

The Charities Act 2006

The Accounting Implications

Presented by
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Agenda

- Objective of the presentation
- Introduction - who are Harrison Beale & Owen?
- Background & charity statistics
- Some key accounting aspects
- Conclusion



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Objective of the presentation

- Explain some of the key accounting issues arising from the Charities Act 2006
- Make you think about your charity
- Point you in the right direction to obtain more detail



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Introduction - Harrison Beale & Owen Limited

- Full service audit and accounting firm, formed by a merger in 2004 between 2 long standing local firms (Harrison Beale & D A Owen & Co)
- Two offices - Coventry & Leamington Spa
- Over 60 staff



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Introduction - Harrison Beale & Owen Limited (continued)

- Charity Specialists, with dedicated team headed by Marie Bawden
- For more see www.hboltd.co.uk



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Introduction - Harrison Beale & Owen Limited (continued)

Why are we different?

- Provide advice & support all year round not just at time of annual audit/accounts
- Proactive - aim to protect our clients & keep them up to date



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Background & charity statistics

Recent statistics on the Charity Commission website www.charity-commission.gov.uk provide useful information on the UK charity sector:

- In 2007 there were over 190,000 'main' charities on the register with a total income of £44.5 billion



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Background & charity statistics (continued)

- When this income is broken down by individual charities there are many small organisations and the bulk of the financial wealth of charities (measured by annual income) is concentrated in just a few very large charities
- 56% of charities have an income of £10,000 p.a. or less



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Background & charity statistics (continued)

- Approximately 8% of charities receive over £250,000 p.a. The total income of these charities accounts for 92% of the total recorded income of £44.5 billion
- The largest 679 charities (i.e. those with annual income over £10 million each) receive 49% of the total recorded income of £44.5 billion



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Charities Act 2006 - commencement orders

The new Charities Act has been introduced gradually by a series of commencement orders. Some of the key changes:

- Requirement for all charities to demonstrate public benefit (will need to refer to this in Trustees' Annual Report in future)



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Charities Act 2006 - commencement orders (continued)

- Professional fundraisers who are paid will have to disclose the amount they are being paid when asking for donations
- Allowing charities to pay trustees for goods and services
- Wider powers to help the Charity Commission protect charities



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Charities Act 2006 - commencement orders (continued)

- Helping charities deal with difficult circumstances
- New Charity Tribunal
- Changes to the registration limits
- Rise in audit thresholds



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Charitable Incorporated Organisations

Charities that wish to have legal personality are normally set up as companies.

This means they have to register with both Companies House and the Charity Commission and provide accounts and returns to both.

The framework of company law was designed primarily for commercial organisations and this may mean that it is not always suitable for charities.



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Charitable Incorporated Organisations (continued)

The Charities Act introduces a new legal form of incorporation known as Charitable Incorporated Organisations (CIO).

This part of the Act will become effective later in 2008.



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Audit thresholds

Unincorporated charities

Under the Charities Act 2006 accounts will have to be audited by a suitably qualified professional for any charity which is not a company and which has:

- An annual income of over £500,000 OR
- An annual income of over £100,000 and assets exceeding £2.8 million



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Audit thresholds (continued)

Any charity which is not a company and which has an annual income between £250,000 and £500,000 can have its accounts audited or independently examined.



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Independent examination

An independent examination by a suitably qualified accountant will be required for charities with:

- Annual income of between £250,000 and £500,000

An independent examination by an independent person will be required for unincorporated charities with:

- Annual income between £10,000 and £250,000



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Charitable Companies

There are also changes in the rules for audit of charities which are companies. In basic terms a professional audit will be necessary if they have either:

- Annual income over £500,000 OR
- Assets exceeding £2.8 million

The new Act states that these provisions apply for financial periods starting on or after 27 February 2007.



