Association of Church Accountants & Treasurers

Being a Treasurer: The Basics

Contents

Introduction 2

Trustee Legal Duties 4

Day-to-Day Finance Processes 7

Budgeting and Planning 12

Gift Aid and Tax 14

Year-End Reporting 18

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Introduction

Welcome to the Being a Treasurer: The Basics course. ACAT has designed this course to equip new and old treasurers with the core knowledge needed to carry out their administrative role. Administration, including finance, is a key ministry and gifting in every church, a view supported by scripture in 1 Corinthians 12:28, which states:

*"And God has appointed in the church first apostles, second prophets, third teachers, then miracles, then gifts of healing, helping, **administrating**, and various kinds of tongues." (ESV)*

While this course focuses on the technical aspects of being a treasurer, the view that the importance of financial administration is backed up by the Bible is further supported by other key passages:

- 2 Corinthians 8-9 – sets out much of the Biblical framework for how to think about money and giving as churches and individual Christians, including the transparent and careful handling of money by the church 2 Corinthians 8:16-24 and the call to generosity in 2 Corinthians 9:6-15.
- Acts 6 / 1 Timothy 3 – discusses the role and qualifications of church officers, and demonstrates how seriously such appointments should be taken.
- Matthew 25:14-30 and Genesis 41:41-57 – biblical examples of stewardship of resources presented as a virtuous act, both in the Parable of the Talents and the actions of Joseph.
- Romans 13:1-7 and 1 Peter 2:13-17 – the importance of legal compliance and proper honouring of earthly authorities.

ACAT has a range of resources which complement this course and can be found via our website www.acat.uk.com (some resources require members to log in):

- The ACAT Handbook (members only)
- Online query form (members only)
- Other, more specialised training courses throughout the year
- The annual conference
- Information about our partner organisations, offering various services

General queries should be directed to membership@acat.uk.com or training@acat.uk.com.

Additionally, this course will refer to resources provided by other third parties:

- Charity Commission for England and Wales (www.gov.uk/government/organisations/charity-commission)
- Office of the Scottish Charity Regulator (www.oscr.org.uk)
- Charity Commission for Northern Ireland (www.charitycommissionni.org.uk)

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- Charity Commission operational guidance (ogs.charitycommission.gov.uk)
- HMRC Charities Team (**0300 123 1073** or www.gov.uk/charities-and-tax)
- The Charities Act 2011 (www.legislation.gov.uk)
- The Charities Statement of Recommended Practice (SORP) 2015 (www.charitysorp.org)
- PCC Accountability (www.churchofengland.org/more/policy-and-thinking/pcc-accountability-guide)
- Fundraising Regulator (www.fundraisingregulator.org.uk)

8 **The Role of the Treasurer**

The role of a treasurer varies between churches and can cover a wide remit where the treasurer acts as a facilitator. This course is structured around five key areas:

- **Trustee Legal Duties** – this section outlines the legal framework for charities and the duties of charity trustees, of whom the treasurer may be one.
- **Day-to-Day Finance Processes** – this section addresses day-to-day management of church finances and accounting, exploring the systems a church may have in place for routine operations and the basic principles of charity accounting.
- **Budgeting and Planning** – this section is primarily about budgeting but also addresses some concepts of risk management.
- **Gift Aid and Tax** – this section covers what charities need to know to take advantage of Gift Aid and GASDS, as well as a few points about VAT
- **Year-End Reporting** – this section covers the requirements on charities for preparation of their year-end documents and external scrutiny.

9 In order to fulfil whichever of the above areas feature in their role, a treasurer will need to possess (or develop) a number of useful qualities and skills:

- Being 'as shrewd as snakes and as innocent as doves'.
- Personal holiness (see spiritual / moral qualifications in 1 Timothy 3).
- Teamwork.
- Perseverance.
- 'Technical' knowledge of their role – e.g. from this course.
- Communication – particularly financial information to a non-finance audience.
- Solution-oriented – advising how things could be done rather than saying that cannot.

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Trustee Legal Duties

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Churches as Charities

To be a charity an organisation must have **charitable objects** (or purposes) which are pursued for the **public benefit**.

For England and Wales, the Charities Act 2011 defines "advancement of religion" as a charitable object and public benefit is usually easy to demonstrate for a church (see Charity Commission guidance PB1, PB2 and PB3). Thus, **all churches are charities** and subject to the Act. (Scotland and Northern Ireland have separate legislation and regulators, and various differences in the rules – see Appendix A3). Note that the Charities Act 2011 has been amended under the Charities Act 2022, introducing changes in several areas.

A charity can be incorporated – either as a **charitable company** (registered with Companies House and the Charity Commission) or a **Charitable Incorporated Organisation / Scottish Charitable Incorporated Organisation** (only registered with the Charity Commission / OSCR), enabling it to have legal personality and limited trustee liability (see Appendix A2 for further detail).

