are disclosed? (with ranking for current and prior year)

<table>
<thead>
<tr>
<th>Top 5 risks for all charities</th>
<th>Top 5 risks for Top 100</th>
<th>Top 5 risks for 101-200</th>
<th>Top 5 risks for 201-100</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 (1) Fall in income</td>
<td>1 (4) Fall in income</td>
<td>1 (2) Operational (including clinical and service delivery)</td>
<td>1 (1) Fall in income</td>
</tr>
<tr>
<td>2 (2) Operational (including clinical and service delivery)</td>
<td>2 (1) Operational (including clinical and service delivery)</td>
<td>2 (1) Fall in income</td>
<td>2 (2) Operational (including clinical and service delivery)</td>
</tr>
<tr>
<td>3 (3) Business continuity, data protection and cyber security</td>
<td>3 (10) Strategic direction, governance and fraud</td>
<td>3 (3) Business continuity, data protection and cyber security</td>
<td>3 (4) Business continuity, data protection and cyber security</td>
</tr>
<tr>
<td>4 (8) Strategic direction, governance and fraud</td>
<td>4 (3) Business continuity, data protection and cyber security</td>
<td>4 (7) Strategic direction, governance and fraud</td>
<td>4 (5) Personnel matters (including safeguarding and recruitment)</td>
</tr>
<tr>
<td>5 (6) Personnel matters (including safeguarding and recruitment)</td>
<td>5 (6) Personnel matters (including safeguarding and recruitment)</td>
<td>5 (8) Safeguarding risks relating to beneficiaries</td>
<td>5 (7) Strategic direction, governance and fraud</td>
</tr>
</tbody>
</table>

Figure 4.9d Risks over time (ranked by the number of times they are mentioned)
There were a number of frequently used phrases regarding the application of the code mostly reporting on trustees' support for the principles of the code and the ongoing review against those principles. 18% of charities surveyed had undertaken governance reviews in the year or were going to undertake them in the following year.

The seven principles of the code are:

1. Organisational purpose
2. Leadership
3. Integrity
4. Decision making, risk and control
5. Board effectiveness
6. Diversity
7. Openness and accountability

The most common risks, although varying in detail were related to income and operations. These are consistent over the last few years. Noticeably the risks and focus of the charities on data protection and cyber security have risen in the last few years, and there is a peak in concerns over fundraising regulation in the December 2016 and March 2017 year end accounts as charities dealt with the impact of the new fundraising legislation included in the Charities (Social Investment and Protection) Act 2016 and the introduction of a Fundraising regulator (see section 4.11 for further review of fundraising). Personnel matters have remained consistently high, but the number of risks relating to beneficiaries and safeguarding have increased over time.

The specific mention of reputational loss as an individual risk as a has fallen, however other risks disclosed (e.g. quality of service provision or safeguarding) have obvious potential to impact on reputation and reflect trend towards more specific description of the risks, what would cause the reputational issues rather than a generalised statement.

4.10 Charity Governance

As indicated perhaps by the increase in risks related to strategic direction, governance and fraud there has been an increased focus on reporting around governance, with the introduction of the charity governance code\(^8\) which applies to larger and smaller charities. In addition, and although not required in the annual report or by all charities, some trustees are now required to report on modern slavery\(^9\) and the gender pay gap\(^9\). The trustees are also expected to have proper procedures in place to manage fundraising and the additional disclosures required in the report relating to fundraising\(^11\) are discussed below in section 4.11.

The charity governance code is a voluntary code and therefore follows voluntary ‘apply or explain’ principles rather than the ‘comply or explain’ requirements of the corporate governance code. Essentially, if charities choose to report on the code, it is expected that they either apply the recommended practice or explain what they have done instead. Half the charities surveyed mentioned the code and included some discussion of the principles and how they were applying them or what improvements were necessary. Only 2% of charities surveyed took a rigorous approach to reporting in summary against each of the seven sections of the code which are shown following.

<table>
<thead>
<tr>
<th>Apply and explain approach used for charity governance code</th>
<th>Discussion of charity governance code</th>
<th>No mention charity governance code</th>
<th>Own code of governance used</th>
</tr>
</thead>
<tbody>
<tr>
<td>48%</td>
<td>4%</td>
<td>2%</td>
<td>4%</td>
</tr>
</tbody>
</table>

There were a number of frequently used phrases regarding the application of the code mostly reporting on trustees' support for the principles of the code and the ongoing review against those principles. 18% of charities surveyed had undertaken governance reviews in the year or were going to undertake them in the following year.

The seven principles of the code are:

1. Organisational purpose
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6. Diversity
7. Openness and accountability

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18. [https://www.charitygovernancecode.org/en](https://www.charitygovernancecode.org/en) Charity Governance Code for larger or smaller charities
19. Modern Slavery Act 2015, part 6 section 54
20. Equality Act 2010 (Gender Pay Gap Information) Regulations 2017
As discussed above new disclosures were required by trustees as a result of the introduction of the Charities (Social Investment and Protection) Act 2016. In response, the Charity Commission updated its guidance on fundraising and included specific guidance on the new disclosures. The disclosures around fundraising are required by those charities whose accounts must be audited. In our charities sampled just over a quarter (28%) of charities did not have material fundraising activities. Of those that with significant fundraising, 84% included some fundraising disclosures.

Although many of the comments were general, a number of charities described improvements and recommendations that they were implementing. These were mainly focused around diversity, committee structures and numbers of trustees and length of tenure of trustees.

It will be interesting next year to see whether the disclosures expand as perhaps charities get more confident in their compliance.

We noted above that large charities also had reporting obligations around modern slavery and the gender pay gap. Although reporting on these requirements is not required in the annual report; a number of charities did include references to these. Overall 40% of charities included a statement on the gender pay gap (compared to the 55% who had over 250 employees) and 20% (compared to the 62% with total income over £36m) on modern slavery. These disclosures varied from references to where the full statements could be found to a more detailed precis of the website report.

