

Charity Newsletter



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Issue 4

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Introduction

This is the first newsletter since our SORP 2000 seminar on 7 February 2002. We were both surprised and delighted to have to change the venue due to the high response level. Many thanks to all of you who came and gave such positive feedback.

Although we have included a diverse selection of information in this newsletter, the main article relates to Charity Commission monitoring. Some kind of monitoring visit (be it Inland Revenue, Customs and Excise or Charity Commission) is almost inevitable for most charities in the next few years. Our recommendation would be to double check on any issue with which the trustees or other charity staff feel uncomfortable at an early stage to avoid problems later. The use of summarised annual reports is another topical issue. Trustees who want to promote their charities and encourage the receipt of donations and grants can use this medium to their advantage and attract a wider readership for their accounts. The narrative needs to provide the story behind the figures and help to give any reader a clear picture of what is happening within the charity.



Charity Commission Monitoring

The chances of receiving a monitoring visit are increasing. The Charity Commission wish to reassure trustees about the purpose of the reviews. Their newsletter of June 2002 states that 'these reviews are NOT investigations by the back door, nor are they in response to new legislation or regulations. Their purpose is to identify and develop good practice, and to help charities improve their performance.'

The Charity Commission's programme of review visits is mainly aimed at charities in the income range £250,000 to £10m although other charities may be visited to ensure coverage of the sector. They will send a suggested agenda in advance covering the legal framework, governance issues and financial management and the trustees will be able to add any other pertinent issues. They may also request the trustees to complete the checklist in booklet CC8 Internal Financial Controls for Charities. Booklet CC60 Hallmarks of a Well Run Charity is another useful document which trustees should refer to prior to a visit.

The visit is generally undertaken by 2 senior Charity Commission officers, will last between 2 and 4 hours and the charity may request support from any professional advisors. A draft review visit report will be issued within 3 weeks of the visit detailing good practice and legal regulatory requirements. The trustees can check the draft report for factual accuracy before the final version is issued. The reports are currently confidential to the charity and are not published on the website in the same way as investigations. We will be asking our clients about communication with the Charity Commission as part of our audit work. Please feedback any interesting points to us so that other charities can share this information on a no names basis. We will of course attend the review visit if you so request.

The Charity Commission will be using the information gained in these visits along with other sources to inform their thematic reports. Three thematic reports will be produced in the current year, covering: Charity reserves, Collaborative working and mergers, and Milestones in the lifecycle of a charity. The reports will be published in late 2002/early 2003.

As a result of attention from the Public Accounts Committee, the Charity Commission are also being more proactive about the requirement for charities with annual income/expenditure over £10,000 to file accounts within 10 months of the year end. Steps include automatic investigation where income/expenditure exceeds £100,000 and publishing persistent defaulters on the Commission's website. If this is not regarded as successful, fines for late submission could be around the corner.



Summary financial information and Summarised financial statements

Question Time



What is the difference between a member and a trustee ?

Currently, many charities are constituted as companies limited by guarantee. This means that the 'owners' are known as members instead of shareholders. They guarantee to contribute a sum of money in the event of the charitable company being wound up but do not share in any profits or assets. The rules on membership are generally contained in the Memorandum and Articles of Association.

The members of the company are separate from the trustees although in many charitable companies they may be the same individuals. The trustees, who are also directors for the purposes of the Companies Act, are responsible for the overall management and control of the charitable company's activities. They must however answer to the members of the charitable company who under company law are responsible at the annual general meeting to pass resolutions to approve the annual accounts and report of the directors, the appointment of auditors and most importantly, the appointment of trustees. The status of the members therefore is a very important one and their appointment and continuation in this role needs to be subject to ongoing review and control.

With regard to the introduction of new members, usually the only documentary evidence of membership would be the promise by each individual to act in accordance with the Memorandum and Articles. We can provide a sample document on request.

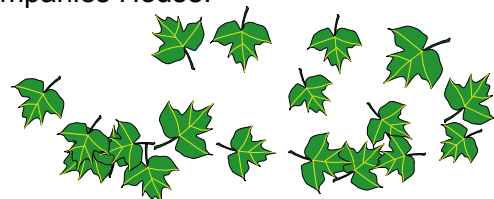
Legal advice may need to be sought to cover the inclusion in the governing documents of clauses concerning the retirement of any members who are no longer involved with the charitable company particularly when they cease to be trustees.

