

Regulation and Support of Charities



Charity Commission:
Regulation and Support of Charities

This report has been prepared under Section 6 of the National Audit Act 1983 for presentation to the House of Commons in accordance with Section 9 of the Act.

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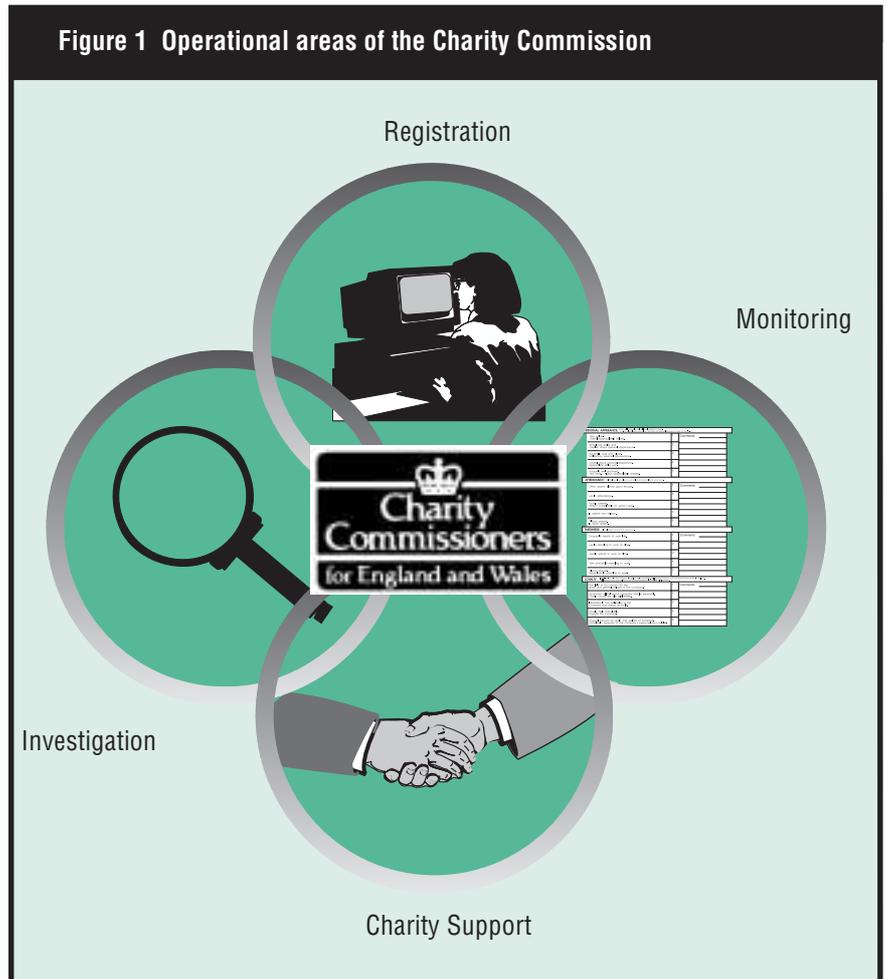
Executive summary

Introduction

- 1 Charities have an important role in the nation's economic and social well being. With a total annual gross income of approximately £16 billion, the 184,000 registered charities in England and Wales manage substantial resources, including assets of more than £35 billion, for the public benefit. Accountability of charities is important, from the public's point of view, to safeguard charitable resources and, for the charities themselves, to promote public confidence in the charitable sector.
- 2 The Charity Commission supports and supervises charities in England and Wales and is responsible for maintaining and developing the legal framework within which charities operate. In seeking to promote the efficient and effective use of charitable resources, the Commission's activities include maintaining the register of charities, monitoring charities and providing advice (Figure 1). Charities are independent organisations and manage their own affairs. The Commission seeks to encourage the large and increasing charitable sector to manage and regulate itself, but has a range of powers which may be used to safeguard resources for beneficiaries in the small number of cases where this is a problem. Getting the balance right between flexibility and safeguarding charitable money is the key to all the Charity Commission's work.

Previous examinations of the Charity Commission

- 3 The Committee of Public Accounts have taken evidence from the Commission twice on the basis of reports of the Comptroller and Auditor General and published reports in 1988 and 1991. In their first report the Committee expressed concern about the Commission's failure to undertake effective monitoring of charities. In their second report the Committee welcomed the Commission's positive response to their earlier concerns, but expected the Commission to make greater efforts to improve the accuracy of the register and to increase the percentage of charities submitting their accounts, which was still unacceptably low.



Recent legislation

- 4 Following these reports, the Charities Acts 1992 and 1993 created important new powers and requirements, some of which have still to come into effect. Under the 1993 Act, all registered charities with an annual income or expenditure of over £10,000 will for the first time be statutorily required to submit accounts and annual returns to the Commission. The Act gave the Commission extra powers for use in pursuing investigations of possible charity fraud or maladministration and, more generally, for protecting charities at risk of loss where trustees are unable or unwilling to do so themselves.
- 5 In response to these changes, the Commission initiated a major development programme, which is still in progress, to meet the challenge of operating the new powers and requirements in an efficient and effective way. This meant that the National Audit Office examination was undertaken during a period of change which affected all parts of the Commission's structure, activities, systems

and targets. The changes also involved the development of new computer systems to redesign the charity register, and to enable more systematic management of the Commission's operational work. Also following the new legislation, the Commission has led the introduction of revised standards for charity accounts and reports, and has been developing a new monitoring framework to handle the annual returns and accounts that the legislation obliges larger charities to make. To support this programme, the Commission has reorganised its structure and set in hand reviews of its main operational areas.

Scope of the National Audit Office examination

- 6 This examination follows up the earlier reports by examining the Commission's registration and monitoring of charities (Part 2 of this report); the Commission's support and advice to charities (Part 3); and the investigations function (Part 4). The Commission has other functions, for example to keep up to date the legal framework for charities, which are not included in this examination.