4.11 Fundraising regulation and performance

As discussed above new disclosures were required by trustees as a result of the introduction of the Charities (Social Investment and Protection) Act 2016. In response, the Charity Commission updated its guidance on fundraising and included specific guidance on the new disclosures. The disclosures around fundraising are required by those charities whose accounts must be audited. In our charities sampled just over a quarter (28%) of charities did not have material fundraising activities. Of those that with significant fundraising, 84% included some fundraising disclosures.

22. For modern slavery only charities with a global turnover of more than £36m are required to report. For gender pay gap reporting only those charities with over 250 UK employees are required to report.

23. Charity Fundraising: a guide to trustees duties CC20

24. Which for the purpose of this survey was considered to be over 10% of total income the trustees of each charity would need to decide what was material to them for disclosure reporting purposes.
The Act includes a long list of disclosures required. These have been summarised in figure 4.11b. Of the charities giving disclosures, not all included all elements of the disclosures required. Most charities included details of their approach but it was not clear for all charities where third parties were used to deliver against fundraising objectives. There was also a lack of clarity about levels of complaints being received and reporting of failures. A number of charities reported numbers of complaints but were unclear about the outcomes and whether any or all were considered a failure by the charity. Some charities just noted complaints which were escalated to the Information Commissioner or Charity Commission without stating whether there were other complaints raised. Where a number was stated for complaints they ranged from 1,821 fundraising complaints to none.

**Figure 4.11b How detailed was the charity’s reporting on the new fundraising disclosures? (%)**

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of charities clearly stating the number of complaints</td>
<td>20%</td>
</tr>
<tr>
<td>Number of charities clearly stating the details of any failure</td>
<td>20%</td>
</tr>
<tr>
<td>How the charity monitored those fundraising on its behalf by others</td>
<td>40%</td>
</tr>
<tr>
<td>Fundraising schemes or standards used by others</td>
<td>20%</td>
</tr>
<tr>
<td>What the charity has done to protect vulnerable people</td>
<td>20%</td>
</tr>
<tr>
<td>Charity fundraising schemes or standards</td>
<td>20%</td>
</tr>
<tr>
<td>Fundraising approach</td>
<td>20%</td>
</tr>
</tbody>
</table>

In addition to the disclosures above, the SORP requires that, where material fundraising is undertaken, the performance should be compared to the objectives set\(^{25}\), commenting on any material expenditure for future income generation and explaining the effect on the current period’s fundraising return and anticipated income generation in future periods. Of the charities surveyed, 72% had material fundraising activities.

Of the total sample, 88% included a general discussion of fundraising performance, which included all of those with material fundraising activities. However, the level of detail in the descriptions was in many cases brief. 38% set and described a clear target for fundraising but only a third of those then quantified that target in some way. From reading the accounts, in the majority of cases it was unclear whether targets had been met.

**Figure 4.11c Reporting fundraising performance for those charities with material fundraising activities (%)**

**4.12 Strategy to achieve the charity’s objectives**

The SORP\(^{26}\) states:

>The report and accounts should not be viewed simply as a statutory requirement or a technical exercise. The report and accounts, when read together, should help users of the information to understand what the charity is set up to do, the resources available to it, how these resources have been used and what has been achieved as a result of its activities.

The discussion of the significant activities in the trustees’ annual report should explain the objectives, activities, projects or services identified within the analysis of charitable activities shown in the Statement of Financial Activities (SOFA), tying together resources and achievements\(^{27}\). 36% of the charities in our sample achieved this with clear linkage between the activities and achievements described and the financial reporting. A further 20% included details in their trustees’ report of some of their activities but less than were included in the financial statements.

Whilst the story of the year might mean that it is appropriate to emphasise one activity over another, omitting descriptions of some of the activities may lead to lack of balance in the reporting\(^{28}\). Equally describing activities for which the costs are not clear does not allow the reader to assess the charity’s use of resources.

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\(^{25}\) SORP 1.41  
\(^{26}\) SORP paragraph 13  
\(^{27}\) SORP 1.19  
\(^{28}\) SORP 1.40
4.14 Key performance indicators (KPIs)
The Companies Act requires that the strategic report includes an analysis using financial key performance indicators to the extent necessary for an understanding of the development, performance or position of the company’s activities and the FRS 102 SORP states that:

The charity should include a summary of the measures or indicators used to assess performance when it provides evidence of achievements in the reporting period. 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. 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.

We have identified only those charities which disclosed KPIs and discussed the result in comparison to the target set for that KPI. In many cases there were detailed descriptions of activity but this was not framed in the context of a target and expected result or goal.

We found that 38% (2017: 36%) of charities did this for at least one KPI (the disclosure of targets in regard to investment performance and reserves have been captured separately and are discussed in section 4.15 and 4.18).

The SORP describes good reporting as reporting which:

Provides a balanced view of successes and failures along with the supporting evidence, and demonstrates the extent of performance and achievements against the objectives set and the lessons learned.

The SORP says that charities should provide a balanced report and may use indicators, milestones and benchmarks and may also consider the impact of their activities and the difference made. We review the reports for key words relating to lessons learned, KPIs, benchmarks and other descriptions which showed how charities had reflected this guidance in their reports.

100% of the charities surveyed included descriptions of their charitable activities and 92% described the resultant achievements with a wholly positive spin. However, a few charities in our sample did provide more comments on lessons, failures and improvements against all the topics we looked at with the exception of when considering the impact of activities on beneficiaries. Most balance was apparent when charities in our sample were considering the impact of fundraising activities.

29. SORP 1.40
30. Companies Act 2006 s414C(4)
31. SORP 1.44
The most common type of KPI was related to financial measures with 24% of all KPIs (2017: 21%) covering financial targets. Targets relating to the number of beneficiaries who benefitted from the charities’ activities, both in terms of reach and satisfaction remained at 30% of reported KPIs. There was an increase from 12% to 17% of targets relating to operational efficiency and effectiveness.

As in the prior years, we noted that many charities discussed having and using KPIs without including them. Many discussions of performance included percentages and actuals without reference to the prior year or a target making it hard to assess whether their achievements exceeded, met or were below the charity’s objectives. Where information was not complete enough to demonstrate reporting against a target it was not included as a KPI. The prevalence and presentation of financial or non-financial figures as means of measuring each charity’s achievements varied widely, with some charities showing KPIs in a table format and others integrating them into the narrative reporting of objectives and achievements. For some financial and employee-related KPIs, the link to the charity’s objectives for the year was not always obvious, but otherwise there was a clear link for nearly all figures presented.

