

# Charity Newsletter



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## Time to Relax ???



I am sure the many charities that have a 31 March 2001 year end will now be breathing a big sigh of relief that another year's accounts and the AGM are out of the way. Well done to all of you, but I am afraid there is little time for any of us to relax as we now need to address many new issues that particularly affect charities, such as SORP2000 and the Trustee Act 2000.

The above two topics have been covered in previous Newsletters and I issued a separate briefing note in May in response to the many requests for guidance I received from clients on the important SORP2000 issue of risk management. We are planning to run a workshop early in the new year to discuss some of the practical issues of converting to SORP2000 in respect of which further details will be sent to you before Christmas.

This Newsletter considers the ways that charities can obtain support from business and the relevant tax and VAT issues and we review some recent guidance issued by the accountancy bodies relating to charity audits.

In addition, our IT support manager, Mark Rundle, has written a short article on some IT issues that effect charities.

Richard Robinson Partner

## Fund-raising from Businesses



Whilst many charities approach businesses for support, those that use the same type of "begging" letter they send to individuals are unlikely to be successful. Any form of charity correspondence will probably be treated in the same way as the plethora of unsolicited advertising that is received each day and consigned to the waste bin.

I am not suggesting that businesses are ungenerous to good causes but they react far better to a personal approach than a paper one.

Once past the office door, what are the ways that support can be provided?

### Gift Aid

This is easiest for a company as they merely need to make the payment to the charity. There is no need to provide a certificate or deduct tax but of course the charity cannot reclaim it. There is no limit to the amount that can be paid and the taxable profits of the company are reduced by the amount of the payment.

Sole traders and members of a partnerships must complete gift aid certificates for any donation they make which will be treated as paid out of taxed income. The charity then reclaims basic rate tax on the gross equivalent of the amount it receives and the payer obtains higher rate tax relief if appropriate by recording the gift in their Income Tax Self Assessment Tax Return.

### Gifts of stock or equipment

By giving the charity an item for no consideration the business receives tax relief in respect of its cost if new, or its market value when it is second hand.

## Secondment of staff

Similarly, the business obtains tax relief for the costs of the employee, however where this type of arrangement applies both parties need to ensure that issues such as supervision, insurance and health and safety are properly considered.

## Payroll giving

Under this scheme a business encourages employees to give to charity by collecting donations directly from their salary and paying these over to the charity or its agent. The deduction is made from the employee's pay before tax is applied (but after NIC is charged) so that tax relief is automatically obtained.

In addition, from April 2000 to April 2003, the government will add an additional 10% to these donations to encourage participation.

Employees must have a free choice with regard to the charities they wish to support although the company can suggest a particular charity they would like their staff to consider. The collection and distribution of the donations is handled by one of a number of Payroll Giving agencies which are approved by the Inland Revenue.

More details about payroll giving can be obtained from:

[www.inlandrevenue.gov.uk/payrollgiving](http://www.inlandrevenue.gov.uk/payrollgiving)  
or by ringing 0845 604 9000.

## Donations versus sponsorship

Businesses may be more likely to support a charity where they receive something in exchange, however for gift aid relief to apply the value of any benefit must fall below certain limits, these are:

Amount of donation	Value of benefits
£0 - 100	25% of the value of the gift
£101 to 1,000	£15
£1,001 - 10,000	2.5% of the value of the gift
over £10,000	£250

There is also a limit on the extent to which the business name or logo can be used by the charity in acknowledgement of the support given.

In cases where the benefits are likely to exceed these limits or if sufficient donations cannot be attracted, the charity could alternatively consider the sponsorship route. This would be a straightforward commercial transaction and would not impose any limit on the benefits received by the business in exchange for the payment made. The business will not however get tax relief for the part of the sponsorship payment which relates to benefits received by directors/principals of the business or its customers.

Tax relief will however be obtained by the business for the largest part of each payment, but there are a number of important issues the charity must consider before considering this route....

VAT will have to be charged if the charity is registered, this could not be recovered by some types of business such as banks.

Obtaining sponsorship could be considered to be outside the scope of the charity's primary activities, therefore should be invoiced through a trading subsidiary. This would especially apply where the business logo appears prominently in the charity's publications or the charity actively promotes the activities of the business.

The trustees must ensure that any commercial alliances they make are not incompatible with their charitable objects.

In cases where the charging of VAT would be detrimental to the donor, this could be avoided if the sponsorship was linked to a one-off fund-raising event of which fifteen are allowed each year without adverse tax or VAT implications.

