



GUIDANCE FOR NHS CHARITIES ON WRITING THEIR TRUSTEE ANNUAL REPORT AND PRODUCING THE CHARITY ACCOUNTS.

A brief review of the statutory requirements and the available guidance by Nigel Davies, Deputy Head of Accountancy Policy, Charity Commission

A brief recap on financial reporting for NHS charities

The NHS Acts since 1946 have provided for NHS bodies to hold charitable funds, endowment (or 'capital') and income funds, for the benefit of the NHS. The NHS Acts often specified the charitable trusts upon which funds were held and restated or specified the purposes for which the charitable funds could be used.

Prior to the Regulatory Reform (National Health Service Charitable and Non-Charitable Trust Accounts and Audit) Order 2005, Statutory Instrument 2005 No 1074, the Department of Health collated information on NHS charitable funds using the Charity Trust Funds accounting returns (CTF forms). It also issued a Funds Held on Trust Manual (FHOT), in consultation with both the Charity Commission and the Audit Commission, providing guidance for NHS bodies on how to account for NHS charitable funds.

The last FHOT, 2003/04, in common with previous manuals, did also set out (in section 4) all the requirements for the statutory reporting of NHS charitable funds to the Charity Commission, in compliance with the Charities Act 1993. The Department of Health also provided a spreadsheet, CCFORMS. XLS, to assist NHS charities in producing their statutory charity accounts.

This framework ceased following SI1074, and for NHS charity year-ends 31st March 2005 and subsequent year-ends, no CTF forms are to be filed with the Department of Health. Now, NHS charities need only file their statutory trustees' annual report, accounts and external scrutiny report (audit or independent examination) with the Charity Commission.

For March 31st 2005 year ends, the regulatory emphasis of the Charity Commission for NHS charities was on the production of a trustees' annual report and accounts using the Department of Health CTF formats would therefore still be accepted. But for NHS year ends 31st March 2006 and onwards, full compliance is now required with the new Charities Statement of Recommended Practice, SORP 2005: Submissions using CTF formats will no longer be accepted.

The statutory requirements for the 31st March 2006 year-end

NHS charities are governed by the same statutory requirements that apply to all other registered charities.

- To produce a trustees' annual report in accordance with the Charities Act 1993, section 45, with the contents of the report conforming to the Regulations. The Regulations that apply for the 31st March 2006 year end are set out in the Charity (Accounts and Reports) Regulations 2005 SI 572, Regulations 11(3) to 11(8).
- To produce accounts which comply with section 42 of the Charities Act.
- To file a copy of the trustees' annual report, with the accounts and a copy of the external scrutiny (section 43) attached, within 10 months of the financial year-end, in compliance with section 45 of the Charities Act 1993.

The Statement of Recommended Practice (SORP): Accounting and Reporting by Charities, available from the Charity Commission web site at <http://www.charitycommission.gov.uk/investigations/sorp/default.asp>, sets out the requirements for both the trustees' annual report and the accounts.

The model examples

NHS practitioners not used to referring to the SORP may find it helpful to view the model examples which are intended to assist charities comply with the SORP, and these can be viewed on the web site at: <http://www.charitycommission.gov.uk/investigations/sorp/sorp05exraa.asp>

The examples should not be seen as a substitute to the SORP because they will not include every possible accounting or reporting issue and consequently reference to the SORP will often be required. The three NHS examples and an NHS specific commentary are also available on the CIPFA Health Panel web site. Each model example is preceded by a short preamble highlighting key features of the example report and accounts. Note none of the examples has an audit report attached because the form and content of audit reports is regulated by the Accounting Practices Board in conformity with International Standards on Auditing (ISAs).

It is recommended all three examples are viewed to identify those aspects of reporting that fit with your own charity's situation and to identify which example might serve as a useful year end template when developing your own report and accounts.

The commentary

The examples are preceded by a commentary, which gives a brief overview of the regulatory regime. The commentary confirms those NHS bodies covered by the NHS examples, the status of the SORP and gives reassurance about the flexibility afforded by the SORP in the style of reporting. Separate links lead to each of the three examples, which are summarised below.

Davenport and Banglebury NHS Trust Charitable Fund

This example is a fictional corporate trustee which has income funds (both unrestricted and restricted) and expendable endowment funds. Although the beneficiary NHS Trust has changed status to Foundation Trust, the form of charity trusteeship remains that of corporate trustee until such time as the Department of Health exercises its powers to create a trustee body.