12

All charities have trustees – those responsible for the care, control and **management** of the charity. In a church a body such as the PCC, Elders or Deacons may be the trustees – their legal duties are the same.

Even if a charity is not registered, it still has trustees (if not defined these are whoever may be deemed to be "in charge") and their legal duties are the same. Trustee status is legally defined based on the functional role of being responsible for management – whoever holds this role may be deemed to be a trustee in a legal context even if a decision has been made within the charity to assign the title to a different group.

13

The treasurer may or may not be a trustee – but will invariably provide essential support to the trustees as they fulfil their duties.

Registration with the Charity Commission

Charities in England and Wales are regulated by the Charity Commission and must register with them if their gross income exceeds **£5,000 p.a**.

See Charity Commission guidance CC15d for the Commission's definition of gross income.

Registered charities must submit an **Annual Return** to the Charity Commission within **10 months** of their year-end (the charity defines its own accounting year when it registers) and quote their **registration number** on formal documentation.

Appendix A1 contains further details on the thresholds that apply to charities and Appendix A3 for differing requirements in Scotland and Northern Ireland.

14 **Excepted Charities**

Currently, most main denominational churches (see Charity Commission list) with gross income up to **£100,000 p.a.** are **Excepted Charities** and do not have to register – this exception is due to expire in **March 2031**, making registration mandatory.

Excepted Charities are still regulated by the Charity Commission (unlike Exempt Charities). Excepted Charities only exist under the legislation for England / Wales.

15 **Responsibilities of Trustees**

The Charity Commission published guidance on trustee duties (CC3 and CC3a) sets out broad duties for charity trustees:

- Ensure that they are eligible to be charity trustees.
- Ensure that the charity carries out its purposes for the public benefit.
- Comply with the charity's governing document and the law.
- Act in the charity's best interests – e.g. managing conflicts of interest.

16

- Manage the charity's resources responsibly (duty of prudence).
- Act with reasonable care and skill.
- Ensure the charity is accountable – to members, the public and regulators.

The duties are very similar across the UK but Scottish charities should refer to 'Charity Trustee Duties' (OSCR) and Northern Irish Charities refer to 'Running Your Charity' (CCNI).

17 The business of a charity is a shared responsibility of **all the trustees** – not just the treasurer. This shared responsibility includes:

- Keeping of **proper accounting records**.
- Preparing **annual accounts**.
- Arranging **independent examination or audit**.
- Reporting to the relevant regulator any **serious incident** or **notifiable event** (as defined by the relevant regulator).

18 Their legal **accountability** cannot be delegated, but the trustees may delegate responsibility for carrying out activity and may take advice to discharge their duties – provided they have exercised appropriate **due diligence**.

Trustees can be **jointly and severally liable** for any of the charity's debts (i.e. a creditor may demand payment from any individual trustee, but the trustees may subsequently demand payment of a fair share from each other).

Trustees cannot normally be paid to be trustees but may be paid for other services e.g. if employed as a minister (if the governing document permits this or consent has been sought and given in cases where the charity regulator has powers to authorise trustee remuneration). Trustees may do contracted work for the charity provided the **conflict of interest** is managed and it is in the best interests of the charity.

19

Day-to-Day Finance Processes

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Routine Finance Operations

There is a general expectation from the regulator that charity trustees implement and maintain robust internal financial controls, typically including having two unrelated people checking sums received and paid. Specific procedures include:

- Cash handling:
  - Counting procedures involving more than one counter.
  - Security when storing or transporting cash.
  - Banking gross (as opposed to taking expenses out of the cash).
  - Petty cash – how is each cash box managed?
- Methods of issuing and receiving payments:
  - Cash (including cards preloaded with cash) – least robust audit trail, be sure to obtain receipts.
  - Cheque – better than cash, banks pushing to phase out.
  - Electronic transfers e.g. FPS, BACS – better audit trail.
  - Card – debit cards can enable uncontrolled spending, credit or charge cards usually have spending limits but incur fees.
  - Contactless receipt of payments – increasingly popular, useful for sales but requiring obtaining and issuing of receipts.

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- Spending controls – how are decisions taken and payments authorised?
- Oversight and prevention of fraud and errors – checking and accountability.
- Reporting – consider appropriate format and frequency for:
  - Trustees and other officers.
  - Members / congregation / wider public.

Several sample procedures are included in Appendix B and Charity Commission guidance CC8 provides advice on internal financial controls.

22

Record Keeping

Audit trail must be maintained for all transactions – backing documents (receipts, invoices, bank statements, relevant correspondence etc.) should be filed appropriately. Any transactions lacking these, and any unusual items, should be recorded in the minutes of Trustee meetings.

Financial records must be kept for **6 years** (if not a company) and reviewed prior to being destroyed in case anything needs to be kept longer. For companies, the requirement is 3 years, but 6 years is good practice. Due regard should be given to data retention, security and use in accordance with the Data Protection Act 2018.