Main conclusions and recommendations

- 7 In the six years since the last National Audit Office examination, the Commission has taken steps to cope with a rising workload, to define more clearly the monitoring and investigations functions, and to recruit staff with appropriate skills. The Commission is moving from a largely paper-based organisation to one increasingly using new technology. The Commission's major development programme is geared towards ensuring that the public can have confidence that larger registered charities are subject to effective monitoring as envisaged in the legislation.
- 8 The Commission is currently developing systems and procedures to improve charity monitoring and to maintain an accurate register using the provisions of the 1993 Act. These improvements are enabling the Commission to make progress towards meeting key targets (Figure 2; a full list of the Commission's performance indicators, targets and results is at Appendix 1). The following paragraphs draw conclusions in relation to the Commission's targets and activities, and make recommendations which, if implemented as part of the Commission's reviews of its main operational areas, would

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further improve its management information and priority setting, supported by targets which more closely reflect the new legislative framework for charity monitoring.

Figure 2 Charity Commission's key performance indicators

Recent legislation is assisting the Commission towards achieving key targets

	1994-95 Actual		1995-96 Actual		1996-97 Projected	
	Target	Achieved	Target	Achieved	Target	Achieved
Registrations						
Completed in period	14,000	9,562	8,950	11,161	9,365	11,363
Proportion accepted/rejected within 15 working days	-	-	-	72%	90%	85%
Monitoring						
Proportion of charities responding to annual mailing	90%	67%	90%	74%	90%	78%
Proportion of charities submitting accounts	80%	53%	80%	61%	80%	53%
Accounts examined	6,000	5,594	8,000	6,344	9,333	6,245
Charity Support						
Cases closed in period	13,800	21,185	21,682	21,987	24,411	25,921
Substantive response to correspondence within 20 working days	-	64%	-	65%	90%	76%
Quality reviews - proportion "acceptable" or better	-	-	-	69%	90%	70%
Investigations						
Evaluations completed within two months	-	-	80%	37%	80%	56% ¹
Charity funds protected (£ million)	34.0	17.7	37.0	23.3	30.0	28.4

Note 1 Performance to December 1996 based on local management information

Source National Audit Office analysis of Charity Commission monthly statistics (Appendix 1 shows the full range of the Commission's performance targets)

On registration

- 9 The register of charities was first computerised in 1990. The Commission is now developing a new charity database at an estimated cost of £1 million which is planned to be available in March 1997. A revised registration procedure, introduced in April 1996 and reviewed after six months' operation, is proving popular and has been accepted by charities. The National Audit Office found that new applications for registration were taking less time than previously. The Commission is not yet meeting the

demanding target it has set for deciding applications within 15 days, but is projecting an improvement in performance bringing it close to target in 1996-97 (Figure 2).

- 10 In considering applications to register a charity, the Commission's powers to take account of the characteristics of proposed trustees are limited (Appendix 2). Within these limitations however, checks on the integrity and activities of trustees are important, in order to identify potential causes for concern. The Commission's staff do not currently have access to sufficient information to assess proposed trustees' integrity, but the Commission is making efforts to improve arrangements. As part of this, the Commission is developing the new charity database as a source of information on trustees. It is also discussing access to key information held by other public sector bodies such as the Department of Trade and Industry, and to the Police National Computer.

Recommendation 1

The Commission should ensure that these improvements in data on trustees result in up to date and comprehensive information which is easily accessible to Commission staff to enable them to check the integrity of trustees.

- 11 The Commission maintains a register of persons removed as a trustee or officer of a charity, which it is statutorily required to make available for public inspection. However the National Audit Office found that Commission staff at its three public enquiry points were unaware of the register's existence. The Commission subsequently issued guidance to staff on the need to make the register of persons removed from the office of trustee of a charity more accessible to the public.

On accuracy of the register

- 12 Alongside the computerisation of the register of charities, the Commission ran a major exercise resulting in the verification, by 1993, of virtually all entries on the original manual register. The Commission's continuing target for accuracy of the register is based on the proportion of charities responding to its mailing programme, started in October 1990. One quarter of charities have not responded to the mailings (Figure 2). The Commission's follow up of non-replies provides further improvements in accuracy but is a time consuming process, and the effect is difficult to quantify in terms of timely impact on the register. Once the 1993 Act is fully implemented, the Commission's ability to maintain the accuracy of the register should be enhanced for charities with income or

expenditure of more than £10,000, which will be statutorily required to submit annual returns. Smaller charities will be asked to confirm basic details annually, but this will not be a statutory requirement.

Recommendation 2

The Commission's staff should monitor the proportions of larger charities submitting annual returns and of smaller charities providing annual updates of the basic information held on the charity database. The Commission should set separate targets for obtaining returns from larger charities and updates from smaller charities; the target for the former should reflect the Commission's intention that the statutory requirement to submit annual returns should be met. Commission staff should continue to explore the circumstances of those charities which fail to provide information, and especially to check periodically those classes of charity which appear to be inactive, for example because they apparently have no income.

On submission of accounts

- 13 The proportion of charities submitting accounts has improved but remains low, at 61 per cent of charities responding to the Commission's most recent complete mailing programme. The requirement under the 1993 Act for charities with income or expenditure of over £10,000 to submit accounts for accounting years starting on or after 1 March 1996 would, if met, result in the Commission receiving accounts covering a high proportion of the income (up to 96 per cent) of all registered charities. Smaller charities are not required to send their accounts routinely to the Commission, but are expected to prepare accounts on a simplified basis under the revised standards for accounts and reports, and to make them available to the Commission or members of the public on request.

Recommendation 3

The Commission should set a target for obtaining accounts from charities with an income over £10,000 which reflects the Commission's intention that the accountability requirements under the 1993 Act should be met. It should plan what action it will take to ensure that charities comply. Smaller charities' compliance with the requirement to prepare accounts should be tested on a sample basis and in the course of the Commission's other dealings with small charities.

On monitoring of charities

- 14 The Commission's central monitoring unit was established in 1994 to develop methods for handling and making best use of the information to be submitted by charities under the 1993 Act. In developing and piloting the annual return to be required from registered charities with annual income or expenditure of over £10,000, the unit devoted its main effort to refining the monitoring process to enable genuine causes of concern to be identified. In the early piloting, large numbers of potential causes for concern were identified, not all of which were finally resolved because the purpose of the pilots was to develop systems for highlighting appropriate causes of concern and subsequent handling. The National Audit Office noted from their sample of cases that information to further the development of the return was not routinely fed back; and action on cases referred to the Commission's support and investigation divisions was not always followed up. The Commission did not meet its target for examination of charity accounts during 1995-96 and does not expect to do so in 1996-97 (Figure 2). The Commission considered that until the revised standards for accounts and reports come into effect, lack of standardisation meant that monitoring of charity accounts was of limited value.

