

KEY GUIDES



The Charity Treasurer's Handbook

4th edition

Gareth G. Morgan

DSC

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DIRECTORY OF SOCIAL CHANGE

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This is an introductory book. It seeks to explain the framework of charity accounting but it does not provide a full statement of the law. Where legal issues are covered, they are based on the expected position as at 1 January 2015, but there could be subsequent changes (or there could be delays in implementation of regulations expected prior to that date). Many accounting concepts are presented at an overview level only – particularly in areas such as accruals accounting, charity taxation and production of final accounts under the Charities Statements of Recommended Practice (the SORPs). It should be understood that this publication is intended for guidance only and is not a substitute for professional or legal advice. No responsibility for loss occasioned as a result of any person acting or refraining from acting on the basis of this publication can be accepted by the authors or publisher.

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About the series

This series of key guides is designed for people involved with not-for-profit organisations of any size, no matter how you define your organisation: voluntary, community, non-governmental or social enterprise. All the titles offer practical, comprehensive, yet accessible advice to enable readers to get the most out of their roles and responsibilities.

Also available in this series:

Charitable Incorporated Organisations, Gareth G. Morgan, 2013

Charitable Status, Julian Blake, 2008

The Charity Trustee's Handbook, Mike Eastwood, 2010

Effective Fundraising, Ben Wittenberg, 2015

Minute Taking, Paul Ticher and Lee Comer, 2012

For further information, please contact the Directory of Social Change (see page x for details).

Foreword

Good stewardship and financial management underpin the well-being of any charity. Good decisions are based on reliable financial information and on an understanding of the risk and rewards that flow from a charity's activities. Good financial management starts with accurate record keeping and sensible financial controls and involves financial planning through budgets, and their ongoing monitoring through timely management accounts.

But how does a charity's treasurer or finance manager create an environment that makes good practice a reality? Well, the answer is almost certainly contained in Professor Morgan's excellent handbook. This is a very practical book that provides a route map to good practice in charity accounting, financial management and reporting. It is written in a clear and easy-to-follow style and is well supported throughout by practical tips and examples.

What I particularly like about this book is that it can be read in half a day and that's an important plus point for the volunteer looking for a guide when starting out. However, it's also a handbook that you can use to design or improve your charity's accounting records and systems or simply dip into as an issue arises on topics as varied as administering gift aid to appointing an independent examiner.

It's written with the smaller charity very much in mind and makes no assumptions about previous knowledge of charity accounting or reporting. That said, there is much here for the more experienced, making it an essential reference text which will be valued by those who are new to their role and the experienced treasurer alike.

Few things remain static in the world today and the world of charity is no different. This new edition of the handbook provides a timely update and insight into the new reporting framework that will apply with new SORPs coming in force from 1 January 2015.

I've enjoyed reading this new edition and I'm sure you will too. It's concise yet covers, in a very practical way, what every charity treasurer and finance manager needs to know including, crucially, an understanding of what is required by charity law. Equipped with this handbook, you can be confident of managing your charity's finances in a way that will help ensure its financial well-being.

Ray Jones

**Visiting Lecturer at Cass Business School and formerly Head of
Accountancy Policy, Charity Commission**

Preface

The aim of *The Charity Treasurer's Handbook* is to bring together many issues needed for effective accounting and financial management in UK charitable organisations in a book which is short enough to be read in a few hours.

The role of treasurer, finance worker or finance manager in a voluntary organisation can be a rewarding one if it enables the organisation to achieve its aims. It need not be daunting, but it does require an appreciation of those issues that make the finances of charitable organisations different from businesses.

The Handbook will also be useful to those with financial experience in other sectors, who need a rapid overview of the accounting issues in a charity. The book is also intended for students on courses in charity and voluntary sector management who need an appreciation of the requirements of financial management in the sector.

This book outlines some of the key issues of charity law that affect the work of treasurers and finance officers in smaller charities. It explains a range of terminology, such as restricted funds and the implications of the Charities Statements of Recommended Practice (the SORPs). It offers guidelines for day-to-day accounting procedures, as well as for year end accounts. It provides advice on issues such as appointing an auditor or independent examiner, and gives an overview of some of the specific tax issues affecting charities.

The approach does not seek to cover the full detail of every issue, but simply to give enough information so that the reader will understand the main requirements. It is hoped that this will enable those responsible for charity finances to make sensible decisions and to enter into meaningful discussions with others when further guidance is needed. Where more detail is needed, the further reading list at the end may be helpful.