23

Banking

Choice of bank can impact how easy day-to-day financial operations will be:

- Branch availability – is there a local branch? Do they use the Post Office?
- Signing arrangements and security:
  - Some banks limit the number of signatories.
  - Does the bank enable dual authorisation – both offline and online?

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- How easy are the online and offline facilities to use?
- What are the fees and interest rates? Can you get a free account?
- What customer support is available? Can you get a relationship manager?
- Ethical considerations – see the Just Money Movement (justmoney.org.uk).

25 **Methods of Receiving Income**

Donations can be received via a range of methods:

- Regular donations (e.g. standing orders) are useful for budgeting.
- Some methods are more discreet than others – but claiming Gift Aid requires some kind of donor identification.
- Donor convenience – contactless technology is increasingly popular (e.g. www.datadevelopments.co.uk/contactless_donations).
- Gross giving removes the need for the charity to claim Gift Aid:
  - Give As You Earn (GAYE) payroll giving schemes are offered by some employers (e.g. CAF, Charities Trust).
  - Stewardship provides both giving and payroll services.
  - The Parish Giving Scheme – Church of England direct debit scheme.
  - Many schemes charge fees – although some employers cover these.

26 **Accounting Basis**

Charity accounts are kept on either a Receipts and Payments or an Accruals basis.

Receipts and Payments (R&P):

- Transactions recorded based on when money is received or paid.
- Easier to use, especially for non-accountants.
- Lower level of requirements for content of Trustees' Annual Report (only mandatory if registered).

Accruals:

- Transactions recorded based on when associated activity occurs.
- This principle must be applied by year, with year-end adjustments.
- Accounts (and Trustees' Annual Report) must be prepared in accordance with the relevant charity regulations and the Charities Statement of Recommended Practice (SORP) – this means the SORP for Financial Reporting Standard 102 (FRS 102).

27 Charities with gross income not exceeding **£250,000 p.a.** may choose to use either basis when preparing their accounts (see relevant definition of gross income for each regulator in Appendix A3). The Accruals basis is mandatory above this

threshold, as well as for charitable companies (but not CIOs / SCIOs). Trustees should consider the implications of voluntarily adopting Accruals if they do not have to, given the additional reporting requirements.

Further details are in Appendices A1 and G on thresholds and accruals respectively.

28 **Accounting Systems**

The accounting system should be appropriate for the size and complexity of the accounts. It should be capable of showing current cash position and fund balances, and generating the year-end reports, with relative ease. It should also be sufficiently understandable for everyone to use and to enable eventual handover.

29 Most accounts are managed using software – for simple accounts this may just be a spreadsheet while for more complex accounts (especially if using Accruals), a specialist accounting package is often used. Factors to consider include:

- Cost.
- Customer support.
- Whether the software is cloud-based or desktop-based.
- Suitability for handling charity accounts – Gift Aid, fund accounting etc.
- Functionality – what is integrated e.g. member database, payroll, expenses.
- Accessibility to non-accountants – use of jargon, user interface etc.
- Accessibility to the Independent Examiner or Auditor for ease of scrutiny.

More details on software options are in Appendix C.

30 **Fund Accounting**

In charity accounting, money is held in funds of different types, classified as **income funds** or **endowment funds** (also called capital). Endowment is a specific form of gift that is expected to be held for a long time, while income is expected to be spent on charitable activities within a reasonable timeframe (apart from any **reserves** or **designated funds**). Non-monetary assets may sit in either type of fund, depending on whether the trustees are free to sell them. Endowment funds may generate income.