Recommendation 4

The Commission should ensure that residual information on causes for concern is routinely fed back in order to make best use of all the experience arising out of the monitoring pilots. As the development workload reduces with the full introduction of the annual return, the Commission will need to consider whether sufficient resources are devoted to the examination of accounts.

- 15 Experience to date suggests that, once fully developed, the annual return is likely to generate a large workload in pursuing potential causes for concern. An integrated computerised monitoring system is planned to be available from May 1997, some eight months before the first charity annual returns begin to arrive. This system will be important in enabling the Commission to identify and concentrate its efforts on those charities which may be a genuine cause for concern. The system, together with the standard form of accounts and the requirement for returns, should support the Commission in monitoring larger charities effectively.

Recommendation 5

The Commission should use the eight months before live data begins to arrive from charities to test the capacity of the computerised monitoring system for weeding out matters identified in the pilots as those least likely to prove a genuine cause for concern. This should enable the Commission to complete its assessment and planning for the workload which will arise from some 40,000 annual returns.

On support

- 16 More than a quarter of the Commission's 600 staff are devoted to support work, which comprises around 24,000 cases a year and is expected to increase as a result of monitoring of accounts and returns under the 1993 Act . The Commission does not however routinely produce data on the type and size of charity requiring its support and the matters raised, although such data is planned to be made available through the computerised systems currently being developed. Lack of information, for example on the income levels of charities requesting support, could limit the Commission's ability to set clear priorities and readily to identify common themes. The Commission is currently undertaking a wide review of support to rationalise and improve the service to customers.

Recommendation 6

The Commission should plan for better use of information on the support work it is undertaking, in order to identify ways of managing workload and further improving the timeliness of casework and guidance to the charitable sector. As part of the review of support the Commission is looking for ways of standardising responses on more straightforward support enquiries from charities and will need to consider whether this will allow resources to be released for cases requiring more substantive intervention.

- 17 The National Audit Office's examination, and the results of the Commission's own survey of charities, found scope for improvements in the timeliness of support to charities. Of 6,127 support cases at 1 May 1996, five per cent had been in hand for more than two years. The Commission's targets for the closure of cases and response to correspondence (Figure 2), which reflect the Citizen's Charter targets, are not entirely suitable for ensuring that issues raised are dealt with promptly. The National Audit Office found that some cases had been closed prematurely and then reopened. Cases already outside the 20 day correspondence target were sometimes being allocated a low priority, because further work on the case would not contribute to achieving the target. The Commission is currently reviewing all aspects of support, including performance indicators and targets.

Recommendation 7

Indicators of performance on timeliness should be refined to avoid the unintended incentive to process new cases in preference to cases already beyond the time target. The support case closure target similarly requires refinement, perhaps by also monitoring the number of cases reopened, in order to reduce the incentive to close cases prematurely.

- 18 The Commission recognises that the large and rising workload of support cases creates a need for more efficient delivery of support. It has therefore increased the availability of guidance on common issues, which large numbers of charities say they use. A range of methods has been developed for seeking feedback from charities, including, for example, the formation of user groups for consultation on proposed guidance and standards. Staff are also beginning to specialise on particular issues and types of charity. And from April 1996, the impact of support work has been assessed in terms of rectifying inefficiency and departures from the legal framework. The Commission has started a programme of visits, on a risk assessed basis, to selected larger charities, with a view to identifying and addressing potential problems at an early stage. The National Audit Office examination, and in particular their consultation with charities, suggested a number of other potential areas for creating efficiencies and improving the service to charities.

Recommendation 8

Having staff develop expertise on particular issues and types of charity enables them to become familiar with common problems and solutions, and to provide advice to colleagues in other parts of the Commission. The Commission might consider whether there are further opportunities for increased efficiency and quality of service by extending the number of staff who have such expertise.

Recommendation 9

The Commission should continue to explore ways of having a single contact point for individual charities to which they would address initial requests for information and advice. Customer service teams, which provide several people to be potentially available to handle a query, have worked well in some other public sector organisations.

Recommendation 10

The Commission could make more extensive use of user groups, for example to help identify gaps where new standards need to be developed. The Commission should also continue to work with organisations which bring together groups of charities, and might help these organisations to provide a source of direct support for charities, thereby reducing calls on the Commission's time for routine enquiries and advice.

Recommendation 11

As part of the Commission's review of support, it should consider setting objectives for large support cases along the lines of the system already operating effectively for investigations.

On investigation

- 19 Proven cases of charity abuse are few in relation to the numbers of allegations and other information received by the Commission; some 1,255 cases were opened in 1995 but only 193 (15 per cent) proved to be instances of deliberate maladministration, theft or fraud.
- 20 The Commission has taken action on the low level of resources previously devoted to investigations, and now has a larger workforce with appropriate skills to handle this specialist area. The National Audit Office found that most of the objectives set for individual investigations had been achieved. The Commission has developed a method for evaluating cases to identify which should proceed to formal investigation and to determine suitable alternative treatment for the remainder. In over 40 per cent of cases proceeding from evaluation to investigation in 1995 the cause for concern was substantiated.
- 21 Management information on investigations is sufficient to enable objectives and priorities to be set. Timeliness has improved, but in the cases examined by the National Audit Office only a quarter had been evaluated, and a decision made on whether or not to investigate, within the Commission's target of two months. The Commission does not review performance centrally against this target. About three-quarters of completed formal investigations in the National Audit Office sample had taken more than 12 months, and a third twice as long. These long cases were largely opened before the reorganisation of the Commission's investigation function; the delays reflected a variety of factors, some of which were outside the control of the Commission, such as time taken in awaiting the results of legal action.

- 22 The Commission now has greater powers to pursue effective investigations. It has made limited use of some of these powers, but their potential use is proving an effective lever in the course of some investigations. The National Audit Office found that management information on the use of powers needed to be enhanced to permit monitoring of the relative effectiveness of different powers. The Commission has adopted “value of charity property protected” as a key indicator of effectiveness. The assessment of “value protected” was tightened up in 1995-96, and the Commission achieved only 63 per cent of the £37 million annual target (Figure 2). The 1996-97 target has been set at a more realistic level of £30 million, and the Commission looks likely to come close to achieving it.