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Further changes to financial thresholds

- Government response to consultation has now been published
- Estimated that nearly 20% of all registered charities will benefit to some extent
- Threshold for submission of annual accounts & Trustees' Annual Report increased from £10,000 to £25,000



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Further changes to financial thresholds

- Threshold for preparation of accruals accounts increased from £100,000 to £250,000
- Independent examination threshold increased from £10,000 to £25,000
- These recommendations will be introduced the end of 2008/09 financial year



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Audit of non-corporate charity accounts

- Income < £10,000 No independent accounts
- Income > £10,000 Independent accounts
- Income > £250,000 Independent examination of accounts by suitably qualified person
- Income > £500,000 Audit

Note: If income > £100,000 AND assets > £2.8m AUDIT will be required



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Audit of charitable companies

- Income < £90,000 No accountant's report
- Income > £90,000 Accountant's report
- Income > £500,000 Audit
- Assets > £2.8m Audit



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Audit & independent examination of accounts

- New thresholds apply to accounting periods BEGINNING AFTER 27 February 2007
- Whistleblowing



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Accounts - general issues

- Why do we need accounts?
- Annual accounts are a statutory requirement
- Need to comply with SORP 2005 & the Charities Act
- May also need to comply with the Companies Acts
- Need management accounts to monitor and control
- Report on stewardship of charity to members



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Accounts - general issues (continued)

- Accounts need to be understandable
- Aim of accounts is to deliver a message/make the reader think/prompt a decision
- May be useful to produce a shorter 'user friendly' annual review
- Possibly include graphs and photos
- Promote your charity's achievements and success



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Accounts - general issues (continued)

- Can also use your website
- Remember all accounts are historic and out of date
- Professional time can be expensive so use your auditors/accountants for what you *cannot* do and they can
- Maintain proper accounting records
- Perform regular reconciliations (monthly)



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Accounts - general issues (continued)

- Create a year end file for the accountants/auditors with back up papers & copies
- Audit is a statutory requirement
- Auditors do NOT (and cannot) check everything
- Report to members who are the owners
- Aim is not to detect fraud but to report on accounts



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Accounts - some key questions

- Are you doing what the charity trust deed says you should?
- Who signs the high value checks/authorises BACS transfers?
- How soon do you get management accounts?
- Do you understand them?
- VAT is a complex area
- Cannot just register to recover VAT suffered



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Accounts - some key questions (continued)

- Always seek specialist & specific advice on property transactions
- Do you have a forecast to the end of the year?
- Do you have a 3 or 5 year plan?
- Do the trustees realise their full responsibilities & liabilities?
- When did the trustees last meet the auditors?



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Statement of Financial Activities (SOFA)

SOFA is divided into 5 sections:

- Incoming resources
- Resources expended
- Transfer between funds
- Unrestricted gains and losses on all assets & realised gains on investment assets
- Movement in funds



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Incoming resources

The main headings are:

Incoming resources from generated funds

- Voluntary income
- Activities for generating funds
- Investment income
- Incoming resources for charitable activities
- Other incoming resources
- Total incoming resources



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Resources expended

Cost of generating funds

- Costs of generating voluntary income
- Fundraising trading: cost of goods sold and other costs
- Investment management costs
- Charitable activities



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Resources expended (continued)

Cost of generating funds

- Governance costs
- Other resources expended
- Total resources expended



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Funds

The different funds that can arise are:

- Unrestricted funds (including designated)
- Restricted income funds (whether donor or appeal related)
- Endowment funds (whether permanent or expendable)



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Case study

A wildlife care charity has been approached to provide urgent aid in connection with providing a mobile ambulance/hospital in an area affected by pollution from an oil tanker which is in difficulties in stormy weather at sea and is spilling its load.



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Case study (continued)

The charity has sufficient funds in its general fund to meet the costs of providing a mobile hospital unit for the foreseeable future. The trustees consider that this is within the objectives of the charity and they wish to help with the project.



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Case study (continued)

Question:

What options are available to the trustees?

What factors should they consider?



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Points to consider

- The trustees can set up a designated fund specifically for this “oil tanker project”
- Alternatively, the trustees can use unrestricted funds for the project. This will depend upon the “reserves” policy and the amount of funds available at the time
- The trustees should confirm that helping this project is within the objects of the charity



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Reserves

- Why is a proper reserves policy essential for charities?
- Often need to cope with large variations of income & expenditure
- Charity trustees should state their reasons for keeping reserves in their reserves policy
- Set a reserves level
- Consider key factors
- Forecast income for future years



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Reserves (continued)

- Forecast expenditure for future years
- Identify potential needs & risks
- Reputation may suffer if reserves are considered excessively high
- Very low reserves may jeopardise future existence of charity
- Maintaining reserves level may necessitate revising reserves policy and undertaking additional projects or alternatively additional fundraising for a specific purpose



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Conclusion

Many changes in legislation, notably:

- Increases in audit thresholds
- Introduction of CIO's
- Keep up to date with ever changing rules



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