Charity FAQ Series

Charity accounting, reporting and fundraising

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stewardship

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- Subscribe to receive our email bulletins at our website, www.stewardship.org.uk; and
- Tell others in your church or charity about our resources.

If you regard the material to have been of particular help and significance to you in your work (for example using it to inform a church or charity group/network) perhaps you would consider making a financial gift to Stewardship in appreciation (though please feel under no obligation).

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IMPORTANT NOTICE: Please note that the information given in this briefing paper relates to the law for England and Wales; whilst many of the responses may apply equally to Scotland and Northern Ireland, readers from those regions should seek legal advice before applying them.

Introduction and Health Warning

This Briefing Paper is a collection of common questions asked by charities. The answers are necessarily brief and are intended to provide an overview of the issues related to each. It may be necessary for your charity to obtain more specific advice relevant to your particular circumstances.

Stewardship's team of charity consultants will be pleased to help or to point you in the direction of appropriate advice. For details of our low cost consultancy helpline service for churches and Christian charities, please visit:

http://www.stewardship.org.uk/smartweb/support-services/consultancy:-employers

Q1. Do trustees have to keep accounts?

Yes. All charities must maintain and retain day to day accounting records that comply with the Charities Act requirements and, if they are companies, with the Companies Acts, that enable them to prepare annual accounts in accordance with the same laws. This is the case regardless of whether or not they are required to be registered with the Charity Commission.

Different rules apply for the preparation of annual accounts depending on the size and type of charity. Preparing accounts is, of course, only one part of proper financial planning and control.

Registered charities with income over £25,000 (£10,000 for accounting periods ending before 1 April 2009) and all charities preparing accounts complying with Statement of Recommended Practice 2005 must also prepare a Trustees Annual Report to go with the accounts.

Q2. Why are accounts and a report necessary?

Because they are an essential part of the accountability of charities to funders, regulators and the wider public. They are also required by Charity Law. The formal accounts of charities are public documents that can be requested by any member of the general public.

Q3. Do charity accounts need external audit or scrutiny?

Note: the comments below apply to charities with an accounting period beginning on or after 1 April 2008. Different requirements applied before that date.

All charities with a gross income of more than £25,000 must have their accounts scrutinised by "an independent person". The duties of the Independent Examiner are set out in law and guidance issued by the Charity Commission. Guidance is also given on trustees' responsibilities in selecting an Independent Examiner for their charity.

If the gross income of the charity exceeds £250,000, the Independent Examiner must hold a specific designated qualification to be able to undertake the work.

All larger charities with gross income of more than £500,000, together with those whose gross income exceeds £250,000 **and** whose gross assets at the end of the year exceed £3.26 million, will need a full professional audit[1] undertaken by a registered auditor. Charities that are companies must comply with company law as well.

In all cases, if the charity's Governing Document imposes a more stringent requirement and the trustees wish to work to the (simpler) statutory requirements, appropriate professional advice should be taken before proceeding.

Q4. What is permanent endowment?

This is the property of the charity (e.g. land, buildings, investments or cash) which the trustees may not spend as if it were income. It must be held permanently – sometimes to be used for furthering the charity's purposes, sometimes to simply produce an income for the charity. This will be determined by the original terms of the endowment. Generally, the income from permanently endowed assets will be available as general funds of the charity, but the capital (including any capital gains arising) cannot be spent without the authority of the Charity Commission.

Q5. Which details must appear on my charity's letterheads, etc.?

Every registered charity with an income over £10,000 in its last financial year must state that it is a registered charity on any appeal documents and on many of its financial documents, including cheques, invoices and receipts. It is not a requirement to state the charity's registered number, but it is good practice to do so.

Q6. What are charity trustees' duties in relation to fundraising?

Trustees must ensure that they have proper control of funds where people are raising money on their behalf and particularly if a professional fundraiser is employed. They must also ensure that funds are spent for the purposes for which they were raised. This involves properly accounting for the funds raised as 'restricted' funds where the appeal is for a purpose narrower than general purposes.

There are now legal requirements covering some aspects of fundraising, as well as best practice guidance. For further detail, see the Charity Commission guidance 'Charities and Fundraising' CC20 (www.charity-commission.gov.uk/publications/cc20.aspx) and 'Charities and Commercial Partners (RS2) (www.charity-commission.gov.uk/publications/rs2.aspx)

[1] For 'small' charitable companies that do not exceed the *Companies Act* audit threshold, the audit will be carried out under the **Charities Act**. The directors of the company must provide a specific statement in the accounts that the company is exempt from the requirements of a *Companies Act* audit. Companies House offers guidance on the format that the statement should follow.