From the charities surveyed it is clear that there has been little or no change in the presentation and use of performance indicators over the last few years and that this remains something that could be strengthened. Performance indicators could be used to good effect, particularly with the increased emphasis on balanced reporting of successes, failures and challenges. We noted during our review that KPIs described were not met in all cases, but still disclosed as part of the story. As the sector encourages greater impact reporting KPIs assessing impact, reach and benefit would support the reviews of performance.

The median number of KPIs has fallen from 4 to 3 and overall 81% of targets were reached compared to 85% in the prior year.

The most common type of KPI was related to financial measures with 24% of all KPIs (2017: 21%) covering financial targets. Targets relating to the number of beneficiaries who benefitted from the charities’ activities, both in terms of reach and satisfaction remained at 30% of reported KPIs. There was an increase from 12% to 17% of targets relating to operational efficiency and effectiveness.
All charities did disclose their activities and 88% clearly linked achievement to objectives. The most successful layouts included questions along the lines of:

- Why do it?
- What did we say we would do?
- What did we do?
- What impact did we make?

Other layouts included focused thematic sections detailing priorities, achievements and aims for the next financial year. In many cases the text discussed facts and figures and results against the year but did not make it clear whether these results met expectations or not.

4.15 Investment performance
The SORP requires that where material investments are held the performance should be compared to the objectives set. Of our charities surveyed 62% had fixed asset and current asset investments which accounted for more than 10% of their gross assets, this was considered a material holding for the purpose of the survey. Of those without significant fixed asset or current asset investments, 47% discussed the performance of their investments and cash holdings.

Of the 62% with material investments, 13% did not make any comment regarding performance. The remaining charities sampled made disclosure with varying degrees of detail. In many cases, whilst performance was discussed in comparison with industry benchmarks, insufficient information was given to assess whether targets had been met.

4.16 Grant-making policy
The SORP requires that where the charity conducts a material part of its activities through grant-making, a statement should be provided setting out its grant-making policies and that the charity should explain how its grant-making activities contribute to the achievement of its aims and objectives. 56% of the charities surveyed gave grants. Where the details of grants were disclosed varied by charity with some including more details in the trustees’ report and others in the notes to the accounts. Of those charities surveyed that gave grants 92% gave details of the value of the grants paid, but only 86% gave full and clear details of recipients. 82% explained how grants payable contributed to their aims and objectives, but only 46% gave details of how organisations or individuals may apply for grants. 21% referred to the charity website an increase from 8% two years ago.
Gifts in kind to the charity should be recognised. In considering this recognition for the purposes of the survey we have only considered gifts for the direct benefit/use of the charity and do not include donated goods for resale or goods for distribution. Donated facilities and services are measured and included in the accounts at the value of the gift to the charity.

62% of the charities sampled mentioned gifts in kind in their trustees’ report, notes to the accounts or included a policy. However, only 32% of charities sampled disclosed a gift in kind in the notes to the accounts. Of those disclosing gifts with a monetary value 6% did not have a policy: whereas 45% of those with a policy did not clearly disclose gifts or services in kind.

Of the charities with an accounting policy, 59% included a statement in the policy that they would value the donation at the value to the charity or some equivalent. 31% talked of an open market value or fair value and the remainder talked of a value that was reasonable or quantifiable.

4.17 Use of volunteers and donated services

The SORP includes a requirement that where a charity makes significant use of volunteers in the course of undertaking its charitable or income generating activities this should be explained. The SORP recognises that there may be measurement issues, which is the reason why the amounts are not included in the SOFA, but suggests that readers should be given sufficient information to understand the role of volunteers and the scale and nature of the activities undertaken. The SORP suggests measures such as hours worked, staff equivalents and an indicative value.

Of the charities surveyed, 74% (2017: 74%) acknowledged the support of volunteers. Of those with volunteers, 11% merely acknowledged the support of volunteers without describing their contribution and a further 5% gave information on the number of volunteers without fully explaining how they contributed. The remaining 84% of charities typically included further information on the role of volunteers in each of their strategic targets and activities described in their trustees’ reports. For those who described the contribution of volunteers the most popular quantifying measure that was used was the number of volunteers who assisted the charity in the year. None of the charities sampled in the top 100 included an indicative value.

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Of the 58% of charities with an accounting policy, 59% included a statement in the policy that they would value the donation at the value to the charity or some equivalent. 31% talked of an open market value or fair value and the remainder talked of a value that was reasonable or quantifiable.
4.18 Reserves policy

In November 2018, the Charity Commission published a review of 106 accounts submissions covering accounting years ending during the twelve months to 31 December 2016. The sample was from charities with an income of more than £500,000 and the focus of the review was on whether the charity has explained its reserves policy; and whether the charity's level of reserves was correct. This review was carried out due to concerns about the lack of transparency about reserves held and the basis of charities calculations.

The review showed that while 97% of the charities sampled included at least a reference to their reserves policy in the trustees’ annual report only 64% of charities included all of the following: the policy on reserves; stated the level of reserves held; and stated why reserves were held.

The Charity Commission also considered whether the reserves figure was in line with the guidance included in Charity reserves: building resilience (CC19) which sets out a process for calculating the level of reserves. Results showed that only 22% of the charities sampled disclosed a reserves figure in accordance with the guidance and 33% of the sample did not state a reserves figure at all.

The Charity Commission is considering whether additional guidance is necessary but recommends that all trustees should follow the steps in the guidance in developing and explaining their reserves policy.

As part of the financial review, the trustees’ annual report should include a statement of the policy on reserves stating the level of reserves held and why they are held. If the charity has no policy it should explain why it has no policy.

All charities in the survey included a section on the reserves policy although the usefulness of this section varied considerably.