The book's main focus is on charitable voluntary organisations in the UK with total incomes in the range of £5,000 to £500,000 – but larger and smaller groups will also find the book useful. Much of the content will also be relevant to voluntary organisations without charitable status. But as explained in chapter 1, the impact of the various Charities Acts means many voluntary organisations that do not think of themselves as charities are in fact charitable in law. So the principles of this book apply to nearly all voluntary organisations, other than political organisations and private clubs.

One of the difficulties of charity law arises from the different legal systems in the countries of the UK. The book starts from the position in England

and Wales (now updated in this fourth edition to allow for the Charities Act 2011 and the major changes brought in by the Charities SORPs 2015). But it also seeks to highlight differences in Scotland and in Northern Ireland. Scotland now has an extensive framework for charity accounting as a result of the Charities and Trustee Investment (Scotland) Act 2005, and an interim reporting regime for registered charities in Northern Ireland is in effect under the Charities Act (Northern Ireland) 2008 with further changes expected in 2015.

Legal and similar issues are stated as far as possible in terms of the anticipated requirements for financial years starting from 1 January 2015 (for earlier years, see the Appendix). But a book of this kind can only give an overview of legal issues – there are often more detailed requirements, exceptions and special cases which cannot be covered here. When a charity is in any doubt, it is often wise to take professional advice.

For the second, third and fourth editions, I have also taken the opportunity to update many sections to clarify issues that have become particularly important to the sector over the last few years. These include the accounting issues when voluntary organisations get involved in providing public services, the differences between grants and contracts and the whole area of full cost recovery. I have also added some material on partnership arrangements in the sector. The fourth edition addresses many new issues in the last four years. As well as the new Charities SORPs, major changes include the Charities Act 2011 for England and Wales, the start of charity registration and associated accounting requirements in Northern Ireland, significant changes to the gift aid regime, and the reality of the new legal structure of charitable incorporated organisations (for more on CIOs, see my other book in this series).

The central message of the book is that being a charity treasurer or finance officer is an important and worthwhile role. It involves much more than keeping the books: the treasurer or finance officer is a key person in all kinds of strategic decisions and in ensuring the organisation meets the requirements of charity law. Contrary to popular belief, the role does not require massive accounting knowledge, or a brilliant head for figures: simply a commitment to the importance of financial resources, and a willingness to see them used effectively for the purposes of the charity.

About the author

Gareth G. Morgan is Professor of Charity Studies at Sheffield Hallam University. He leads the University's Centre for Voluntary Sector Research which brings together 16 staff in various faculties with specific interests in the sector. He is also course leader of the University's MSc in Charity Resource Management. He has contributed extensively to various consultations which have led to new developments in charity law and accounting requirements.

He has worked on a range of research projects concerned with charity regulation and accounting across charities of all sizes. These include studies on issues such as public reporting by charities (for the Charity Commission) and on the possibility of international financial reporting for the not-for-profit sector (for the Consultative Committee of Accountancy Bodies). He is the author or co-author of many research papers and articles in these areas.

Outside the University he is also part-time Senior Partner of the York-based charity consultants The Kubernesis Partnership LLP, which supports a wide range of charitable organisations in the areas of accounting, financial management, formation of new charities and other issues of charity regulation.

He is a Fellow of the Association of Charity Independent Examiners, a Full Member with Diploma of the Institute of Fundraising and an Academic Fellow of the Association of International Accountants.

He is also a member of the Charity Law Association where he has contributed to several of its working parties, and he serves on the Charity Technical Committee of the Institute of Chartered Accountants in England and Wales (ICAEW).

Over the years he has been a trustee of a wide range of charities, including serving as treasurer in both local and national organisations.

Acknowledgements

Over the years I have been enormously privileged to work with several hundred charitable organisations in terms of their accounting and financial arrangements, in many cases helping them to implement procedures to reflect the new charity accounting rules, and in several cases acting as their independent examiner. Others have attended courses I presented, and raised significant questions which have caused me to reflect. Many of the ideas in this book derive from the insights of the people in those organisations, and I would like to dedicate the book to them.