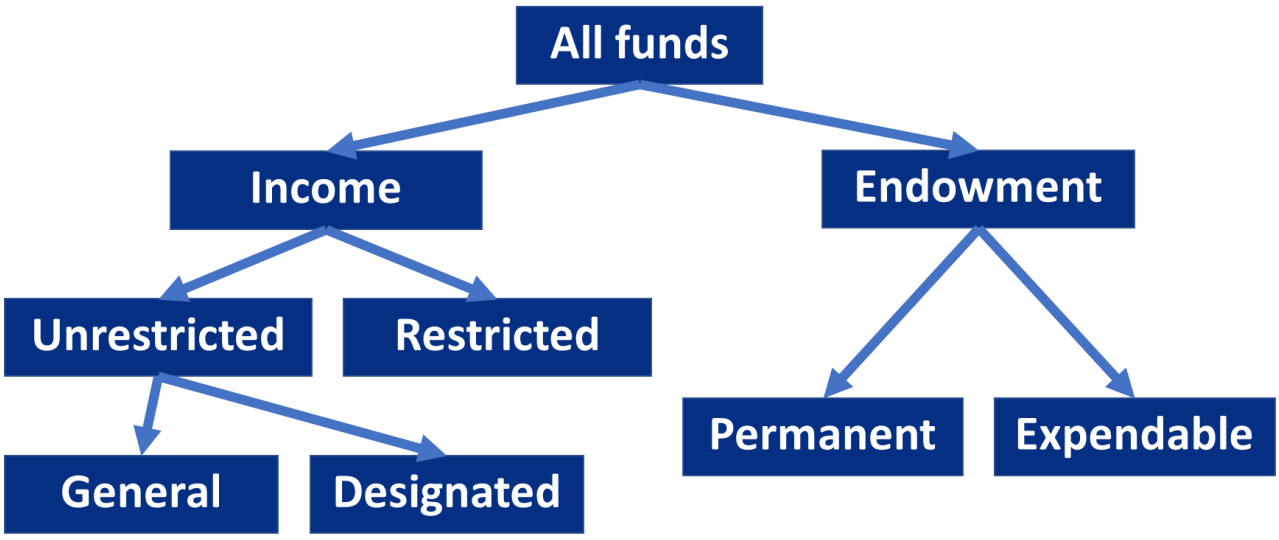
31 Income funds are further classified as **unrestricted funds**, which may be spent on any of the charity's charitable purposes, or **restricted funds** (also called special trusts), which may only be spent in accordance with the original **terms of trust** (i.e. donor intent). They may have been donated spontaneously or arise from an **appeal**.

32 The trustees may create **designated funds** at their discretion from the unrestricted funds, which they earmark for a specified purpose. They can alter or remove this designation at any time. The rest of the unrestricted funds form a single **general fund**, which includes the charity's general **reserves**.

Reserves are usually defined as the residual balance of the general fund after deducting fixed assets, liabilities and amounts held against future liabilities.

33 Endowment may be **permanent**, with the original capital usually to be kept forever, although any income generated can usually be spent. If the terms of trust permit, endowment may be **expendable**, meaning some or all of it can be converted to income (and transferred to an income fund) and spent. Endowments of either type may form part of special trusts if further restrictions apply to generated income, income arising from expending endowment or use of non-monetary assets.

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35 Separate bank accounts are not required. Note that money belongs to a fund depending on donor intent and not how it is handled in the accounts.

All designated and restricted funds must have **specified purposes** for which they can be used.

With few exceptions, income and expenditure must be shown gross (even if banked 'net'). This is a general accounting requirement and not specific to charities.

36 All charitable activities must be shown in the accounts (this may be a challenge depending on who runs them). By contrast, funds held as an agent or **custodian trustee** (not the same as a managing trustee) on behalf of a third party are not part of charitable funds at all and are excluded from the accounts (with a note).

37 **Managing Restricted and Endowment Funds**

Charities may not legally spend restricted funds other than in accordance with the terms of trust set by the donor (or in the appeal). This gives rise to failed appeals, which can be prevented or managed in the following ways:

- Declining a donation if unable to use it.

- Discussing alternative use of a fund with the donor – if they are alive.
- Applying the clause *"any surplus funds will be used for the general purposes of the charity"* to an otherwise restricted appeal.
- Spending restricted money first, in decreasing order of restriction.
- Using surplus restricted fund to maintain a project (if allowed).

38

- Authorisation can be obtained for changing the purposes of a restricted fund to something similar ("cy-près").
    - This process for applying failed appeals cy-près was simplified under the Charities Act 2022, with Commission consent not required for funds up to £1,000 in value.
    - Trustees have statutory powers to repurpose restricted and endowment funds up to £10,000 in value with Commission consent, with further changes under the 2022 Act yet to go into effect which will expand this power.
    - See sections 61-68 and 275 of the Charities Act 2011 (as amended by the Charities Act 2022, and be prepared to seek professional legal advice if appropriate.

39

Permanent endowment is normally intended to be held forever, but under certain circumstances, trustees may resolve to spend or sell permanent endowment:

- Charity Commission consent is required if the value of the permanent endowment fund being released is greater than £25,000.
- When trustees notify the Commission of such a resolution, a response is normally required within 60 days, following which the Commission's consent may usually be presumed.
- See sections 281-284 of the Charities Act 2011 (as amended by the Charities Act 2022), and be prepared to seek professional legal advice if appropriate.
- CCNI also publishes guidance on how and when they can assist in allowing a charity to spend endowment.

40

Funds given to provide a **long-term functional asset** (i.e. one to be kept for over a year) are considered 'receipt of endowment', which is not part of 'gross income' according to CC15d (but for Scotland or Northern Ireland check with the regulator).

41

Budgeting and Planning

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Managing Cashflows

It is recommended to review income sources periodically (e.g. annually) and to liaise with donors (e.g. thanking them each year, ensuring Gift Aid details are up to date). Fundraising efforts should be subject to some kind of plan or strategy.