Recommendation 12

The Commission should consider whether performance against existing targets for investigation work should be centrally monitored, and whether further indicators should be added to give a wider picture of its performance, for example based on action taken by charities as a result of its investigations. As the use of the new legal powers becomes more established, there should be scope for developing indicators which match use of powers, or threat of use, with successful or unsuccessful outcomes.

- 23 The Commission has demonstrated effective co-operation with the police and has regular contacts with the Scottish Charities Office. The National Audit Office examination of cases identified greater scope for useful exchange of information between the Commission and the Inland Revenue on specific investigations or potential investigations.

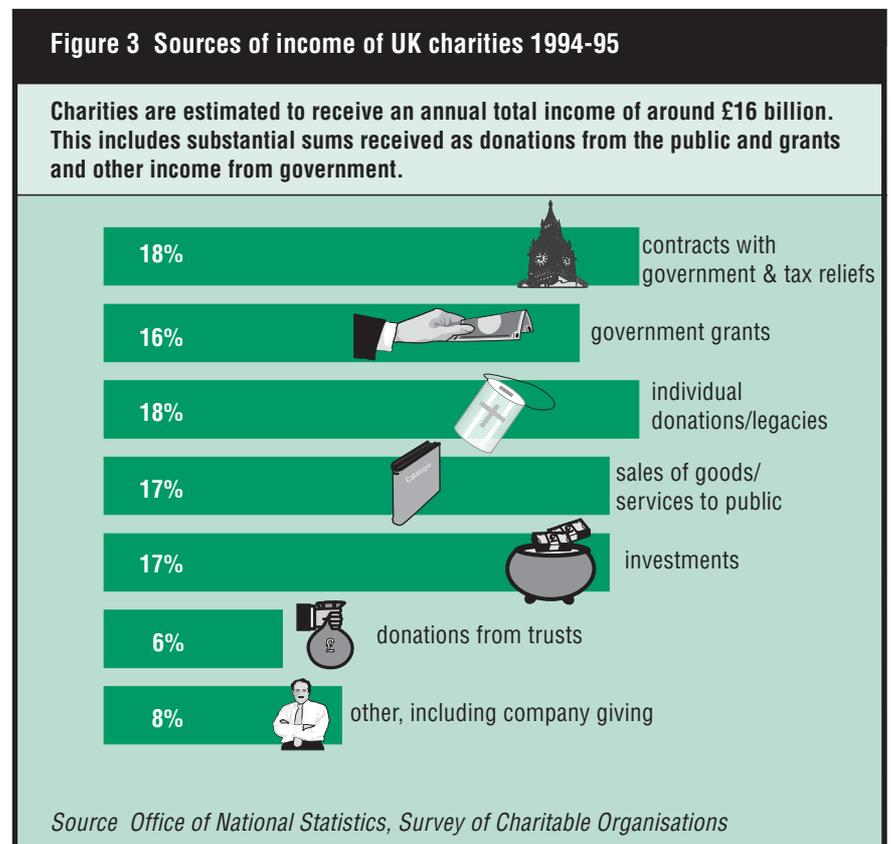
Recommendation 13

The Commission’s investigators should build on existing relationships with the Inland Revenue by exploring the scope for greater information sharing on respective investigations of charities.

Part 1: Introduction and previous examinations

Introduction

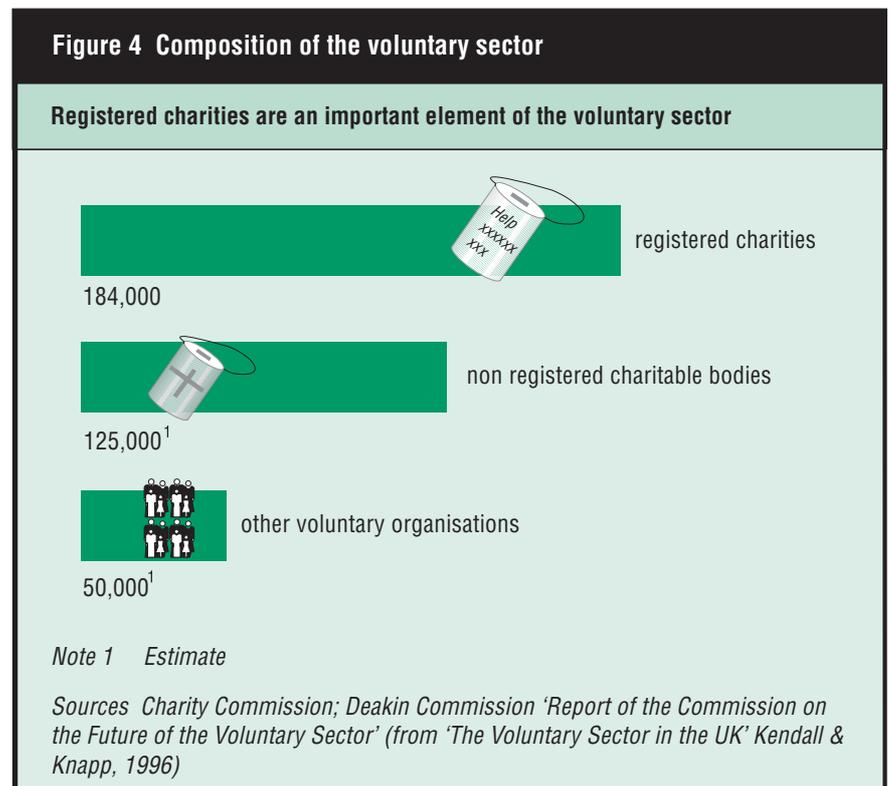
- 1.1 Charities play a vital part in the economic and social well-being of the population. They provide services on a substantial scale and enhance the sense of community. Charities are estimated to receive an annual total income of around £16 billion. This includes substantial sums received as donations from the public, and grants and other income from government (Figure 3). Charitable assets are estimated at around £35 billion. Sizeable sums are distributed to charities by the National Lottery Charities' Board and by other Lottery distribution bodies (£320 million to September 1996). In return, the public expect that charities should be properly controlled and managed.