I am also very appreciative of many individuals who have offered advice, listened to my questions and been willing to debate different approaches to charity accounting. This includes key figures in the Charity Commission for England and Wales, OSCR, and more recently the Charity Commission for Northern Ireland, academic colleagues, members of the ICAEW Charity Technical Committee, and leading figures in the Association of Charity Independent Examiners (ACIE).

I would also say a special word of thanks to my students over the years – all experienced charity practitioners – on the MSc in Charity Resource Management which I have the privilege to lead at Sheffield Hallam University. Their questions and challenges have been immensely valuable, both on technical issues, and on the practical issues of applying these issues in real charities run by real people who are not always keen to follow the official line!

I am also most grateful to the Directory of Social Change for inviting me (back in 2002) to produce a book on this topic and to update it at intervals thereafter including this new edition in 2014. My wife, Sharon, who is also my partner in The Kubemesis Partnership LLP, has given a great deal of encouragement to this project and read many drafts.

Nevertheless, I must stress that all opinions expressed are my own (unless another source is mentioned) and any errors remain my responsibility.

Gareth G Morgan
York
September 2014

About the Directory of Social Change

The Directory of Social Change (DSC) has a vision of an independent voluntary sector at the heart of social change. The activities of independent charities, voluntary organisations and community groups are fundamental to achieve social change. We exist to help these organisations and the people who support them to achieve their goals.

We do this by:

- providing practical tools that organisations and activists need, including online and printed publications, training courses, and conferences on a huge range of topics;
- acting as a 'concerned citizen' in public policy debates, often on behalf of smaller charities, voluntary organisations and community groups;
- leading campaigns and stimulating debate on key policy issues that affect those groups;
- carrying out research and providing information to influence policymakers.

DSC is the leading provider of information and training for the voluntary sector and publishes an extensive range of guides and handbooks covering subjects such as fundraising, management, communication, finance and law. We have a range of subscription-based websites containing a wealth of information on funding from trusts, companies and government sources. We run more than 300 training courses each year, including bespoke in-house training provided at the client's location. DSC conferences, many of which run on an annual basis, include the Charity Management Conference, the Charity Accountants' Conference and the Charity Law Conference. DSC's major annual event is Charityfair, which provides low-cost training on a wide variety of subjects.

For details of all our activities, and to order publications and book courses, go to www.dsc.org.uk, call 08450 777707 or email publications@dsc.org.uk.

List of abbreviations

BACS	Bankers' Automated Clearing System
Charity Commission	Charity Commission for England and Wales
CCNI	Charity Commission for Northern Ireland
Charities Act	unless otherwise stated this means the Charities Act 2011 (applicable to England and Wales)
CASC	community amateur sports club
CAF	Charities Aid Foundation
CBS	community benefit society (a type of IPS established to benefit the community – often, but not always, a charity)
CIC	community interest company
CIO	charitable incorporated organisation (unless otherwise stated this abbreviation includes CIOs in any part of the UK, including SCIOs)
CSG	cost sharing group
CLG	company limited by guarantee
FRC	Financial Reporting Council
FRS102	Financial Reporting Standard number 102
FRSB	Fundraising Standards Board
FRSSE	Financial Reporting Standard for Smaller Entities
GASDS	Gift Aid Small Donations Scheme
HMRC	Her Majesty's Revenue and Customs
IFRS	International Financial Reporting Standards
NFP	not-for-profit organisation
NI	National Insurance
PAYE	Pay As You Earn
R&P	receipts and payments
RTI	real time information (for PAYE)
SAP	statutory adoption pay
SCIO	Scottish charitable incorporated organisation
SMP	statutory maternity pay
SOAL	statement of assets and liabilities
SOFA	statement of financial activities
SORP	Statement of Recommended Practice (unless otherwise stated this will always be a reference to the 'Charities SORP' – see chapters 2 and 7 for explanation)
SPP	statutory paternity pay
SSP	statutory sick pay
VCOs	voluntary and community organisations (some VCOs are charities but not all)
VCS	voluntary and community sector

1 Finance in charities and voluntary organisations

Before taking on the role of being a treasurer or finance officer in a charity, you need to understand what is meant by a charity. Charitable status makes a huge difference to the need for accounting and financial management. But many more organisations are charities than people often realise and, as we will see, the term ‘charity’ actually includes a very large part of the voluntary sector.

