The Charity Treasurer’s Handbook

Steering a charity’s finances can be one of the most challenging responsibilities you will face in the sector – not least because of the complexities and legal obligations that you can easily miss. The format of this handbook makes it a quick and clear read, so that even if you are new to charity finance you will swiftly gain confidence and knowledge.

Covering charity accounting across all four nations of the UK, this fifth edition has been comprehensively updated to incorporate the most recent developments in charity law and financial regulation. Some of the major updates included in this edition are:

- New rules for accounts filed in 2017 onwards using the Charities SORP (FRS102), following withdrawal of the FRSSE SORP
- Increases to the audit thresholds for charities in England/Wales
- Latest layouts for receipts and payments accounts
- Complete new charity accounting framework in Northern Ireland
- References to legislation for Scotland, Northern Ireland, England/Wales
- Major changes to Gift Aid declarations and procedures
- Most recent guidance on charity-specific VAT
- Changes to fundraising regulation
- New glossary of all specialist terms used

Packed with useful examples throughout, this guide is suitable for voluntary sector staff and trustees with little or no accounting experience, accountants and professional advisors from other sectors seeking a rapid update on charity accounting, as well as students on third sector courses.

‘A top-class handbook for all involved in charity finance. It’s precise, comprehensive, relevant and appreciative of the treasurer’s role. When Gareth talks charity, it’s always worth paying attention.’

John O’Brien, Chair of the Charity Finance Group’s Community Accountancy Special Interest Group

‘A useful and very comprehensive introduction to charity accounting from day-to-day book-keeping to preparing the Annual Report.’

Denise Fellow, CEO, Honorary Treasurers Forum
The Charity Treasurer’s Handbook

5th edition

Gareth G. Morgan
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The publisher welcomes suggestions and comments that will help to inform and improve future versions of this and all of our titles. Please give us your feedback by emailing publications@dsc.org.uk.

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 position as at 1 January 2017, but there could be subsequent changes. 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
The Charity Trustee’s Handbook, Jacqueline Williams and Mike Eastwood
Effective Fundraising, Ben Wittenberg
Minute Taking, Paul Ticher and Lee Comer

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

I was delighted to be asked to contribute a foreword for the fifth edition of this rightly popular publication. Charity treasurers need all the help they can get – and I mean that in the nicest possible way!

Across the UK, our diverse and vibrant charity sector is united by some common features: a sense of mission and a commitment to a cause; a reliance on voluntary inputs at all levels; and a requirement to display high standards of governance and stewardship in an increasingly complex operating environment.

The lion’s share of the latter challenge sits with charity trustees: in particular with treasurers. Whilst charity finances sometimes come to the attention of regulators, or a wider audience, for all the wrong reasons, I am keen to remind commentators that for the great majority of the time, the great majority of charities run extremely soundly, displaying high standards of financial probity and operating to standards of transparency that can be very exacting. It is right that this is so – charities could not survive without the trust and confidence of their supporters and the wider public.

So, helping dedicated and sometimes long-suffering charity treasurers, and those who advise and support them, is extremely important work and this handbook is an invaluable resource in this respect. The book is written with the smaller charity and the volunteer in mind – it does not assume great levels of specialist knowledge on charity accounting or reporting. The language is accessible and the structure and indexing are clear. The handbook, however, also deals with issues in enough depth to be of value to more experienced readers, and in a world where the charities SORP changes on a regular basis, it is important that charities keep up to date with developments.

The book also recognises the realities of devolution of charity law and accounting practice to Scotland and to Northern Ireland, with areas of divergence appropriately flagged up and referenced.

I am sure that wherever you sit in the charity landscape, you will find the handbook a rewarding read and a frequent source of reference. I know it will make a valuable contribution to the sound management of charity finances in the UK – and perhaps beyond – and I congratulate the author on this latest excellent edition.

David Robb
CEO Scottish Charity Regulator (OSCR)
Preface

The aim of The Charity Treasurer’s Handbook is to bring together many aspects of 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 a 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 topics such as appointing an auditor or independent examiner, and gives an overview of some of the specific tax issues affecting charities.