1.2 Much of the strength of the charitable sector derives from its diversity and independence, and from the enthusiasm and commitment of the people running charities. As independent organisations, charities are responsible for managing their own affairs, but the Charity Commission has a role in promoting effectiveness and in regulating charities by investigating fraud or abuse in the small number of cases where this is a problem. Getting the balance right between flexibility and the need for appropriate control of charitable money is the key to all the Charity Commission's work.

Registered charities

1.3 Charities are one part, although an important element, of the voluntary sector (Figure 4). To be considered for charitable status the prospective charity must be non-profit making (any surpluses should be retained and used for charitable purposes) and must be set up entirely for wider public benefit, and not for personal benefit. The courts in the nineteenth century classified charitable purposes as the relief of poverty or sickness, and the advancement of religion or education (where the court held public benefit to be assumed, unless it could be demonstrated otherwise); and other areas for the public benefit. Registration with the Charity Commission is evidence of charitable status. The criteria for determining charitable status



are complex and based on case law. Organisations with charitable purposes that meet the criteria indicated in Figure 5 must register with the Charity Commission, unless specifically exempted or exempted.

Figure 5 Which charities must register?

A charity is required to register, in accordance with Section 3(2) of the Charities Act 1993, if it meets both the following criteria.

1. A charity is subject to the jurisdiction of the High Court. This means that it is established in England and Wales and any one or more of the following applies:

- all or a majority of the charity trustees are resident in England and Wales;
- all or most of the assets are held in England and Wales; or
- if a company, the organisation is incorporated in England and Wales.

2. Any one or more of the following applies:

- the organisation has permanent endowment (that is, some or all of its assets are required to be held as capital which cannot be spent as though it were income);
- the organisation has a total income from all sources exceeding £1,000 per year; or
- the organisation has the rateable use of, or owns or occupies land, including buildings, and is responsible for paying rates to the local authority for that property, even if the local authority has agreed not to charge any rate or to charge a reduced rate.

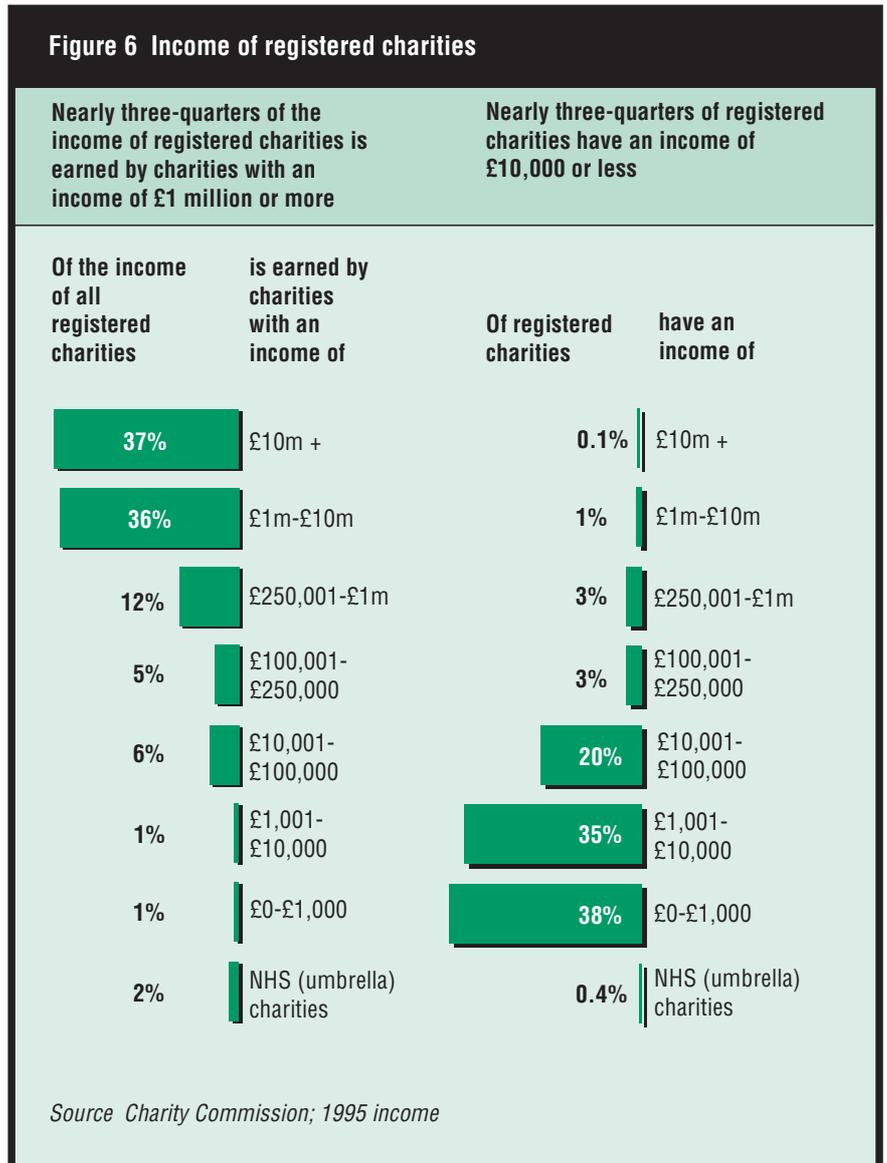
Some charities (such as charities promoting the efficiency of the armed forces) are exempted from the requirement to register by specific regulations. Others, such as friendly societies and grant-maintained schools, are exempt under Section 2 of the Charities Act 1993, even if they meet the criteria above.

Other charities, may register voluntarily despite not meeting the minimum criteria for registration, for example, if it can be shown that substantial funds would be lost if they were not registered.

Source Charity Commission

1.4 There are some 150,000 main registered charities in England and Wales and around 34,000 subsidiaries. These charities range from small organisations addressing local needs, and run by volunteers, to large charities with full-time paid staff, some operating outside the United Kingdom. Those with income in excess of £1 million represent 73 per cent of the income of registered charities but amount to less than 2 per cent of main registered charities. In contrast 73 per cent of registered charities have an annual income of less than £10,000 (Figure 6).