Legacy fundraising – the Institute of Fundraising (www.institute-of-fundraising.org.uk) offers useful guidance. If raising funds by legacy or appeal, refer to the Fundraising Code and consider registering with the Fundraising Regulator (England / Wales / Northern Ireland) or the Scottish Fundraising Adjudication Panel (Scotland).

Grant applications – see further ACAT training on income generation.

Trading activity may carry tax implications – not covered in this course.

43

Churches should also **control expenditure** e.g. with formal processes for controlling expenditure, including **designated "budget holders"**, additional approval processes and the obtaining of multiple competitive quotes for larger spends, or simply 'shopping around' for suppliers, contractors etc.

Promoting waste reduction (e.g. energy consumption, office consumables) is economically and environmentally advantageous.

44

Budgeting

Budgeting is a crucial tool for decision-making, control of expenditure and reporting:

- It helps church officers to focus on their key objectives / mission.
- It supports recognition of shared responsibility for planning and expenditure.
- It provides a mechanism for resource allocation and spending controls.
- It reduces the potential for surprises and prompts trustee action, where required, to address shortfalls.
- It supports cash flow management by estimating expenditure each month.
- It provides a baseline against which income and expenditure can be reported.

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Budgets should be **realistic and attainable** but can also be **challenging** – this tension is crucial to "missional budgeting". A good budget is also in an **understandable format** and identifies and states **key assumptions and risks**.

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Budgeting involves identifying **income and expense streams** and **consulting the stakeholders** for these streams, identifying what people want to do / spend.

It can be a **balancing exercise** (i.e. estimate likely income and allow expenditure within this limit) or a **target-setting** one (i.e. determine how much you want to spend and establish target income, more suited for missional budgeting).

The budget should be approved by **all** of the trustees.

See example budget in Appendix D and further ACAT training on budgeting.

47 **Risk Management**

Risk management (including **financial** risk) is a shared responsibility of all trustees:

- Long term losses due to unplanned expenditure or declining income – mitigated by **budgeting** and an appropriate **reserves policy**.
- Short term cash flow disruption – mitigated by **cash flow management**.
- Potential for fraud – mitigated by **security** and **spending controls**.

48 Trustees must have a **reserves policy** appropriate for the needs of the charity, based on consideration of financial risk – there is no single 'correct' approach. Typically this policy will specify a level of reserves to be maintained at any given time (defined as the residual balance of the general fund after deducting fixed assets, liabilities and amounts held against future liabilities). See Charity Commission guidance CC19 for further detail on charity reserves.

Reserves are often classified as either 'running reserves', which usually consist of a fixed amount or specified proportion of the annual budget, held against general running costs in the event of a drop in income or rise in routine expenditure, and 'project and unforeseen event reserves', which are additional sums a charity may hold against the emergence of major projects outside of routine running costs, or significant unforeseen financial events. See Charity Commission guidance CC19 (or relevant OSCR or CCNI guidance) for further detail on charity reserves.

49 The treasurer prompts the trustees by identifying issues and keeping them on the agenda, monitoring actual spend against budget and spotting unbudgeted activity,
50 prompting review as needed and identifying resources. They may also contribute on other risk areas e.g. health and safety – see other ACAT training on risk and safety and the Charity Commission's published guidance CC26, which addresses risk management in its broader sense.

51

Gift Aid and Tax

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Gift Aid

A church treasurer is generally not responsible for "fundraising" but has a role in maximising Gift Aid, which can be a major income stream.

Gift Aid is a scheme that allows charities to reclaim tax on donations from UK taxpayers, claiming **25%** of the value of eligible charitable donations.

Higher rate taxpayers can claim back **additional tax relief** from HMRC directly. This requires completion of a self-assessment tax return, or a phone call to HMRC.

See further ACAT training on Gift Aid and GASDS.

53

Gift Aid can be claimed if:

- The charity holds a valid **Gift Aid Declaration** (GAD) from the donor.
- **Money passes** from the donor to the charity.
- The donor receives **no benefit**, or only benefit within the limits of the HMRC donor benefit rules (the same applies to **connected persons**).
- The donor pays sufficient UK **income tax** or **capital gains tax** in that tax year.

Connected persons are the donor's children, grandchildren, parents, grandparents, siblings, any of their spouses and the donor's spouse.

54

GADs include **new wording** since April 2016 (see Appendix E), although older GADs remain valid. Donors acknowledge **their liability** to pay if they have not paid enough tax that year. The wording can be put on **envelopes**, which are useful for visitors.

GADs must include the **donor name** and **address** (including **post code**), the **name of the charity** (or acronym), and a description of **which donations can be claimed on** – but a physical signature is **not** essential. GADs often refer by default to all donations made from the date the form is completed and in the past **four years**.

55

Eligible donations include all identifiable cash, cheques, bank transfers and foreign currency payments. Claiming on loan write-off or waiver of a right to a ticket refund is possible with an appropriate audit trail, but not waiver of expenses.