In terms of the length of the section, the median length of the statement was 275 (2017: 270) words. The longest statement was 884 (2017: 720) words and the shortest was 33 (2017: 30) words.
The charities in the Top 100 group typically gave more detail arriving at their level of available general reserves or ‘free’ reserves, called ‘reserves post adjustment’ here. Although less than 35% of the charities surveyed gave details about the timing of expenditure, almost 70% talked about designated reserves. Many charities jumped straight to an adjusted figure of available reserves effectively leaving the reader of the accounts to work out how the figure was derived using the notes rather than repeating or walking the reader through the process. An issue highlighted in the Charity Commission review.

82% of charities surveyed compared their reserves with a target and although 52% of charities clearly stated that they did not meet or exceed their targets, only 23% gave further detail about how targets and reserves would be brought in line. A number of charities stated in the current uncertainty they were satisfied that reserves targets were exceeded, however this does question whether the reserves target had the confidence of the trustees to start with. 59% (2017: 53%) of those stating a target included their target in terms of period of months of operating expenditure and 41% (2017: 47%) in terms of an absolute monetary amount. 12% of charities gave no target but half of those charities still made a comment that their reserves were considered at satisfactory levels.

Over time it can be seen that charities surveyed have given more information on reserves and there has been a consistent decrease in charities not meeting their reserve targets. Figure 4.18c looks at the results over time and figure 4.18d by banding. The charities in the Top 100 group typically gave more detail arriving at their level of available general reserves or ‘free’ reserves, called ‘reserves post adjustment’ here. Although less than 35% of the charities surveyed gave details about the timing of expenditure, almost 70% talked about designated reserves. Many charities jumped straight to an adjusted figure of available reserves effectively leaving the reader of the accounts to work out how the figure was derived using the notes rather than repeating or walking the reader through the process. An issue highlighted in the Charity Commission review.

82% of charities surveyed compared their reserves with a target and although 52% of charities clearly stated that they did not meet or exceed their targets, only 23% gave further detail about how targets and reserves would be brought in line. A number of charities stated in the current uncertainty they were satisfied that reserves targets were exceeded, however this does question whether the reserves target had the confidence of the trustees to start with. 59% (2017: 53%) of those stating a target included their target in terms of period of months of operating expenditure and 41% (2017: 47%) in terms of an absolute monetary amount. 12% of charities gave no target but half of those charities still made a comment that their reserves were considered at satisfactory levels.

Over time it can be seen that charities surveyed have given more information on reserves and there has been a consistent decrease in charities not meeting their reserve targets. Figure 4.18c looks at the results over time and figure 4.18d by banding.

The charities in the Top 100 group typically gave more detail arriving at their level of available general reserves or ‘free’ reserves, called ‘reserves post adjustment’ here. Although less than 35% of the charities surveyed gave details about the timing of expenditure, almost 70% talked about designated reserves. Many charities jumped straight to an adjusted figure of available reserves effectively leaving the reader of the accounts to work out how the figure was derived using the notes rather than repeating or walking the reader through the process. An issue highlighted in the Charity Commission review.

82% of charities surveyed compared their reserves with a target and although 52% of charities clearly stated that they did not meet or exceed their targets, only 23% gave further detail about how targets and reserves would be brought in line. A number of charities stated in the current uncertainty they were satisfied that reserves targets were exceeded, however this does question whether the reserves target had the confidence of the trustees to start with. 59% (2017: 53%) of those stating a target included their target in terms of period of months of operating expenditure and 41% (2017: 47%) in terms of an absolute monetary amount. 12% of charities gave no target but half of those charities still made a comment that their reserves were considered at satisfactory levels.

Over time it can be seen that charities surveyed have given more information on reserves and there has been a consistent decrease in charities not meeting their reserve targets. Figure 4.18c looks at the results over time and figure 4.18d by banding.
72% of the charities sampled had targets of 6 months or less of their total unrestricted expenditure. The median target was 4 months (2017: 4 months). The greatest target was 24 months of expenditure and the smallest was three weeks of expenditure, both of which were also unchanged from 2017.

All charities in the top 100 of our sample discussed their reserves against targets. The 101-200 group has the lowest number of charities disclosing unmet targets but the highest percentage of targets not disclosed.

Although targets varied from cash amounts to months of expenditure we have approximated all targets given to months of total expenditure to allow better comparison of those charities giving targets. From the survey it was noted that a higher number of charities in the top 100 were stating targets in absolute monetary amounts than those in other groups.

Figure 4.18c Level of reserves against target (%)

Figure 4.18d Level of reserves against target by group (%)

Figure 4.18e Targets for reserves (months of total expenditure)

72% of the charities sampled had targets of 6 months or less of their total unrestricted expenditure. The median target was 4 months (2017: 4 months). The greatest target was 24 months of expenditure and the smallest was three weeks of expenditure, both of which were also unchanged from 2017.
4.19 Plans for future periods

The SORP requires that the trustees’ annual report should explain the charity’s plans for the future including the aims and key objectives it has set for future periods together with details of any activities scheduled to achieve their plans.

In our survey, 8% of charities did not include a looking forward section. 15% of those including such a section did not clearly describe the key objectives and 13% did not describe their intended activities. However, many of the charities surveyed had more detailed plans that will provide a good basis for reporting in the coming year. Some charities also demonstrated their commitment to balanced reporting by reflecting the lessons learned and consideration of resources required in their future plans.

Typically more detail was given in the accounts of those in the top 100 charities included in our survey.

Figure 4.19 Plans for future periods (%)

4.20 Public benefit

In December 2018, the Charity Commission published a review of 105 accounts submissions covering accounting years ending during the twelve months to 31 December 2016. The sample was from charities with an income of more that £25,000 and the focus of the review was on whether there was an explanation of the activities undertaken by the charity to further its purposes for the public benefit; and whether a statement was made by trustees that they had due regard to the Charity Commission’s guidance on public benefit.

52%, compared to a prior year 51% demonstrated a clear understanding of the public benefit reporting requirement. However the number of charities explaining the activities that furthered their charitable purposes fell from 71% to 66%.

The Charity Commission reported that they are not only looking for a standard statement, but in addition evidence of some reflection on the difference that the charity’s activities had made. For example:

- explaining why the trustees believed that the activities provided public benefit;
- explaining who had benefitted from what the charity had done, a particular group of beneficiaries or the wider public; and
- explaining the impact of what the charity had done, such as how the charity’s services had led to improvements in people’s lives.