1.5 While the Charity Commission can offer help and advice to all charities, it regulates only those charities that are not exempt and registers only those charities that must register or that opt to register. Other bodies, such as the Inland Revenue and Customs and

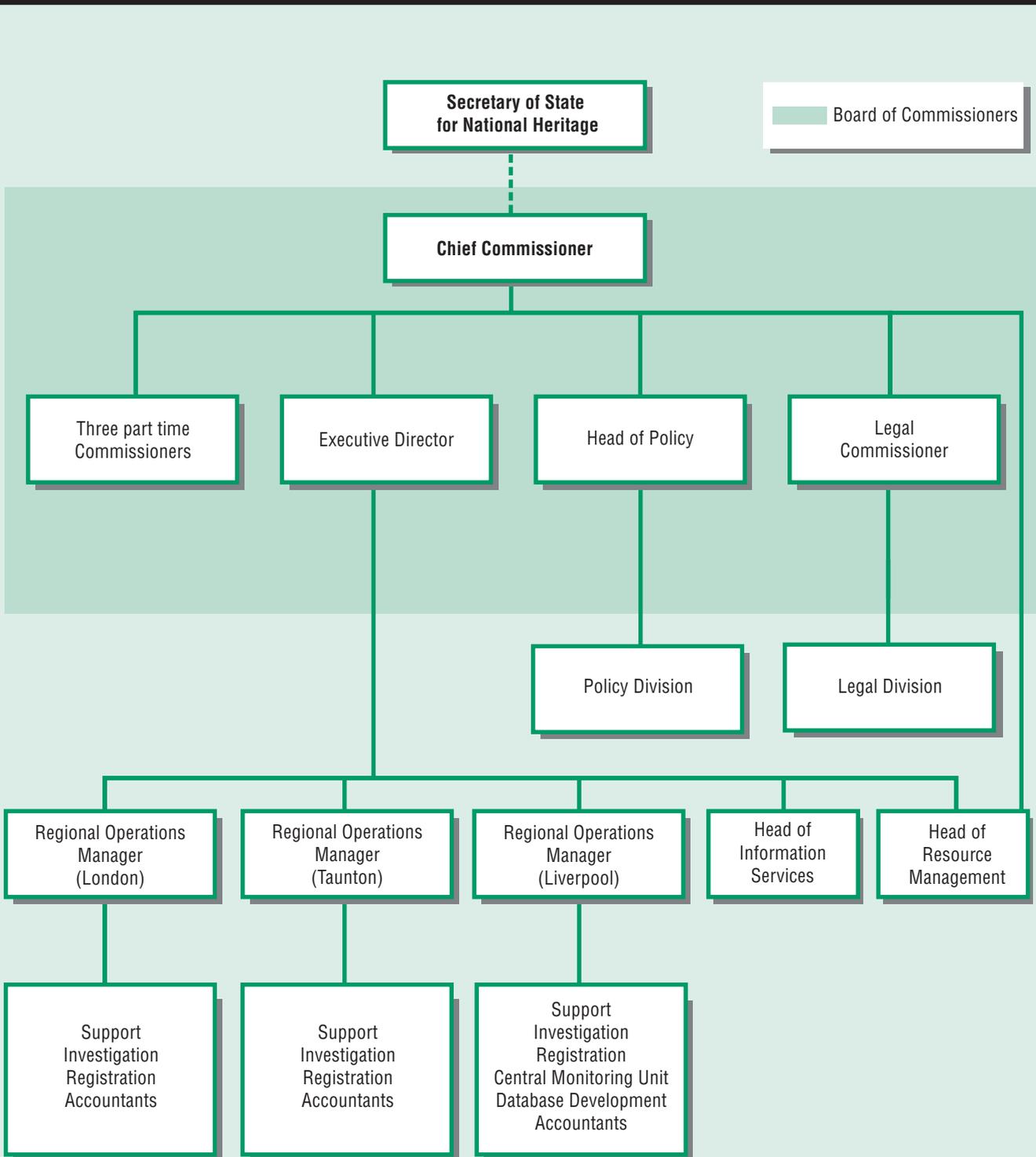


Excise, local authorities, and grant giving trusts have an interest in charitable status. This report focuses on the Charity Commission's role in regulating and supporting charities in England and Wales.

The Charity Commission

- 1.6 The Charity Commission dates back to 1853, but was set up in its present form under the 1960 Charities Act. Figure 7 shows the Commission's organisation. The Chief Commissioner and the other commissioners are appointed by the Secretary of State for National Heritage, but the Commission is accountable to the courts for the exercise of its statutory powers and is not answerable to a Minister for day to day decisions. The Commissioners are, however,