Arrangements can be put in place for a donor to provide goods for sale by a charity on their behalf, allowing the charity to claim Gift Aid on the donated proceeds.

56 **Gift Aid Claims**

Gift Aid claims are usually made online using HMRC approved software or by downloading a spreadsheet claim form from the HMRC portal. Paper ChR1 forms can be requested by phone.

Claims must include the following information for each donor:

- First name or initial, surname, house name / number and post code.
- Date of most recent payment included in the claim.
- Total of donations included in the claim.

57 When completing a claim form, one can aggregate up to £1,000 of donations of up to £20 from different donors in a single line (this is not the same as GASDS).

Claims can be made at any frequency – quarterly is recommended, but more frequently may aid cash flow. It is recommended to submit claims that do not span more than one tax or accounting year (although HMRC will accept them).

Claims may be made within **4 years** of the end of the financial period in which a donation was received. This is the tax year for trusts and the accounting period for incorporated charities.

58 Gift Aid records need to be kept in case HMRC conduct an audit – an audit trail linking donor, donation, bank statement and GAD must be maintained:

- Envelopes with amounts and donor names / codes written on them should be kept – for weekly donations keep envelopes from the current year and a representative month for each of the six previous years, for one-off donations keep all envelopes for the past six years.
- Keep bank statements and working papers for six years.
- Keep GADs for six years following the donor's last donation.

Note data retention and its implications under the Data Protection Act 2018 / GDPR.

59 **Special Collections**

Churches receiving donations to pass to third parties may treat this as part of their charitable funds if the church has taken **initiative in raising the money** and issuing the payment falls within the church's **charitable objects**. The **donations and Gift Aid** are **restricted**. Otherwise, the church acts only as a conduit and cannot claim Gift Aid (but the third party could), and the funds are **excluded** from the accounts.

60 **GASDS**

The Gift Aid Small Donations Scheme (GASDS) is a separate scheme which enables a "top-up" payment at the same rate on donations of **£30 or less**, without any donor information. Separate donations received in one payment greater than £30 may be included in a GASDS claim if a suitable audit trail exists to confirm that the payment consists of multiple donations individually not more than £30 (e.g. accumulation of weekly gifts over a period when the donor is unable to make individual payments).

GASDS is claimed by **tax year**, on **up to £8,000 p.a.** (or ten times whatever Gift Aid is claimed on, if less) – enabling a claim of **up to £2,000 p.a.** Claims can be backdated up to **two years**, claiming only what could have been **claimed at the time**.

If a charity incurs a Gift Aid penalty it cannot claim GASDS that tax year or the next.

Special rules exist for claims by connected charities – see HMRC website.

61 Eligible donations include **cash** (including envelopes with no GAD), **card payments** (chip & PIN or contactless) and **Apple / Android payments** collected and banked in the UK, but not text donations, bank transfers or cheques. Donations from wall safes are eligible unless the safes also contain sales income.

62 Charities with multiple **community buildings** (e.g. a multi-site church) can claim GASDS for each building. These are places where a charity conducts charitable activities (e.g. services) and do not have to be owned premises. HMRC defines what constitutes a community building based on frequency and attendance of activities.

Charities with multiple community buildings can claim on either up to £8,000 collected anywhere in the UK or up to £8,000 per community building collected on-site or in the surrounding Local Authority Area.

63 **VAT**

Charitable activities fall **outside of the scope of VAT**, so churches usually do not register and can rarely recover much input tax. However, charities are eligible for the following **reduced VAT rates** (but may have to notify suppliers of this):

- Zero rated VAT on advertisements in third party media and goods for fundraising.
- Zero rated supplies / services for new builds, self-contained annexes and disabled access / facilities (recommended to seek professional advice).
- 5% rate on gas / electricity utility bills (with no Climate Change Levy).

64 The Listed Places of Worship Grant Scheme (LPWGS) is a **grant** (not a repayment of VAT) equal to the VAT paid on building works. Budget has been confirmed until 31st March 2025, with details at www.lpwscheme.org.uk. There is no limit on claims, as

long as each claim exceeds £1,000 before VAT (apart from one per year between £500 and £1,000) and invoices are less than 12 months old when submitted.

65

Payroll

Although this course does not cover employment or payroll, there are several tax efficiencies to note as an employer:

- Employment allowance – a £5,000 p.a. reduction in employers NICs available to most businesses and charities with total employer NIC liability below £100,000 p.a. This is redeemed via payroll where applicable.
- Salary sacrifice benefits – pension contributions and cycle hire schemes provided to employees via this method are not liable employee or employer NICs (c.f. other deduction methods, are subject to NICs).
- Provided accommodation – normally taxable as a benefit-in-kind, this is exempt under the Income Tax Earnings and Pension Act 2003, section 99(2), when provided for ministers of religion unless engaged on purely administrative duties. Council tax and water utilities may also be paid for by the church without incurring tax on benefit-in-kind.