All charities sampled (2017: 98%) talked about public benefit in their reports. The level of detail of the discussion varied, with some charities assuming that public benefit was obvious and others taking the reader through the objectives, the activities and an explanation of how those objectives and activities applied to public benefit. Some charities reflected their awareness of public benefit throughout their report, this was the case particularly for those who reported by activity giving objectives, performance, future plans and the public benefit by each activity.

Of those charities making a statement, 96% (2017: 96%) of charities that stated that they had complied with the Charity Commission guidance, for some this was the only reference to public benefit.
The median length of the statements on public benefit was 126 words, with the longest over 1,500 and the shortest 25, enough to say that they had regard to the Charity Commission’s guidance. Although most charities sampled made some reference to both activities and objectives the impact on public benefit from those activities was not necessarily clear. Indeed many charities sampled just included a cross-reference to other sections of their reports and, as noted above, it was, in many cases, assumed that benefits were obvious having read the objectives and activities of the charity.

**Figure 4.20a Public benefit discussion (%)**

- Public benefit described in relation to at least some activities and objectives: 76%
- Public benefit described in relation to activities only: 8%
- Public benefit described in relation to objectives only: 10%
- Bland public benefit statement no clear linkage to activities or objectives: 6%

**Figure 4.20b How long is the public benefit statement (number of words)**

- Total: 1800 words
- Top 100: 1400 words
- 101-200: 1200 words
- 201-1000: 1000 words

**Figure 4.20c How much variability is there in the length of the public benefit statement (number of words)**

- Minimum: 0 words
- Median: 400 words
- Maximum: 1800 words
4.21 Compliance with FRC guidance on going concern

The Financial Reporting Council guidance “Going Concern and Liquidity Risk: Guidance for Directors of UK Companies” continues to apply to companies, including charitable companies, that do not apply the UK Corporate Governance Code. The guidance also states that “it may also be useful to the management of other entities that produce financial statements that are intended to give a true and fair view”, which would be the case for charities preparing accounts under the Charities SORP. The SORP states:

Charities normally prepare their accounts on the basis of being a going concern. The trustees must make their own assessment of their charity’s ability to continue as a going concern to assure themselves of the validity of this assumption when preparing their accounts. In making this assessment, a charity’s trustees should take into account all available information about the future for at least, but not limited to, 12 months from the date the accounts are approved.  

94% charities surveyed disclosed their assessment of going concern – 40% of trustees included this disclosure in their trustees’ report and 86% included the disclosure in the notes to the accounts; 32% including the information in both places.

Figure 4.21a Location of the going concern statement (%)

6%  32%  54%

Trustees’ report  Notes to the financial statements

Of the 10% of charities which explicitly stated that their reserves were below their target level (figure 4.18c), none of those charities specifically linked their going concern statement to their assessment of reserves and the fact that they had not met their reserves target.

The SORP requires trustees to consider a period at least 12 months from the date the accounts are approved. Of our charities surveyed that reported on going concern 16% referred to a period of at least 12 months from the date of signing but over half (56%) referred to the foreseeable future rather than unambiguously stating the period of review.
4.22 Visual appearance of the financial statements and trustees’ annual report

The trustees’ annual report should be comprehensive and understandable. Whilst just under half of the trustees’ annual reports remain very plain to look at, consisting mainly of long sections of narrative not broken up by the use of pictures, charts, colour or highlighting: 68% (2017: 68%) of charity reports surveyed were judged to be visually interesting, 90% of charities in the top 100 were considered to have visually appealing reports.

The use of pictures, graphs, tables and case studies can assist in adding clarity to the narrative elements of the trustees’ annual report.
Over three quarters of the charities we surveyed had either or both visually attractive accounts and an annual review. This is an increase from the 70% in prior years. As charities continue to seek scarce resources, whether time or money, they will need to regularly review their communication strategy and consider the costs and benefits of using the annual accounts to attract, reassure and tell their story. The movement below has been plotted against 2016 to show the variation over time.

The “Other” category included network maps, carbon emission details and the environment.

Whilst statutory reporting can be seen as a cost it is an opportunity to reach a wide audience. As the use of digital media continues to expand the availability of information is likely to become an expectation from supporters, funders, and those as yet undecided on whether to donate.

Charity reports are all available via the Charity Commission website however 84% of charities’ own websites included either an annual report or the annual financial statements. A further 4% of websites included some financial information pages but not a downloadable report.

Over three quarters of the charities we surveyed had either or both visually attractive accounts and an annual review. This is an increase from the 70% in prior years. As charities continue to seek scarce resources, whether time or money, they will need to regularly review their communication strategy and consider the costs and benefits of using the annual accounts to attract, reassure and tell their story. The movement below has been plotted against 2016 to show the variation over time.
Appendix 1 – Disclosure checklist FRS 102 SORP

The following SORP checklist has been based on the trustees’ annual reporting requirements in the FRS102 SORP. Requirements applicable only to larger charities, that is those with an income of over £500,000, are shaded. Note that the audit threshold has been raised to income of £1,000,000 for England and Wales, but remains at £500,000 in Scotland. The checklist highlights the ‘must’s of the reporting requirements in blue and the ‘should’s in italic type.

The SORP uses the term ‘must’ to indicate those elements that are important to the reader of the trustees’ annual report that must be included within the report or to identify particular accounting treatments, disclosures or presentational requirements that are likely to affect the ability of the accounts to give a true and fair view if not applied to material transactions or items. Where this SORP states that a recommendation is one which must be followed, non-adherence to that recommendation is a departure from the SORP.

The SORP uses the term ‘should’ for an item in the trustees’ annual report or the accounts for those recommendations aimed at advancing standards of financial reporting as a matter of good practice. While charities are encouraged to follow all the SORP’s recommendations, a failure to follow a ‘should’ recommendation with respect to the report or the accounts is not regarded as a departure from the SORP.
Objectives and Activities

The report provides information intended to help the user understand how the charity’s aims fulfil its legal purposes, the activities it undertakes and what it has achieved.