Figure 7 Organisation structure of the Charity Commission

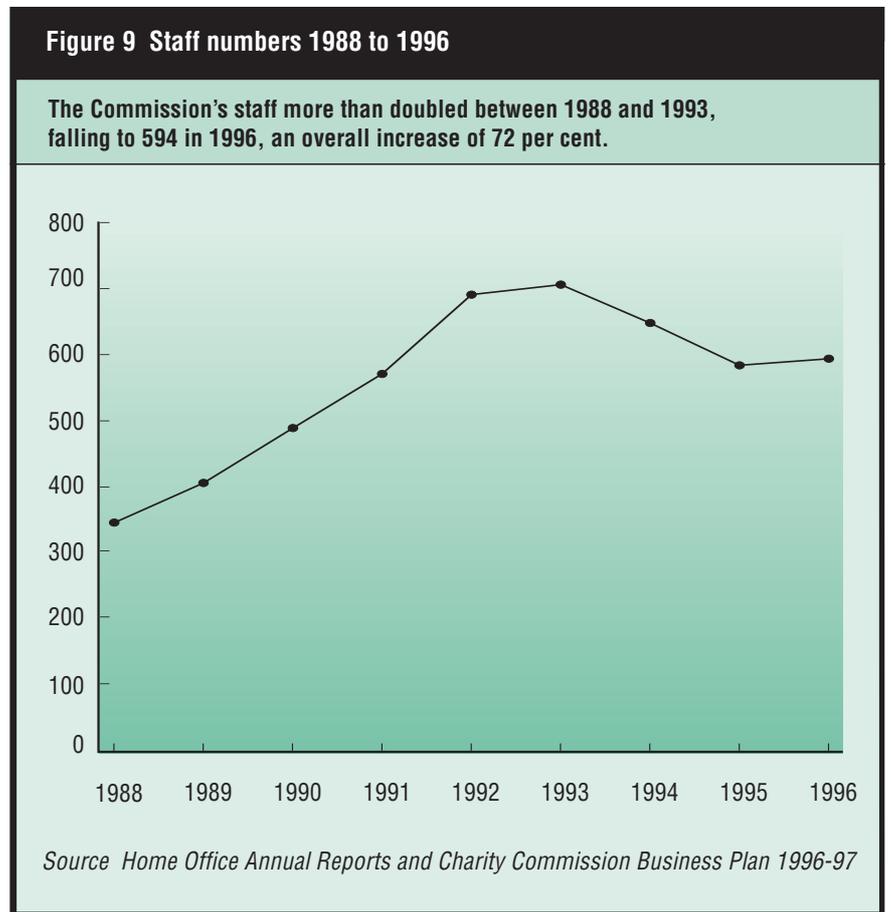


The Board of Commissioners is supplemented, as necessary, by the Head of Information Services and Head of Resource Management

Source Charity Commission

The Charity Commission dates back to 1853, but was set up in its present form under the 1960 Charities Act. Figure 7 shows the Commission's organisation. The Chief Commissioner and the other commissioners are appointed by the Secretary of State for National Heritage, but the Commission is accountable to the courts for the exercise of its statutory powers and is not answerable to a Minister for day to day decisions. The Commissioners are, however, accountable to the Secretary of State for their overall efficiency. The Secretary of State answers to Parliament on the Commission's affairs.

1.7 Figure 8 shows how the Commission's approximately 600 staff are deployed between its main activities. The Commission's expenditure



in 1995-96 was £23 million, of which £13 million was spent on staff at the Commission's three regional centres in London, Liverpool and Taunton. London has responsibility for some 130 of the largest 200 charities. In order to cope with an increasing workload, including undertaking more investigations, the Commission's staff more than doubled from 346 in 1988 to a peak of 706 in 1993, falling to 594 in 1996, an overall increase of 72 per cent (Figure 9).

1.8 The functions and duties of the Commission are set out in the Charities Act 1993. (The Act consolidated the 1960 Charities Act with amendments made in the Charities Act 1992.) The Commission's overriding aim is to promote public confidence in the charitable sector. The Act requires the Commission to encourage the efficient and effective use of charitable resources and safeguard them for beneficiaries. The Commission also seeks to develop and apply charity law to meet the changing needs of society. The Commission's main areas of work are:

- developing the legal framework to promote the effectiveness of the charitable sector;
- maintaining an up to date and accurate register of charities for public access;
- monitoring charities, receiving and reviewing charity accounts and annual returns and making the accounts available for public scrutiny;
- providing advice to individual charities, including making schemes and orders where appropriate, to modernise the purposes and administration of charities;
- improving standards in charities by offering guidance on good practice in particular areas, such as financial controls and accounts, and by making available free leaflets to charities on charity law and a wide range of other relevant subjects;
- undertaking investigations of charity abuse, maladministration and fraud.

Previous examinations of the Charity Commission

1.9 The National Audit Office have examined the Charity Commission on two previous occasions focusing on the monitoring of charities (HC 380 of 1986-87 and HC 13 of 1990-91). The Committee of Public Accounts have taken evidence from the Commission twice on the basis of the Comptroller and Auditor General's reports. A summary of the main recommendations of the reports of the Committee of Public Accounts (HC 116 1987-88 and HC 85 1990-91) is at Appendix 3.

1.10 In their first report the Committee expressed concern about the Commission's failure to undertake effective monitoring of charities in England and Wales. In their subsequent report the Committee considered the progress made by the Commission in implementing

the Committee's earlier recommendations. They focused on the register of charities; the submission of accounts; the investigation of fraud, abuse and maladministration; and the progress in implementing the recommendations of an efficiency scrutiny in 1987. The Committee welcomed the Commission's positive response to past reports, but were concerned about the accuracy of the register and the low percentage of charities submitting accounts.

Legislative changes

- 1.11 The Charities Acts (paragraph 1.8) introduced new reporting and accounting requirements, controls over fund-raising activities and new powers for the Commission to investigate charities and to safeguard charitable resources. The new powers and requirements have gradually been coming into effect; the date for each power is set out in Figure 10. Some of the Commission's powers go beyond those available to the police, but it is for the police to investigate if fraud is suspected. While the powers are extensive, the circumstances in which the Commission is permitted to intervene in the running of a charity are limited; for example where the Commission considers that a charity is not being run efficiently, it would need to show that charitable assets are specifically at risk before it could act.
- 1.12 In so far as they affect individual registered charities, the legislative requirements under the 1993 Act vary with the size of the charity, following the recommendations of the Government's Deregulation Task Force. Figure 11 outlines the requirements for annual returns and accounts. The majority of registered charities (over 100,000) with an income or expenditure of £10,000 or less a year have to comply with simplified accounting and reporting requirements, and to make the results available publicly and to the Commission on request. However, they do not have to submit annual accounts or returns routinely, and are not subject to routine monitoring. For these smaller charities, the emphasis is on encouraging good standards of management and financial control, without placing excessive burdens on them. Registered charities with an income or expenditure of over £10,000 a year, on the other hand, are for the first time to be statutorily required to submit annual accounts and returns, commencing with accounting periods on or after 1 March 1996. The Commission expects to receive the first accounts under the legislation from January 1998.
- 1.13 Following the Charities Acts, the Commission worked to improve the quality of charities' financial reporting by leading the introduction of revised standards for charity accounts and reports. In October 1995,