Ministers of religion are subject to other complicated tax rules and exemptions, which may require specialist tax advice to take advantage of.

66

Year-End Reporting

67 Charities are usually required to undertake the following routines at the end of their accounting year, with the treasurer typically playing a key role but the responsibility shared by **all** the trustees:

- Preparation of the **Trustees' Annual Report** (TAR).
- Preparation of **accounts**.
- Arranging **Independent Examination** or **Audit** of the accounts.
- Submission of documents to the Charity Commission (with **Annual Return).**

Excepted charities must prepare accounts and have Independent Examination as if registered, but the TAR is optional, and they do not submit an Annual Return.

See Charity Commission guidance CC15d, CC16 (R&P guidance and template pack), CC17 (Accruals guidance and template pack) and CC31 (Independent Examination guidance), or corresponding OSCR or CCNI guidance, for further details.

68 **Trustees' Annual Report (TAR)**

The TAR is a report to the general public about the work of the church. It should be used to **inform** and **celebrate**, to set out the church's **vision** (including plans for the future) and to demonstrate **public benefit** (see Charity Commission guidance PB3). Trustees may consider use of images and figures and may wish to include reports from individual church activity groups in an appendix. See example in Appendix F.

69 Section 40 of the Charities (Accounts and Reports) Regulations 2008 sets out the following mandatory disclosure requirements for all TARs in England and Wales:

- Name of the charity.
- Charity registration number with the Charity Commission.
- For charitable companies, company registration number.
- Principal address of the charity.
- Description of the charity and its charitable purposes.
- Description of main activities and achievements during the year.
- Names of all trustees on the date on which the TAR is signed, and any others during the financial year being reported on.
- Any other individuals or bodies authorised to appoint trustees.
- Particulars of the charity governing document.
- Any funds in deficit, and any associated plans to rectify deficits.
- A statement of the charity's reserves policy.
- Funds held as custodian trustees on behalf of others – where applicable.
- A statement that the trustees have had regard to the Charity Commission's published guidance on public benefit.

- The report must be signed and dated by trustees authorised to do so on behalf of all the trustees.

There are additional requirements for charities requiring a statutory audit, but such charities are subject to the SORP, which covers these requirements (but those charities in England and Wales requiring a statutory audit and which fundraise must make additional disclosures about their fundraising – see CC15d).

70 **Accounts**

The accounts usually consist of a set of financial statements and supporting notes. Examples of all documents discussed below are included in Appendix F.

For Receipts and Payments, the statements consist of **R&P Accounts** for each fund (or class of funds) and a **Statement of Assets and Liabilities** (SoAL) – or Statement of Receipts and Payments (SoRP) and Statement of Balances (SoB) in Scotland. The notes are not strictly mandatory but are strongly recommended good practice.

71 R&P accounts constitute a cash book summary of receipts and payments for each fund (or class of funds), including the previous year's figures as a comparator. There are no specific format requirements, but consistency is important.

The following should hold for the accounts:
Opening Balance + Receipts – Payments = Closing Balance and
Opening Balance = Closing Balance from previous year

Only include receipts and payments that occurred during the year and break down in appropriate detail to balance simplicity with the need to show material items.

72 The SoAL should include the following as at year-end:

- Cash and balance balances – in agreement with the R&P closing balances.
- Other monetary assets e.g. Gift Aid receivable (even though income giving rise to assets is not included in the R&P accounts).
- Investment assets – valued at year end.
- Fixed assets (e.g. buildings) – valuations not required for R&P.
- Liabilities – only show amounts owed, not merely planned.
- Previous year figures as comparator.

Special rules apply to Church of England consecrated and beneficed property (see Charities Act section 10).

73 Notes are not mandatory with R&P accounts (except if a CIO / SCIO), but it is recommended to include:

- A statement that the Receipts and Payments basis has been used.

- The purposes of all restricted and designated **funds**.
- Further explanation on **material items** – if in doubt, keep the statements simply and put the detail in the notes.
- Disclosure of any **related party transactions**, for transparency.

74 **Requirements for Accruals Accounts**

Charities using Accruals are required to comply with all form, content and disclosure requirements set out in the Charities Statement of Recommended Practice (SORP) in respect of their TAR and the financial statements and notes of their accounts. The requirements relating to the TAR and the notes to the accounts are recommendable as good practice for all charities, and include everything mandates in the 2008 regulatoins. 'Larger charities' (with gross income over £500,000 p.a.) have additional reporting requirements for both the TAR and the accounts.

75 The SORP recommends use of the following headings – while not mandatory themselves they are useful for organising the mandatory content of the TAR in a way that reflects how the requirements are presented in the SORP:

- Structure, Governance and Management (including trustee appointment).
- Objectives and Activities (not limited to Sunday mornings, should include discussion of the nature and scale of volunteer involvement).
- Achievements and Performance (including public benefit).
- Financial Review (not the same as the Accounts).
- Reference and Administrative Details.
- Exemptions from disclosure permitted by the SORP – where applicable.
- Funds held as custodian trustees on behalf of others – where applicable.
- Plans for Future Periods (larger charities only).