This handbook 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 £1 million – 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 seeks to cover, at least in terms of key issues:

- the requirements in England and Wales under the Charities Act 2011 (including the latest changes from 2016);
- the rules for Scottish charities under the Charities and Trustee Investment (Scotland) Act 2005 (including amended regulations from 2016); and
- the rules for Northern Irish charities under the Charities Act (Northern Ireland) 2008 (including the regulations which began from 2016).

Legal and similar issues are stated as far as possible in terms of the requirements for financial years starting from 1 January 2016, covering accounts which will generally be filed with charity regulators from 2017 onwards (for earlier years, see the appendix on page 193). 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, fourth and fifth 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. This fifth edition addresses many new issues which have arisen in the last three years. These include experience with the new Charities SORPs from 2015 and the further SORP changes in 2016; the increased audit threshold in England and Wales (widening the range of charities which can have independent examinations); and the start of the new charity accounting regulations in Northern Ireland. Other changes include updates to the Gift Aid regime, and advice on the practical issues of accounting for charitable incorporated organisations (for more on CIOs, see my other book in this series). This edition also includes an extensive glossary of terminology used in the field of charity accounting (see page 199).

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 has been involved in advice, research and teaching on charity accounting and regulation for 25 years.

Most of his time is now spent as the senior partner of the Kubernesis Partnership LLP, a small firm of charity consultants based in Yorkshire, England and East Lothian, Scotland. Through this work he helps to support charitable organisations across the UK and other professionals advising charities in the areas of accounting, formation of new charities, charity tax issues, and other aspects of charity regulation.

He is Emeritus Professor of Charity Studies at Sheffield Hallam University where he was formerly course leader of the MSc in Charity Resource Management and led the inter-faculty Centre for Voluntary Sector Research. He continues to support students researching the charity sector and is collaborating with international colleagues in charity-related research and policy work. Over the years he has worked on a range of research projects concerned with charity regulation and accounting including studies for the Charity Commission and major accounting bodies. He gave evidence in Parliament to the Joint Committee of both Houses of Parliament examining the draft Bill which became the Charities (Protection and Social Investment) Act 2016. He is the author or co-author of many research papers and articles in these areas.

Gareth 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, particularly on regulations related to charity structures and accounting. He served for six years on the Charity Technical Committee of the Institute of Chartered Accountants in England and Wales (ICAEW) and is now on the Charity Expert Panel of the Institute of Chartered Accountants of Scotland (ICAS).

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, the Charity Commission for Northern Ireland, academic colleagues, members of the ICAEW and ICAS charity committees, 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 at Sheffield Hallam University. Their questions and challenges have been immensely valuable, both on technical aspects of the regulations, and on the practical issues of applying these principles 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 fifth edition. My wife, Sharon, who is also my partner in the Kubernesis 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
Dunbar, Scotland
December 2016
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 grant-making charities, 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 and fairs, many of which run on an annual basis, include the Management and Leadership Fair, 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
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
EEA  European Economic Area
EU  European Union
FPS  Fundraising Preference Service
FR  Fundraising Regulator
FRC  Financial Reporting Council
FRS102*  Financial Reporting Standard number 102
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
OSCR  Office of Scottish Charity Regulator
PAYE  Pay As You Earn
R&P  receipts and payments (when referring to R&P accounts/accounting)
RTI  real time information (for PAYE)
SAP  statutory adoption pay
sch.  schedule (to an act of parliament or regulations)
SCIO*  Scottish charitable incorporated organisation
SMP  statutory maternity pay
SOAL*  statement of assets and liabilities
SOFA*  statement of financial activities
**LIST OF ABBREVIATIONS**

**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

*These terms are explained in more detail in the glossary starting on page 199.

**Glossary terms**
Terms which appear in **bold** in chapters 1–12 (when first used) are explained further in the glossary, starting on page 199.

**References to endnotes**
Superscript numbers within the text denote references to the legislation or further details – the corresponding notes appear on pages 221–222.
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 have been formed as charitable companies, which means they are subject to both charity and company law (although the emergence of charitable incorporated organisations – CIOs – has made the company structure much rarer for new charities).

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 while 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,
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