Many charities publish separate information from the statutory accounts as part of fundraising or subscriber information with the aim of presenting the detailed financial information in a much simpler form. This could be part of a separate document and may be in pictorial format. SORP 2000 does not dictate the nature or content of this financial information but requires it to be fair and accurate and recommends that it should contain information from both the Statement of Financial Activities (SOFA) and Balance sheet.

Summarised financial statements, which contain detail from the SOFA and the balance sheet, should be accompanied by a statement that is signed on behalf of the trustees. If the full financial statements have been externally examined, and the trust is not incorporated the external examiner should append a report stating whether or not the summarised financial statements are consistent with the full annual accounts.

Summary financial information is that which does not contain both Balance sheet and SOFA information or is not derived from statutory accounts. A different trustees' statement is required and no external examiner's report is required. An example of this would be interim figures on a fund-raising appeal or project.

Details of the contents of the trustees' report in both cases is set out in the SORP paragraphs 295 to 297. For companies, it should also include confirmation that the full report and accounts have been submitted to Companies House.



➤ Many charities have Internet capabilities and may benefit from fundraising online. Internet trader eBay.co.uk provides a portal for UK charities to auction goods on the net. The site provides a guide to get you started and has a dedicated charity team.

➤ The Charity Commission have recently launched Charity Accounts Assist pages on their website in the 'Supporting Charities' section. This will include a fully searchable database in autumn this year and will give answers to a wide range of frequently asked questions with the facility to email for the answer of a specific point.

➤ The first SORP annual review was completed in February 2002 and the outcome was published as Information Sheet 1. This provides additional guidance on certain areas, including FRS 17 Retirement Benefits, Publicity vs. Educational costs, Investment Management fees and Recognition of grants receivable.

➤ The Charity Commission is developing a centralised small charities unit in their Liverpool office to provide a full service for all charities in England with income under £10,000. The aim is to cut bureaucracy so that trustees can deal with issues such as updating the governing instrument more quickly and efficiently.

➤ There is much discussion currently on the use of league tables and similar performance measures and the Institute of Charity Fundraisers are developing ratios that accurately reflect the costs of fundraising and administration that are of key concern. The Charity Commission and the National Council for Voluntary Organisations will be looking at the recommendations in the forthcoming Performance and Innovation Unit (PIU) report. A report on the legal and regulatory framework for charities and the voluntary sector is also due to be published in September.

➤ The Charity Commission published in July 'RS2 Charities and Commercial Partners'. This covers agreements between a charity and commercial partner to raise funds for the charity or raise its profile.

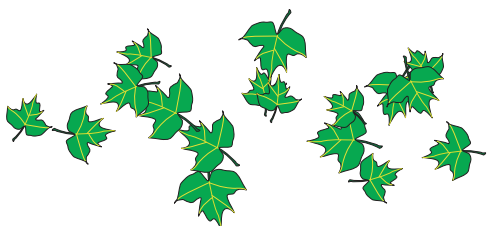
➤ A new bank sponsored by CAF (Charities Aid Foundation) will be opening in September. It will be regulated by the Charity Commission and Financial Services Authority. It will provide investment in, and financial guidance for, charities and charitable projects. Its sole business will be to accept deposits from the public and others in order to create a source for affordable loans to the charitable sector, mainly targeting organisations in disadvantaged communities or those that are financially excluded. More information can be found at www.charitybank.org

➤ The Listed Places of Worship grants scheme' is an interim grant scheme which returns, in grant aid, the difference between 5% and the actual VAT paid on eligible repairs to a listed place of worship. Details of the scheme, an application form and guidance can be found at www.lpwscheme.org.uk

➤ A new form of organisation known as a Charitable Incorporated Organisation (CIO) has been proposed. This would be similar in form to a company limited by guarantee but it would not need to comply with the Companies Act 1985. The Advisory group recommends flexibility but there will be simple model constitutions to avoid the need for complex professional advice. It also recommends that charities currently constituted as companies limited by guarantee should be able to convert to the new entity and unincorporated institutions and trusts should be given the power to transfer their property and undertaking to a CIO formed specifically to receive it. The proposal also suggests that in order to avoid depriving the beneficiaries, it is proposed that any penalty for failure to provide annual accounts and reports should fall on the charity's trustees and not on the organisation.