In common with most NHS corporate trustees, the NHS board has devolved the day to day running of the charity to a Charitable Funds Committee. Extensive delegated powers, detailed in the report, have been granted to the Chief Executive. The section on structure, governance and management refers to the induction of the Board and Charitable Funds Committee using the Institute of Chartered Secretaries and Administrators guidelines. Both the annual review of activities and grant making, reserves and investment policies are more detailed than those of the PCT (shown below), reflecting the greater scale of the charity. The types of charitable activity reviewed in the report are under headings that correspond with the entries in the Statement of Financial Activities for charitable activities

Accompanying the primary financial statements, the Statement of Financial Activities and balance sheet, is a full set of notes to the accounts. These set out the accounting policies, the supporting analysis of key values required by the SORP and mandatory disclosures, including related party transactions. Note the new notes concerning the nature and apportionment of support costs and governance costs. In this example there has been a transfer from expendable endowment to unrestricted funds (note 8) to fund building work and equipment.

East Darsetshire Primary Care Trust Charitable Fund and other related charities

This fictional PCT, as corporate trustee manages its own funds and those of three other NHS bodies and these funds are detailed in the annual report. (It is a feature of the NHS trusteeship, that the Department of Health can specify which funds an NHS trustee should manage via a statutory instrument, with smaller funds often being managed by another body for economies of scale.) Note that in this case the accounts show that all the funds are unrestricted funds. However, in accordance with the original statutory instrument, the funds have been designated to reflect the relationship with each of the four NHS bodies. The membership of the Charitable Funds Committee reflects the beneficiary NHS bodies - although in their role as members, they are to act solely in the interests of the charity rather than as representatives of their particular NHS bodies.

The annual report reviews the types of charitable activity funded under headings that correspond with the entries in the Statement of Financial Activities for charitable activities, the relationship with the NHS, and the achievements in the year. The report concludes with the charity's future plans, and the policies relating to investments, reserves, grant making and risk management.

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out the accounting policies, the supporting analysis of key values required by the SORP, and mandatory disclosures, including related party transactions. Note the new notes concerning the nature and apportionment of support costs and governance costs. In the previous year (note 14), there was a transfer of funds to the charity by Statutory Instrument. These transfers are considered a transfer of trusteeship only and so are shown in the reconciliation of funds section of the Statement of Financial Activities.

Sandport Children's Hospital Charitable Funds

This example is a fictional section 11 trustee body which has income funds (both unrestricted and restricted) and expendable endowment funds. Although the beneficiary NHS Trust has changed status to Foundation Trust, the form of charity trusteeship remains that of section 11 trustees until such time as the Department of Health exercises its powers to convert the trustee body into a section 22 trustee body.

The style of the report is markedly different from the more formal style adopted in the other NHS examples. The trustees have opted for a more vibrant and informal narrative befitting an active fundraiser with a number of planned large appeals. Taking advantage of the flexibility permitted by the SORP, the majority of the administrative disclosures are at the back of the trustees' annual report. A foreword has been provided (not required by the SORP) which sets the scene. A very full description is given of the mission and objectives and achievements and performance. The report is designed as a stand alone document and so incorporates summarised primary statements. Reflecting its size, the grant making, reserves and investment policies are quite detailed.

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disclosures, including related party transactions. Note the new notes concerning the nature and apportionment of support costs and governance costs include an apportionment between fundraising, restricted and unrestricted funds (note 5). In this example there has been a transfer from restricted funds to unrestricted funds in accordance with the purpose of the restricted fund (note 15) to part fund equipment. An internal transfer within unrestricted funds to the Development Fund, which is a designated unrestricted fund, is also disclosed (note 16).

Using the examples

When using the examples, take care to ensure that the accounting treatment required is appropriate. Not all of the possible scenarios are covered and therefore you may need to refer to the SORP itself for further guidance. You may also wish to refer to the two non-NHS grant making examples on the Commission web site, B E Factor and The Rosanna Grant Trust.

Other helpful guidance

Trustee bodies formed under the NHS Acts and NHS bodies acting as corporate trustees have the same responsibilities as other charity trustees in law. For general advice on the responsibilities of trustees, the requirements to file the annual return 2005, including the summary information return (for those charities with a gross income exceeding £1m), risk management, reserves, investments and other topics please view the Charity Commission home page <http://www.charitycommission.gov.uk/>