All 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.

The report should explain the activities, projects or services identified in the accompanying accounts. As far as practicable, numerical information provided in the report about the resources spent on particular activities should be consistent with the analysis provided in the accounts.

Charities in England and Wales 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.

The report of larger charities must provide an explanation of:

- its aims, including details of the issues it seeks to tackle and the changes or differences it seeks to make through its activities.
- how the achievement of its aims will further its legal purposes.
- its strategies for achieving its stated aims and objectives.
- the criteria or measures it uses to assess success in the reporting period.
- the significant activities undertaken (including its main programmes, projects or services provided), explaining how they contribute to the achievement of its stated aims and objectives.

Larger charities in their report should also provide the user with a more detailed understanding of their short-term and longer-term aims and objectives. A charity with longer-term aims and objectives 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.

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 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.

36. **Larger charities** is a term used in the SORP to identify those charities with an income of over £500,000.
### Achievements and performance

The report must contain a summary of the main achievements of the charity.

The report should identify the difference the charity’s work has made to the circumstances of its beneficiaries and, if practicable, explain any wider benefits to society as a whole.

Good reporting sets out how well the activities undertaken by the charity and any subsidiaries performed 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 supporting evidence, and demonstrates the extent of performance and achievement against the objectives set and the lessons learned.

#### In particular, the report must review:

- the significant charitable activities undertaken;
- the achievements against objectives set;
- the performance of material fundraising activities against the fundraising objectives set;
- investment performance against the investment objectives set where material financial investments are held;
- 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.

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

The report must contain a review of the charity’s financial position at the end of the reporting period.

The charity must explain any policy it has for holding reserves and state the amounts 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 behind this decision.

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.
**FRS102 SORP REQUIREMENTS**  
Requirements for larger charities only are shaded[^6]

<table>
<thead>
<tr>
<th>Ref</th>
<th>YES</th>
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<th>N/A</th>
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<tr>
<td>SORP 1.24</td>
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<tr>
<td>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.</td>
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<tr>
<td>SORP 1.46</td>
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<td>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:</td>
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<td>• the financial effect of significant events;</td>
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<td>• where the charity holds material financial investments, the investment policy and objectives set;</td>
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<td>• a description of the principal risks 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; and</td>
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<td>• any factors that are likely to affect the financial performance or position going forward.</td>
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<td>SORP 1.47</td>
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<tr>
<td>The financial review should also explain:</td>
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<td>• the principal funding sources of the charity in the reporting period and how these resources support the key objectives of the charity;</td>
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<td>• 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; and</td>
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<td>• 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.</td>
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<tr>
<td>SORP 1.47</td>
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<tr>
<td>The review of the charity’s reserves should:</td>
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<td>• state the amount of the total funds the charity holds at the end of the reporting period;</td>
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<td>• 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;</td>
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<td>• identify and explain any material amounts which have been designated or otherwise committed as at the end of the reporting period;</td>
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<td>• indicate the likely timing of the expenditure of any material amounts designated or otherwise committed at the end of the reporting period;</td>
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<td>• identify the amount of any fund that can only be realised by disposing of tangible fixed assets or programme related investments;</td>
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<tr>
<td>• state the amount of reserves the charity holds at the end of the reporting period after making allowance for any restricted funds, and the amount of designations, commitments (not provided for as a liability in the accounts) or the carrying amount of functional assets which the charity considers to represent a commitment of the reserves they hold; and</td>
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<tr>
<td>• 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.</td>
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</table>
### Structure, governance and management

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.

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 policies and procedures for the induction and training of trustees;
- 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 cooperates in the pursuit of its charitable objectives.

### Reference and administrative details

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.

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37. 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. 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 there is also a provision under charity law for such information to be excluded. 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.
### FRS102 SORP REQUIREMENTS

**Requirements for larger charities only are shaded**

<table>
<thead>
<tr>
<th>Requirement</th>
<th>Ref</th>
<th>YES</th>
<th>NO</th>
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<tbody>
<tr>
<td>• 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.</td>
<td>SORP 1.27</td>
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<td>• where a charity has any corporate trustees, the names of the directors of the body corporate on the date the report was approved.</td>
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<tr>
<td>• 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</td>
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<tr>
<td>• who served as a trustee for the charity in holding the title to property belonging to the charity in the reporting period.</td>
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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.

### Plans for future periods

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.

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.

### Funds held as a custodian trustee

Where a charity has acted as custodian trustee during the reporting period it must disclose in the trustees’ annual report (or as a note to the accounts):

- a description of the assets, classes of assets or categories of assets which they hold in this capacity;
- the name and objects of the charity (or charities) on whose behalf the assets are held and how this activity falls within the custodian charity’s objects; and
- details of the arrangements for safe custody and segregation of such assets from the charity’s own assets.

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38. Note where a charity has acted as an agent it must make disclosures in the notes to the accounts
<table>
<thead>
<tr>
<th>Fundraising Requirements</th>
<th>Ref</th>
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<tbody>
<tr>
<td><strong>Charities which are required to have their accounts audited must include a statement about the following in their trustees’ annual report:</strong></td>
<td>Charities Act 2011 162A</td>
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<tr>
<td>• the fundraising approach taken by the charity, or by anyone acting on its behalf, and whether a professional fundraiser or commercial participator carried out any fundraising activities</td>
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<td>• details of any fundraising standards or scheme for fundraising regulation that the charity has voluntarily subscribed to</td>
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<tr>
<td>• details of any fundraising standards or scheme for fundraising regulation that any person acting on behalf of the charity has voluntarily subscribed to</td>
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<tr>
<td>• details of any failure by the charity, or by any person acting on its behalf, to comply with fundraising standards or scheme for fundraising regulation that the charity or the person acting on its behalf has voluntarily subscribed to</td>
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<td>• whether the charity monitored the fundraising activities of any person acting on its behalf and, if so, how it did so</td>
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<td>• the number of complaints received by the charity, or by a person acting on its behalf for the purposes of fundraising, about fundraising activity</td>
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<td>• what the charity has done to protect vulnerable people and other members of the public from behaviour which:</td>
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<td>– is an unreasonable intrusion on a person’s privacy</td>
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<td>– is unreasonably persistent</td>
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<td>– places undue pressure on a person to give money or other property</td>
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## Appendix 2 – Charitable companies trustees’ annual report additional disclosure checklist

This disclosure checklist summarises the requirements as at 30 June 2019 of the Companies Act 2006 and the relevant accounts and reports regulations.