➤ Falling sales have been recorded in most charity shops over the last 5 years despite 75% of the public having donated goods to a shop. However, the Charity Finance Shops Survey 2002 records rising profits. This can partly be attributed to reduced staff costs as a proportion of income. The average shop manager's salary pro rata to 35 hours per week was £11,217 where the number of shops in the chain was less than 20. The main threats to charity shops include competition from discount commercial retailers and the loss of business rates relief. There is also concern over the availability of volunteers. The average weekly hours per volunteer in the survey was 5.48 in 2002. Rag prices have improved recently but problems still emanate from bogus collectors promising funds will be used for the 'needy'. The recent strength of the property market is reflected in concerns over rental costs and a shortage of suitable premises.



Tax and gift aid snippets

➤ There has been a twelve-fold increase in the amount of donations being given under gift aid since the relaxation of the rules two years ago. However, there are still a significant proportion of taxpayers who do not give in a tax efficient manner. The Inland Revenue have created a 'brand' for gift aid. Charities can download the logo (see below) and toolkit document and use this in their own fundraising literature.

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➤ Sponsorship forms can also be adapted for gift aid. An example sponsorship form is included on the Inland Revenue website. The reclaim form can make reference to the sponsorship form without having to list every individual's name, log on to the internet and see: www.inlandrevenue.gov.uk/charities/appendix_b2.pdf

➤ Scottish charity WebTrust has developed a software package for tracking donations and producing Inland Revenue approved forms: www.Webtrust.org.uk

➤ Higher rate taxpayers can reclaim tax at the higher rate on donations on their tax return. This can be done even where the charity is not reclaiming the tax due to the administrative burden.

➤ Donors can claim tax relief on gifts of property and shares. The donor only reclaims tax by entering it on their tax return (the charity makes no reclaim). The value is the market value on the date of transfer and there is no capital gain or loss.

➤ The Inland Revenue are carrying out more audit checks of gift aid claims and are checking the audit trail in both directions. If problems are found, the amount overclaimed will be clawed back. The charity will also need to inform donors that their donation was not eligible for gift aid and higher rate taxpayers need to be told that they will be unable to reclaim the additional tax.

➤ It may be possible for trading subsidiaries of charities to retain some profits and thereby accumulate some working capital as there is a nil rate of corporation tax for taxable profits up to £10,000. However, the wording of deeds of covenant and governing documents should be consulted in the first instance.



➤ In order to benefit from the zero-rating for VAT purposes of advertisements, these must be placed by the charity and not an agency.

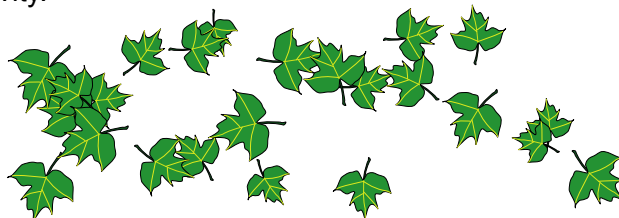
➤ Partial zero rating for VAT is now enshrined in statute. Therefore, it may be necessary to have separate quotes and invoices for disabled access work etc so that zero rating can be applied to that part.



➤ For VAT purposes it is sometimes very difficult to establish if a service provided by a charity is a contract or a grant. Some general principles for a contract are as follows:

- > Direct link between the service provided and funding received.
- > Legal relationship.
- > Consideration for the work undertaken.

Generally, a restricted grant is likely to be outside the scope of VAT whereas an unrestricted contract may either be exempt or standard rated depending on the activity.



Management Accounts

As part of our commitment to supporting our charity clients on a year-round basis, we would like to request that you send us management accounts on a regular basis. These do not need to be in statutory-type format but can be just a trial balance. This enables us to raise questions at an early stage, which should make the audit process smoother. We would stress that there will be no extra charge for the time spent reviewing these accounts and this should be a mutually beneficial exercise.

Future topics

Please let us know if there are any topics that we could usefully cover in forthcoming newsletters.

Whilst every effort is made to ensure the accuracy of any information herein, this firm cannot accept responsibility for any inaccuracies. Professional advice should be sought before action is taken or refrained from in specific circumstances.