Figure 10 New powers and requirements

Power/requirement	Effective date
Control over charity names Improved framework for information collection, storage and exchange ¹ Power to authorise ex gratia payments Small charities, transfer and application of property	1 September 1992
New powers to act for protection of charities, including: receiver manager appointment; power to require explanations; elimination of advanced warning of intended use of protective powers	1 November 1992
Status disclosure on documentation Dormant bank account directions Power to bring enforcement proceedings in court New regime for control over charity land disposals Disqualification of trustees	1 January 1993
For charitable companies, power <i>inter alia</i> to petition for winding up, to control constitutional changes, and to authorise certain conflicts of interest transactions	Various; all by 1 January 1993
Fund raising controls: new requirements for professional fund raisers, for example to have a formal agreement with the charity specifying the methods used and proportions of income retained	1 March 1995
Keeping accounting records, preparation of accounts, preparation of annual reports, audit/independent examination of accounts, transmission of accounts to the Commission, public access to accounts, annual returns to the Commission	from 1 January 1998 ²

Notes 1 except where subject to Section 30 Data Protection Act 1984

2 year one submissions enforceable from 1 January 1998 to 30 September 1999, depending on charities' accounting periods

Source Charity Commission

in co-operation with the Accounting Standards Board and the Department of Trade and Industry, the Commission issued a revised Statement of Recommended Practice setting out recommendations on the way in which a charity should report annually on resources entrusted to it and the activities it undertakes. The Statement is intended to assist those responsible for the preparation of a charity's accounts and to reduce the diversity in accounting practice and presentation. It applies to all charities regardless of size, except where a more specialised Statement of Recommended Practice applies, for example in the case of registered housing associations. In October 1996, the Auditing Practices Board issued a practice note giving guidance on the application of the Statements of Auditing

Figure 11 Charity accounting and reporting requirements

Income/ Requirement	Less than £1000	More than £1000 but less than £10,000	More than £10,000 but less than £100,000	More than £100,000 but less than £250,000	More than £250,000 (in current or previous 2 years)
need to keep accounting records?	YES	YES	YES	YES	YES
need to prepare accounts and make them available to the public on request?	YES ²	YES ²	YES ²	YES ³	YES ³
need to submit accounts and reports? ¹	NO	NO	YES	YES	YES
need to prepare and submit an annual return?	NO	YES ⁴	YES	YES	YES
accounts subject to independent examination or an audit by a registered auditor?	NO	NO	YES ⁵	YES ⁵	YES ⁶

Notes

1 If the charity is also a company, it should prepare accounts in accordance with the Companies' Acts and file them with Companies' House, copied to the Commission if expenditure exceeds £10,000

2 Accounts may be prepared in receipts and payments format

3 Accounts strongly recommended to be prepared in accordance with the Charities' Statement of Recommended Practice 1995

4 The annual return to be a simplified version of that required from charities with an income over £10,000; not a statutory requirement

5 The charity may elect to undergo an audit

6 An audit is mandatory

Source Charity Commission

Standards to the audit of charities in the United Kingdom. The Board prepared the practice note in conjunction with the Charity Commission.

Changes in the organisation of the Commission

- 1.14 The Commission has embarked on a programme of organisational change linked to the requirements and powers arising from the Charities Act, which was underway at the time of the National Audit

Office examination and is continuing. New information systems have been created; the register of charities was computerised in 1990 and a computerised case management system was introduced in 1995. These are moving the Commission from a largely paper-based organisation to one increasingly using technology for case management and the recording and analysis of information on charities and on the activities of the Commission. There is also a programme of reviews covering the Commission's investigation, registration (both completed and implemented), and support work (underway). The Charity Commission's main initiatives are described in Appendix 4.

- 1.15 The Commission has been seeking to change the mix of the staff it employs, by recruitment of a wider range of specialists, and by seconding and recruiting staff with relevant experience from government departments and the charitable sector. It now has proportionately fewer staff with a legal background and more trained in other disciplines such as policy, accountancy, investigative techniques and information technology.
- 1.16 In 1988 the Commission employed no accountants. In their 1990-91 report the Committee of Public Accounts continued to be concerned about the small number of qualified accountants employed by the Commission (Appendix 3). Nine qualified accountants are now employed in operational areas and are used in a targeted way because they are a relatively expensive resource. They contribute widely to the development of Commission policy and operations. For example, they provide technical advice on casework and the development of the Commission's monitoring; training to other Commission staff on accounting issues; and advice to charity representatives on new accounting requirements. They also undertake detailed examination of the accounts of the largest 200 charities with income exceeding £10 million a year.

Scope of the National Audit Office examination

- 1.17 This National Audit Office examination reviewed the Commission's progress in implementing the recommendations of the Committee of Public Accounts' previous reports and the Commission's response to the legislative changes. In particular, the examination addressed three main issues relating to the operational areas of the Commission:

Charity Commission:
Regulation and Support of Charities

- **the registration and monitoring of charities** - examining the Commission's arrangements for registering charities, the accuracy of the register, charities' submission of accounts and other information, and how the Commission uses that information to regulate and monitor charities (Part 2);
- **the provision of appropriate support** - whether the Commission's provision of support and advice to charities is timely and whether it meets customer needs (Part 3);
- **the investigation of charities** - whether the Commission effectively targets its investigations, and takes appropriate action to minimise the risk of charity abuse and maladministration (Part 4).

Other Commission functions, such as the review of charity legislation and provision of advice to ministers on policy issues and charity cases, are not included in this examination.

- 1.18 In undertaking their work, the National Audit Office selected 35 registration cases; a random selection of 100 charities on the Commission's register of charities; 64 cases where charities' accounts or responses to a pilot monitoring questionnaire had been identified by the Commission as a potential cause for concern; a statistical sample of 130 closed cases of support and advice; and a sample of 106 investigations recently completed by the Commission. Details of the sampling methodology are at Appendix 5. Views on the Commission's work were sought from Oxfam, Barnardos, the Royal National Lifeboat Institute, the Royal Society for the Protection of Birds and the National Council for Voluntary Organisations, which represents over 600 national organisations involved in social and voluntary action.

The Deakin Commission

- 1.19 The Deakin Commission, an independent body with members drawn from the voluntary sector, was set up by the National Council for Voluntary Organisations. In their report "The Future of the Voluntary Sector", the Deakin Commission endorsed the Charity Commission's role. It welcomed the changes that the Commission is making and the improvements in service to charities, while wishing to see more. The Government's response to the Deakin Report (Appendix 6) confirms the Charity Commission's commitment to develop its relationship with the charitable sector. This National Audit Office report takes into account, where appropriate, the conclusions of the Deakin Commission.