This checklist should be read in conjunction with the Charities SORP and other applicable guidance.

### COMPANIES ACT 2006 STRATEGIC REPORT REQUIREMENTS

<table>
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<tr>
<th>Ref</th>
<th>YES</th>
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<tr>
<td>A strategic report is only required for large and medium-sized charitable companies.</td>
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<tr>
<td>The strategic report must be approved by the board of directors and signed on behalf of the board by a director or the secretary of the company.</td>
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<tr>
<td>The strategic report must contain-</td>
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<tr>
<td>(a) a fair review of the business of the company, and</td>
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<tr>
<td>(b) a description of the principal risks and uncertainties facing the company.</td>
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<tr>
<td>The review required is a balanced and comprehensive analysis of the development and performance of the business of the company during the year, and the position of the company at the end of that year, consistent with the size and complexity of the business.</td>
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<td>The review includes an analysis using financial KPIs, to the extent that they are necessary for an understanding of the development, performance or position of the business of the company.</td>
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<td>For large companies, where appropriate, the review must also include an analysis using non-financial KPIs including information relating to environmental factors and employee factors.</td>
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<td>The review, where appropriate, includes references to, and additional explanations of, amounts included in the annual accounts of the company.</td>
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<td>The strategic report may also contain such of the matters otherwise required by schedule 7 of the accounting regulations to be disclosed in the directors’ report as the directors consider are of strategic importance to the company.</td>
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</table>

39. Companies that have taken advantage of the exemptions from including certain information in their directors’ report, or from preparing a strategic report, because they qualify for the small companies regime, shall include in their directors’ report a statement that the small companies exemption has been taken, in a prominent position above the signature. (CA 2006 s419(2)).
For year ends beginning on or after 1 January 2019 the strategic report requirements have been updated for large charitable companies.

**Contents of strategic report**

The purpose of the strategic report is to inform members of the company and help them assess how the directors have performed their duty under section 172 (duty to promote the success of the company).

The strategic report must contain:

(a) a fair review of the company's business, and

(b) a description of the principal risks and uncertainties facing the company.

The review required is a balanced and comprehensive analysis of:

(a) the development and performance of the company's business during the financial year, and

(b) the position of the company's business at the end of that year, consistent with the size and complexity of the business.

The review must, to the extent necessary for an understanding of the development, performance or position of the company's business, include:

(a) analysis using financial key performance indicators, and

(b) where appropriate, analysis using other key performance indicators, including information relating to environmental matters and employee matters.

“key performance indicators” means factors by reference to which the development, performance or position of the company's business can be measured effectively.

The strategic report may also contain such of the matters otherwise required by regulations made under section 416(4) to be disclosed in the directors’ report as the directors consider are of strategic importance to the company. The report must, where appropriate, include references to, and additional explanations of, amounts included in the company's annual accounts.

Nothing in this section requires the disclosure of information about impending developments or matters in the course of negotiation if the disclosure would, in the opinion of the directors, be seriously prejudicial to the interests of the company.
### COMPANIES ACT 2006 STRATEGIC REPORT REQUIREMENTS

For large companies, where appropriate, the review must also include an analysis using non-financial KPIs including information relating to environmental factors and employee factors.

(1) The non-financial information statement must contain information, to the extent necessary for an understanding of the company's development, performance and position and the impact of its activity, relating to, as a minimum—

(a) environmental matters (including the impact of the company's business on the environment),

(b) the company's employees,

(c) social matters,

(d) respect for human rights, and

(e) anti-corruption and anti-bribery matters.

(2) The information must include—

(a) a brief description of the company's business model,

(b) a description of the policies pursued by the company in relation to the matters mentioned in subsection (1)(a) to (e) and any due diligence processes implemented by the company in pursuance of those policies,

(c) a description of the outcome of those policies,

(d) a description of the principal risks relating to the matters mentioned in subsection (1) (a) to (e) arising in connection with the company's operations and, where relevant and proportionate—

(i) a description of its business relationships, products and services which are likely to cause adverse impacts in those areas of risk, and

(ii) a description of how it manages the principal risks, and

(e) a description of the non-financial key performance indicators relevant to the company's business.

<table>
<thead>
<tr>
<th>Section 172(1) statement</th>
<th>S4141CZA</th>
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<tbody>
<tr>
<td>(1) A strategic report for a financial year of a company must include a statement (a “section 172(1) statement”) which describes how the directors have had regard to the matters set out in section 172(1)(a) to (f) when performing their duty under section 172.</td>
<td></td>
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<tr>
<td>(2) Subsection (1) does not apply if the company qualifies as medium-sized in relation to that financial year (see sections 465 to 467).</td>
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</table>
Duty to promote the success of the company

(1) A director of a company must act in the way he considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to—

(a) the likely consequences of any decision in the long term,

(b) the interests of the company's employees,

(c) the need to foster the company's business relationships with suppliers, customers and others,

(d) the impact of the company's operations on the community and the environment,

(e) the desirability of the company maintaining a reputation for high standards of business conduct, and

(f) the need to act fairly as between members of the company.

(2) Where or to the extent that the purposes of the company consist of or include purposes other than the benefit of its members, subsection (1) has effect as if the reference to promoting the success of the company for the benefit of its members were to achieving those purposes.
A separate statutory directors' report does not need to be prepared for charitable companies provided that the trustees' annual report contains all the information required to be provided under the Companies Act 2006. There is inevitably some duplication between the Companies Act requirements and those of the Charities SORP, but they have been included in the interests of completeness.

The directors' report should be approved by the Board of directors and signed by a director or the company secretary on its behalf. The name of the director or company secretary so signing should be stated.  

The names of all of the persons who were directors during the period should be given.  