In summary the best way for charities to attract support from businesses is through personal contact and where the charity can offer something in exchange for the money it receives in the form of marketing opportunities it is more likely to receive a positive response.

## The Audit Of Charities



### Introduction

Earlier this year the Audit Practices Board issued a consultation draft of their Practice Note (PN11) on the above subject. The consultation period has now ended therefore the final version of this document will be issued in a few months time.

The aim of this publication is to bring together the various accounting rules and recommendations that must be considered when preparing and auditing charity accounts and in doing this provides some useful guidance on some of the aspects that charities find most difficult. This is an extensive document with 175 pages, (including the appendices) and whilst it is not recommended bedtime reading, will help to aid the understanding of charity trustees and administrators who have particular responsibility for accounting issues. The document refers to over 20 Statements of Accounting Standards which charities need to consider and in most cases, comply with. It is the auditor's responsibility to see that these rules are observed and where a disagreement arises between auditors and trustees on how a particular transaction should be disclosed, it is often necessary to refer to the wording of the relevant accounting standard to resolve matters.

An audit is required for all registered charities with turnover exceeding £250,000 irrespective of whether they are a company or an unincorporated trust. A less intensive independent examination applies to those with a turnover between £10,000 and £250,000, however this form of review is not considered in this article. Charity trustees are reminded however that irrespective of the above Charity Commission rules, where an audit is required under the terms of the charity's governing document, this is the over-riding instruction that must apply until the rule is formally changed with the Commission's approval.

This newsletter is certainly not big enough to undertake even a brief review of the audit guidance included in the practice note, therefore we have picked out two areas where difficulty has been experienced in the past and will discuss the guidance given.

## Voluntary income

This has always been a difficult area to audit and no more than five years ago many audit reports were automatically qualified on the grounds that the accuracy and completeness of this income source could not be checked.

Encouraged by the Charity Commission, this practice has now largely ceased and with guidance from their auditors, charity trustees have improved their control systems and audit checks have been possible to enable an opinion to be formed on the accuracy of the accounts.

Whilst it is not often possible to accurately predict when and how voluntary income will arise, charities can ensure that it is properly controlled and recorded once it is received. The use of computer spreadsheets, receipt books and proforma summaries have enabled administrators, trustees and volunteers to log the various income sources and especially where cash is involved charities are encouraged to organise any counting or checking to be carried out double-handed with both parties signing the record document. Even most charity shops now have an electronic till which can produce regular dated and timed till rolls. It is important for trustees to stress that it is not that they do not trust their volunteers but as recipients of freely given funds from the general public, they have a responsibility to properly record such receipts and in doing so, protect both the giver and the recipient. Prime accounting records of this sort are important to auditors and should be retained for future examination.

## Law and regulations

In considering the financial statements of a charity client, the auditor needs to consider not only the accuracy of its annual results and the closing balance sheet, but must also confirm that it is appropriate that the accounts continue to be prepared on the basis that it is a going concern.

In order to do this the auditors must not only examine budgets and cash flows to confirm the charity's future viability, but they must also look beyond purely accounting issues to determine

whether there are any factors which would prevent the charity from achieving its plans. These factors can include:

**Insurance cover** - is this adequate to cover any potential future loss  
**Premises** - does the charity have planning permission for any new activities, is the appropriate fire certificate held  
**Hygiene** - where a cafe or restaurant is operated have there been any environmental health inspections and were these satisfactory  
**Business** - is a valid bar licence held; is a transport operating licence necessary  
**Environmental** - is medical waste being properly handled; are safety issues being considered for both staff and the public

## Conclusion

In order to ensure that all appropriate issues are considered in relation to a charity's audit, the audit team must understand the specialist nature of a charity and must obtain a knowledge of the particular charity's business. The benefit from this for the charity should be an efficient audit and constructive feedback on areas where the system of internal control can be improved.

Trustees should also be aware that in cases where the auditors have reason to believe that as a result of their work they have identified abuse or maladministration which is of material significance, they have a legal responsibility to report this to the regulatory authorities which in most cases would be the Charity Commission. A charity is in receipt of public funds and enjoys a number of benefits compared to commercial organisations, therefore charity trustees have a heavy responsibility for ensuring they are properly managed. The auditor should be considered as an ally and not an enemy in this task.

## Charities & IT



As in so many other areas of life, computers and IT have made their mark on charities. I have examined a few of the issues of particular interest to charities below.