Many people think that ‘charity’ applies only to certain types of organisations with a particular legal form, and which are registered with the Charity Commission: this is quite wrong. There are many possible legal structures for a charity, and there are many organisations which in law are charities, even though historically they were not generally required to be registered: churches are probably the largest such category. Also, the Charity Commission only covers England and Wales; in Scotland the Office of the Scottish Charity Regulator (OSCR) registers charities and in Northern Ireland charities are now registered by the Charity Commission for Northern Ireland (CCNI) – see page 13 for more on the different kinds of charitable status. Moreover, many larger organisations are charitable companies, which means they are subject to both charity and company law.

The principles of being a charity treasurer, and most of the law on charity accounting, apply to almost all charitable organisations.

The third sector, voluntary sector, charity sector and social enterprise

To understand charities, we need to begin with the widest possible view of the sector.

People often refer to voluntary or not-for-profit (NFP) organisations as the ‘third sector’. The government’s definition of the third sector is organisations which are neither: (a) established primarily for distribution of profit; nor (b) part of the statutory sector. The third sector is usually seen in contrast to the other two sectors – the commercial sector (business organisations) where profit is the central aim, and the public sector (for example government, local authorities and the health service),

which, although NFP, is part of the work of the state. It is best to use the term 'not-for-profit' since many businesses going through hard times are non-profit-making in certain years. Not all third sector organisations are NFPs; for example, many cooperatives generate profits which are shared between the members. But whilst most people would class cooperatives as being part of the third sector, a profit-distributing cooperative could not be a charity.

The third sector is often (wrongly) divided into two main categories: voluntary organisations and social enterprises. However, this is highly misleading, because many voluntary organisations, including many charities, undertake social enterprise activities (see below for more on this).

Voluntary organisations are established voluntarily to advance aims that are non-statutory and NFP. The term is normally used to describe groups and organisations with some definite constitutional form that are working towards a socially beneficial aim. Some are large national organisations (these almost always have charitable status); others may be small community groups with no paid staff. Voluntary organisations will always have volunteers in governance of the organisation (who may be called trustees or management committee members) and may have volunteers in other roles. Some people prefer to talk of voluntary and community organisations (VCOs), and hence the voluntary and community sector (VCS), but in this book the term 'voluntary organisation' is used to include small community groups, faith-based organisations and, indeed, any organisation which meets these criteria.

Many voluntary organisations are charities (see page 6 for the definition) but there are some organisations which, although voluntarily governed and with socially beneficial aims, do not meet the precise requirements of charitable status. An example would be a group set up to raise funds purely to support one person or family or a group which operates purely as a club for the benefit of its own members.

Social enterprises, if separately constituted, are trading organisations where profit may be an explicit aim, even though the purpose of the trade is for the benefit of the community. They do not have to be voluntarily governed – they can have paid board members if resources allow. Since 2005, many social enterprises have been established using the structure of a community interest company (CIC). Others are structured as cooperatives. CICs are subject to an 'asset lock' – this allows outside investors to receive a modest return if required but most of the profits must be retained for the social aims of the organisation. However, cooperatives and CICs are *not* charities, and so they are not directly considered in this book.

The Charity Treasurer's Handbook

Keeping up with changing financial regulations required under charity law can be one of the biggest challenges for any charitable organisation. In a format short enough to read in a two or three evenings, this handbook covers the key principles for all the main issues in charity accounting and finance.

Covering charity accounting throughout the UK, this fourth edition is extensively updated to include recent developments in charity law and new issues in charity financial management. Some of the major changes incorporated include:

- The 2015 Charities Statements of Recommended Practice (SORP)
- The Charities Act 2011 in England and Wales
- Revised Scottish charity accounting and charity registration in Northern Ireland
- Accounting for charitable incorporated organisations
- Explanations of public benefit requirement and reporting
- More on contract income and social enterprise in charities
- Gift aid including new HMRC procedures and small donations scheme
- Updated VAT guidance

Containing plenty of helpful examples, this guide is suitable for voluntary sector staff and trustees with little or no accounting experience, accountants and financial advisors from other sectors seeking a rapid update on charity accounting and students on third sector courses.

'An excellent, comprehensive handbook.'

**Dr Louise Crawford, Associate Dean Research,
School of Business, University of Dundee**

'Equipped with this handbook, you can be confident of managing your charity's finances in a way that will help ensure its financial well-being.'

**Ray Jones, Visiting Lecturer at Cass Business
School and former Head of Accountancy Policy,
Charity Commission**

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