76 For Accruals, the statements consist of a **Statement of Financial Activities** (SoFA) and a **Balance Sheet**, with the SORP specifying form and content requirements for the statements and mandatory disclosures for the notes. Further details relating to the TAR and accounts are in Appendix G and Accruals are not discussed further here.

77 **Independent Examination and Audit**

Most charities must have external scrutiny of their year-end accounts:

- **Independent Examination (IE)** – a negative assurance that the examiner has followed Charity Commission guidelines (CC32) and not found a reason to believe the trustee duties to keep accounting records and prepare annual accounts are not being met (see Appendix F5 for full examiner declaration wording). CC32 thus constitutes *de facto* rules for preparation of Receipts and Payments accounts. For Scotland refer to the OSCR advice for independent examination and Northern Ireland refer to ARR07 Guidance for independent examiners.

78

- **Audit** – a positive assurance that the accounts give a 'true and fair view' of the charity's finances, conducted by a registered auditor according to Financial Reporting Council (FRC) standards – usually a significantly more expensive and demanding process.

79 The Charities Act 2011 imposes requirements for external scrutiny based on a charity's gross income that year (see CC15d) and its total asset value at year-end:

Gross income (£/year)	Total asset value at year-end (£)	
	Up to £3.26 million	**Over £3.26 million**
Up to £25,000	Nothing	Nothing
£25,001 - £250,000	IE	IE
£250,001 - £1,000,000	IE	Audit
Over £1,000,000	Audit	Audit

See Appendix A3 for differing requirements in Scotland and Northern Ireland.

80 Additional scrutiny requirements may be imposed by:

- The charity's governing document (although references to 'audit' in documents pre-dating the Charities Act 1993 are not considered to impose a requirement for audit if not otherwise required).
- Governing / denominational bodies.
- Conditions of grants / donations.

The Charity Commission can grant dispensation to permit IE instead of audit if exceptional circumstances have caused a charity to exceed a threshold – but a year of unusually high income would not usually qualify (see OG15 B3 for details).

See Appendix A1 for further details on thresholds.

81 **The Independent Examiner**

The Charities Act 2011 (s145) states that an examiner must be "*an <u>independent person</u> who is reasonably believed by the trustees to have the <u>requisite ability</u> and <u>practical experience</u> to carry out a competent examination of the accounts".*

82 **<u>Independent</u>** – the examiner may not be involved in decision-making running the church, be connected to a trustee (i.e. spouses / partners, close blood or in-law relatives, business partners and anyone else in a controlling situation) or be a major donor or beneficiary of the charity.

<u>Person</u> – the examiner must sign in their own name (even if they work for a firm).

83 **Requisite ability** and **practical experience** – the trustees must be satisfied that the examiner is competent with **charity accounts**. If gross income exceeded £250,000 p.a., they must be a member of a professional body listed in the Charities Act 2011.

84 Examiners can be found from other churches, governing /denominational bodies, local accountancy firms or the Association of Charity Independent Examiners (ACIE) directory (www.acie.org.uk/find). Appointment of a member of your own church is possible if they are not involved in decision-making but is not recommended.

Appointment requires a formal **Letter of Engagement** (see Appendix H). A **fee** is usual and church **membership approval** of the appointment may be required.

85 The examiner will need to see a copy of the **TAR** and **Accounts**, **backing documents** (bank statements, invoices, receipts etc.), any **working documents** and **minutes** of meetings – especially those in which irregular transactions were discussed.

86 **Publication of Documents**

The examiner will issue an **Independent Examiner's Report** for submission with the Annual Return, indicating whether serious issues have been identified (preferably not i.e. an unqualified report – see Appendix F). They may also issue a **Management Report** on minor issues not enough to warrant a qualified report (see Appendix I).

The examiner should not sign their report until after the trustees have approved and signed the TAR and Accounts (although the IE process often starts while these documents are in draft form). Approval by the church membership may then be required, after which the TAR, Accounts and IE Report can be submitted with the Annual Return to the Charity Commission (if the charity is registered).

87 The trustees may wish to consider publishing these documents elsewhere:

- To the church membership.
- To key donors and grant makers.
- To the governing / denominational body.
- A copy may be made available in the church for public viewing.

The documents will then be available for view on the Charity Commission / OSCR website. CCNI intends to publish these documents on its website.

See Charity Commission guidance on IE – CC31 for trustees and CC32 for examiners – and further ACAT training on Independent Examination (both how to prepare for it as a trustee / treasurer and how to conduct examinations). For Scotland refer to the OSCR advice for independent examination and Northern Ireland refer to ARR07 Guidance for independent examiners.