Disclose the following for political donations and expenditure in the EU area (separately identified by reference to each subsidiary). The scope of this requirement includes donations made to any independent election candidate:

(a) the name of each registered party or other EU political organisation which has been the recipient of a donation;

(b) the total amount given to that party or organisation in the financial year; and

(c) the total amount of EU political expenditure incurred by the company in the financial year.

This disclosure is only required if the aggregate amount of all donations and expenditure made by a company and its subsidiaries exceeds £2,000.

Disclosure is also required for contributions to non-EU political parties as a single aggregate figure for the financial year.

Provisions for the benefit of one or more directors of the company.

If –

(a) at the time when the directors' report is approved any qualifying third party indemnity provision (whether made by the company or otherwise) is in force for the benefit of one or more directors of the company, or

(b) at any time during the financial year, any such provision was in force for the benefit of one or more persons who were then directors of the company,

the directors' report must state that any such provision is or (as the case may be) was so in force.

Provisions for the benefit of one or more directors of an "associated company".

If the company has made a qualifying third party indemnity provision and

(a) at the time when the directors' report is approved any qualifying third party indemnity provision made by the company is in force for the benefit of one or more directors of an associated company, or

(b) at any time during the financial year, any such provision was in force for the benefit of one or more persons who were then directors of an associated company,

the directors' report must state that any such provision is or (as the case may be) was so in force.
### COMPANIES ACT 2006 DIRECTORS’ REPORT REQUIREMENTS

| The report must contain a statement to the effect that, in the case of each of the persons who are directors at the time when the directors’ report is approved, the following applies: |
|---|---|---|---|
| (a) so far as the director is aware, there is no relevant audit information of which the company’s auditors are unaware, and |
| (b) he/she has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company’s auditors are aware of that information. |

| The following disclosures are only required where the average number of employees exceeds 250: |
|---|---|---|---|
| State the company’s policy as to: |
| (a) employment of disabled persons, |
| (b) continued employment and training of persons who become disabled while in the company’s employment, and |
| (c) training, career development and promotion of disabled people. |

| Describe the action that has been taken during the financial year to introduce, maintain or develop arrangements: |
|---|---|---|---|
| (a) to provide employees systematically with information on matters of concern to them; |
| (b) regularly to consult employees, or their representatives, for views on matters affecting them; |
| (c) to encourage employee involvement in the company’s performance through share schemes or otherwise; and |
| (d) to make all employees aware of financial and economic factors affecting the performance of the company. |

| Changes arising as a result of the Companies (Miscellaneous Reporting) Regulations 2018: |
|---|---|---|---|
| In addition to that required above for employee engagement the report must now also summarise: |
| (i) how the directors have engaged with employees, and |
| (ii) how the directors have had regard to employee interests, and the effect of that regard, including on the principal decisions taken by the company during the financial year. |

<p>| The following disclosures are only required for large and medium-sized charitable companies: |
|---|---|---|---|
| Where a company has chosen in accordance with section 414C(11) of the Act to set out in the company’s strategic report information required by schedule 7 to the accounting regulations to be contained in the directors’ report it shall state in the directors’ report that it has done so and in respect of which information it has done so. |</p>
<table>
<thead>
<tr>
<th>COMPANIES ACT 2006 DIRECTORS’ REPORT REQUIREMENTS</th>
<th>Ref</th>
<th>YES</th>
<th>NO</th>
<th>N/A</th>
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<tbody>
<tr>
<td>In relation to the use of financial instruments by a company and its subsidiary undertakings, the directors’ report must contain an indication of:</td>
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<td>(a) the financial risk management objectives and policies of the company and its subsidiary undertakings included in the consolidation, including the policy for hedging each major type of forecasted transaction for which hedge accounting is used; and</td>
<td>Acc Regs Sch 7:6(1)(2)</td>
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<td>(b) the exposure of the company and its subsidiary undertakings included in the consolidation to price risk, credit risk, liquidity risk and cash flow risk.</td>
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<td>This is not required if the information is not material for the assessment of the assets, liabilities, financial position and profit or loss of the company and its subsidiary undertakings included in the consolidation.</td>
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<td>Particulars of any important events which have occurred since the end of the financial year in relation to the company and its subsidiary undertakings should be given.</td>
<td>Acc Regs Sch 7:7</td>
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<td>An indication of likely future developments in the business of the company and its subsidiary undertakings should be given.</td>
<td>Acc Regs Sch 7:7</td>
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<td>An indication of any activities in the field of research and development in relation to the company and its subsidiary undertakings should be given.</td>
<td>Acc Regs Sch 7:7</td>
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<td>An indication of the existence of branches of the company outside the UK, unless it is an unlimited company.</td>
<td>Acc Regs Sch 7:7(d)</td>
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<td>Changes arising as a result of the Companies (Miscellaneous Reporting) Regulations 2018:</td>
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<td>For large charitable companies:</td>
<td>Acc Regs Sch 7:11B</td>
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<tr>
<td>The directors’ report for the financial year must contain a statement summarising how the directors have had regard to the need to foster the company’s business relationships with suppliers, customers and others, and the effect of that regard, including on the principal decisions taken by the company during the financial year.</td>
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40. Where this information is already covered by the section 172 statement a cross reference is considered sufficient.
Appendix 3 – Deloitte’s Charities and Not For Profit Group

Our dedicated Charities and Not For Profit Group is made up of specialists with expertise and a passion for working with clients in the sector. Please visit www.deloitte.co.uk/charitiesandnotforprofit for more information about the Group.

With access to a group of specialists spread across the country, we will provide truly local expertise and service, backed up by the resources of a National Team.

Please feel free to contact any of the team members if you would like more detailed information and advice or would like to meet with us to discuss any current issues for your charity.

National Head Of Charities And Not For Profit
Reza Motazedi
London
020 7007 7646
rmotazedi@deloitte.co.uk

Vat
Nick Comer
020 7007 7946
ncomer@deloitte.co.uk

Charity Accounting
Nikki Loan
London
020 7303 4810
nloan@deloitte.co.uk

Tax
Paul Knight
01293 623852
pknight@deloitte.co.uk

Regions
Sarah Anderson
Regions
0113 292 1343
saanderson@deloitte.co.uk
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