## When is the right time to buy?

Specifications only go in one direction and if you put the decision off for this reason then you may never take the plunge! The computer buyer has to accept that today's state of the art machine will be outclassed at the same price within just a few months, so fast is the pace of change. Now this doesn't really matter, because if it has the capability to do what you want fairly comfortably when you buy it, then it will carry on doing just that for several years. You don't change all your systems and procedures every few months after all.

Prices are at an all time low at the moment, with over capacity in the industry. The recently announced link up between Compaq and Hewlett Packard is an indication that this may not continue. On a gloomier note we are also presently faced with

the prospect of international conflict with the risk that instability will counter the present downturn and force component prices to rise in future.

### How about donated equipment?

If you are "fortunate" enough to be given computer equipment here are several important things to consider:

- is it electrically safe, especially if a few years old? Electrical equipment should have a "Portable appliance test" carried out to ensure that it is safe to operate.
- if it has any software, even just Windows, the licenses are not usually transferable from the original owner so there may be a problem with legality.
- the previous owner may have inadvertently left data on the machine with Data Protection Act implications.
- there could be specification issues if a mixture of old and new equipment is to be used to run the same programs.

For contacts on obtaining donated equipment try UK Fundraising's website:

[www.fundraising.co.uk/other\\_fr/donated\\_pcs.html](http://www.fundraising.co.uk/other_fr/donated_pcs.html)

one such organisation is Computers for Charities and their web address is:

[www.computers4charities.co.uk/](http://www.computers4charities.co.uk/)

### What about the Internet?

So much has been written on this subject that we are almost under a bombardment of information. I have mentioned a couple of sites above in the context of computer equipment, but some others merit a mention here. Firstly there is of course the Charity Commission's own site at [www.charity-commission.gov.uk](http://www.charity-commission.gov.uk) where there is a wealth of information, the above mentioned UK Fundraising which is dedicated to fundraising needs and I also recently looked at <http://pages.ebay.co.uk/community/charity/index.html> where Ebay UK will host on line auctions for charities. All you need to do is find a celebrity to donate their bed or similar!

Of course if your charity does not yet have its own site this is well worth considering. At its simplest and cheapest it can publicise the charity's existence, objectives and give contact details. With a larger budget you could go on to greater things including the ability to accept credit card donations on-line.

### What accounting software is appropriate?

For keeping the charity's accounts at a sensible price there is not a terrific amount of choice. The leaders in popular inexpensive software continue to be Sage and QuickBooks, with both of these companies regularly updating their offerings. Of the two products Sage has the more solid feel and presence in

the market but QuickBooks offers remarkably flexible reporting at the price and true 'drill down' capability. This means that full details of the individual transactions underlying an accounts figure e.g. donations, can be found easily. There is more to it than this of course and Sage's help line has been very good of late. Ideally both packages should be viewed and a decision made based on individual needs. Doubtless personal taste will come into it as well as the two products look very different.

If the prospect of using an accounting package is too daunting then a first step might be to move the cashbook onto a spreadsheet. On a number of occasions recently we have provided clients with an Excel based cashbook to record bank receipts and payments, incorporating an automated bank reconciliation routine.

### A note on Viruses

Whether investing in brand-new IT equipment or receiving donated equipment, the possibility of files becoming infected by computer virus should definitely be considered. This could be particularly true of donated computers if they have not been checked for viruses before being passed on. There has also been a recent emergence of e-mail borne viruses, some of which are very high-risk such as 'NIMDA', so particular care must be taken when viewing/opening e-mails, particularly those containing attachments.

The best form of defence is to invest in a good quality anti-virus software program, such as McAfee VirusScan™ from Network Associates Inc. Care should be taken upon installation to check that the program is set to scan 'all files' & e-mail attachments as some anti-virus programs are set to only scan files of a certain type by default.

However, simply installing and relying on the software alone to protect you is as dangerous as not having any protection, the software must be maintained with regular updated virus signature files and system files which can usually be downloaded from the vendors website. Also, regular manual scanning of the whole system is recommended.

### Footnote...

If your organisation was exempt from parts of the Data Protection Act 1998, that exemption may be about to expire as the 'first transitional period' specified in the Act ends on 23 October 2001. The exempted activities would broadly have related to payroll and accounts information, mailing lists and back up data. Further guidance can be found on this topic in the Office of the Data Protection Commissioner's publication The Data Protection Act 1998 - An Introduction available at:

[www.open.gov.uk/dpr/dprhome.htm](http://www.open.gov.uk/dpr/dprhome.htm)

Mark Rundle - Manager

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