



COMMUNITY ACCOUNTANCY PROJECT - GUIDANCE NOTES

Quick Guide to Annual Accounts

Introduction

This guide is aimed at management committee members of charitable organisations, and provides a brief description of their responsibilities for annual accounts. It is not intended to be a definitive guide; a number of resources are indicated at the end for further information.

Who is responsible for the Annual Accounts?

It is the legal responsibility of the whole management committee to make sure that correct annual accounts are produced every year in the legally required time; not the accountant's, not the treasurer's, not the paid member of staff. The management committee can delegate the work to someone else but the legal responsibility remains with them.

Is the timing right?

- £ Appointment of Auditor/Independent Examiner is agreed
- £ Organisation contacts Auditor/Examiner to book a date for sending in records (NB do not fix your AGM date until you have agreed a date with the Auditor/Examiner)
- £ Books and documents passed to Auditor/Examiner at agreed date
- £ Accounts prepared/examined/audited by auditor/examiner (someone at the organisation needs to be available to answer queries over this period)
- £ Finished accounts are sent out to the management committee for approval and signing at a management committee meeting
- £ Approved accounts are returned to the auditor/examiner for them to sign their report
- £ Accounts are returned to the management committee (sometimes with a management letter with recommendations)
- £ The accounts are presented and adopted at the AGM
- £ The accounts are sent to the Charity Commission/Companies House within 10 months of the end of the financial year. (Companies House will fine you if you are late).

Is the format right?

Charities with income of between £10,000 and £250,000 income in a financial year can produce annual accounts on a Receipts and Payments basis. This means

producing a Receipts and Payments sheet and a Statement of Assets and Liabilities (SOAL).

However, for all organisations with an income over £10,000 it is strongly recommended that Accruals Accounts are produced. These include a Statement of Financial Activities (SOFA) and a Balance Sheet with Notes to the Accounts. This is legally required for those charities with income between £250,000 and £500,000 and Charitable Companies.

For those organisations with income over £500,000 full Accruals Accounts and a Cash Flow Statement are required.

Receipts and Payments Sheet - this is a summary of what you have received and what you have spent in a particular year separated into restricted, unrestricted and endowment funds.

Statement of Assets and Liabilities - this is a list of assets (what you own – equipment, cash, etc., what provides you with a benefit) and liabilities (what you owe, your obligation to pay for something), and the funds to which these relate. It gives the reader a broad understanding of the type of assets controlled by the trustees

Statement of Financial Activities – is similar to the Receipts and Payments sheet, but reports the effect of transactions and other events for the period in which they occur and not in the period in which payment was made. For example, if your year end is 31 March and you pay rent on the 1 March for 3 months only one month will be shown in the accounts.

Balance Sheet – this provides a snapshot of the organisation's assets and liabilities at the end of its accounting year. Its objective is to show the resources available to the organisation and whether these are freely available (unrestricted funds) or have to be used for a specific purpose because of legal restrictions on their use, eg restricted funds.

Notes to the Accounts - these explain items in the accounts.

Cash Flow Statement – The object of the cash flow statement is to show the cash received and used by the organisation in the accounting period. This should comply with the requirements of Accounting Standard FRS 1.

For pro formas for these and guidance notes (and the Statement of Recommended Practice (SORP) 2005) look on the Charity Commission website www.charity-commission.gov.uk

Are the restricted funds right?

Restricted funds are funds that have been given to your organisation for a particular purpose; it is required that these funds are shown separately in your annual accounts. It is also important to funders that they can see their grant shown separately in the accounts. A number of restricted funds can be grouped together into

one column on the Statement of Financial Activities (SOFA) or Receipts and Payments account, but a note should provide the detail on each restricted fund as follows:

| Fund Name | Fund Balances b/f £ | Incoming Resources £ | Outgoing Resources £ | Transfers £ | Gains and Losses £ | Fund Balances c/f £ |
|--------------|---------------------|----------------------|----------------------|-------------|--------------------|---------------------|
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| TOTAL | | | | | | |

This is followed by a list of Funders and the purpose of the fund.

Is the choice of Auditor/Independent Examiner right?

Auditor

Make sure that you choose a firm of accountants who are registered Auditors. Ensure that they do charity audits and ask for references from charity clients.

Independent Examiner

Unincorporated charities with a gross income in the current year of over £10,000 must have their accounts independently examined, or may choose to have the accounts audited.

An Independent Examiner is, according to the Charity Commission “an **independent person** who is reasonably believed by the charity trustees to have the **requisite ability** and **practical experience** to carry out a **competent examination** of the accounts”. That means they should have no connection with the charity trustees which might inhibit the impartial conduct of the examination.

An independent examiner must be competent for the task, but need not be a practising accountant. The quality of evidence of ability required will depend upon the size and nature of the charity’s transactions. However where the gross income of the charity is above £250,000 and the charity is not subject to statutory audit, the 2006 Charity Act requires that the independent examiner be a member of a specified accountancy body. The 2006 Act specifies the following bodies:

- £ Institute of Chartered Accountants in England and Wales
- £ Institute of Chartered Accountants of Scotland
- £ Institute of Chartered Accountants in Ireland
- £ Association of Chartered Certified Accountants
- £ Association of Authorised Public Accountants
- £ Association of Accounting Technicians
- £ Association of International Accountants

- £ Chartered Institute of Management Accountants
- £ Institute of Chartered Secretaries and Administrators
- £ Chartered Institute of Public Finance and Accountancy; or
- £ a Fellow of the Association of Charity Independent Examiners

It is the responsibility of the Trustees to satisfy themselves that their independent examiner is appropriately experienced or qualified. Where appropriate, the trustees may wish to request references or see qualifications.

What do I need to have ready for Audit/Independent Examination of Accounts?

- £ Cash analysis books fully written up, correctly analysed, totalled and cross cast (check totals vertically and horizontally) for the whole year
- £ Bank reconciliation statements for each bank account clearly showing how the balance shown by the cash book reconciles with that shown in the bank statement
- £ Bank statements for each bank account for the whole year
- £ All documents relating to bank receipts and including letters from funders who pay by credit transfers
- £ Cheque book stubs for all accounts
- £ All your invoices and vouchers to support payments filed in cheque number order
- £ The Petty Cash analysis book fully written up, correctly analysed, totalled and cross cast (check totals vertically and horizontally)
- £ All the Petty Cash vouchers and receipts in filed order
- £ Written confirmation that, at the end of the year, the amount of cash in the box agrees with the balance of cash in hand shown in the Petty Cash analysis book
- £ Salary records including a form P11 for each employee
- £ Records of any SSP or SMP, etc.
- £ Any changes to tax codes notified by the tax office
- £ Any P45 forms given by new employees
- £ A copy of the Employer's Annual Statement for P35
- £ A record of all PAYE and NI paid to the Inland Revenue
- £ Any subsidiary records for sub committees or projects that come under the group's umbrella
- £ An up to date register of Fixed Assets, with estimated values
- £ Minutes of all committee meetings (and AGM) held during the year
- £ An up to date copy of the governing document e.g. constitution
- £ A copy of the previous year's audited/independently examined accounts
- £ A list of debtors (people who owed the group money at the end of the year), with amounts owed

- £ A list of creditors (people who the group owed money to at the end of the year), with amounts owed
- £ The names of the Chairperson, Secretary and Treasurer
- £ Proof of identity of the officers of the charity and cheque signatories

Why do we need to provide proof of identity?

Because of provisions of the Money Laundering Regulations 2003 which requires all Independent Examiners to obtain proof of the identity of the following:

- £ The charity
- £ If the charity is a Trust that has been recently established, the settler(s) who established the charity
- £ The charity’s trustees or, if there are many, the charity’s principal officers/directors
- £ The signatories or, if there are many, the principal signatories to the charity’s bank and/or building society accounts

Is the cost right?

Auditor’s and Independent Examiner’s fees vary tremendously; ring at least 2 or 3 and obtain quotes. Ask other voluntary organisations who they use and what they are charged. GVOC provides a low cost Independent Examination service.

Is the approval process right?

It is the responsibility of the committee to **approve** the accounts at a committee meeting; one or two of their number should sign the accounts on behalf of the committee. The accounts, which have already been approved by the committee, are then adopted by the members at the AGM.

Independent Examination or Audit?

The chart on the following page, taken from Directions and Guidance Notes for Independent Examiners CC63a, indicates what level of external checking your annual accounts need. Audit is the highest level of scrutiny possible; Independent Examination is thorough, but does not have as many checks as an Audit so is, therefore, cheaper. You need to check which one is suitable for your organisation.

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| <p>For further information contact Kate Tully at Community Accountancy Project (CAP) GVOC, John Haswell House 8/9 Gladstone Terrace GATESHEAD Tyne & Wear NE8 4DY Telephone: (0191) 478 4103 Fax: (0191) 477 1260 Minicom: (0191) 478 6318 email: kathleentully@gvoc.org.uk</p> | <p>The Charity Commission produce a number of useful documents, to obtain copies either:</p> <ul style="list-style-type: none"> • View and print from their website – www.charity-commission.gov.uk • Email: publications@charitycommission.gsi.gov.uk • Tel: 0870 333 0123 |
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Flowchart indicating eligibility requirements for Independent Examination, taken from Directions and Guidance Notes for Independent Examiners CC31

