

## **THE UNITED REFORMED CHURCH**

### **UPDATED GUIDANCE ON CHURCH ACCOUNTS AND REPORTS UNDER CHARITIES ACT 2006**

#### **What has changed?**

Since the previous guidance issued by the URC in November 2006, the accounting provisions of the Charities Act 2006 have now been implemented for the accounting period ending on or after 1 April 2009. For most of our churches this will be their year end to 31 December 2009.

Also, with the ending of their excepted charity status, all churches with income (from all sources) in excess of £100,000 have this year had to register directly with the Charity Commission. Churches passing the £100,000 threshold in later years must register at that time. Once registered, churches will have to submit their independently scrutinised Annual Report and Financial Statements to the Charity Commission. These will need to be in a format acceptable to the Charity Commission (i.e. compliant with SORP 2005).

Churches with income below £100,000 retain excepted charity status for the time being; in all other respects this guidance applies equally to those churches, which are subject to charity law and should aim to follow best practice.

These guidance notes will help all our churches prepare for these times, and focus on the new thresholds introduced by the Charities Act 2006. Please note that this does not apply to churches in Scotland, which are already registered charities and are subject to different thresholds and reporting requirements under Scottish charity law.

More detail may be found in the Association of Church Accountants and Treasurers (ACAT) handbook, which all Church Treasurers now receive. It has been updated for the legislative changes, and includes a chapter on registration.

#### **The Independent Scrutiny Requirements**

If total income is in excess of £500,000 an independent audit by registered auditors is required, or if gross assets exceed £3.26m and income exceeds £250,000.

If total income is between £250,000 and £500,000 an independent examination by an appropriately qualified accountant is required.

If total income is between £25,000 and £250,000 an independent examination is required. This can be undertaken by someone who the Elders consider is competent to do so. The Independent Examiner is required to be familiar with SORP 2005, and its accounting requirements, as well as the Charity Commission's directions on an independent examination.

If total income is less than £25,000 an independent examination is not required by the Act, but accounts must still be prepared annually.

These thresholds are now applied to each year, irrespective of what has happened in previous years.

#### **Who uses Income and Expenditure (full accruals) accounts?**

The Income and Expenditure (full accruals) accounts must now be used by churches with total income in excess of £250,000 p.a. (i.e. excluding asset disposals and loans received). SORP 2005 is more prescriptive in its requirements for I&E accounts than for Receipts and Payments (R&P) accounts. The I&E accounts will also be used by those smaller churches that decide not to use R&P accounts. We anticipate that most United Reformed churches will choose to prepare R&P accounts, and have not therefore revised the I&E example issued in 2006.

Again, these thresholds are now applied to each year, irrespective of what has happened in previous years.

#### **Who can use Receipts and Payments accounts?**

Only churches with total income under £250,000 p.a. (i.e. excluding asset disposals and loans received) can opt to use the simpler Receipts and Payments accounts. As the R&P account is in fact a departure from the SORP 2005 norm of full accruals accounting, it must clearly state that it has been prepared on the receipts and payments basis.

#### **The effect of the changes**

The main difference to impact our churches will be the raising of the threshold for which full accruals accounts (I&E) are mandatory. In reality virtually all our churches will now be able to produce a Receipts and Payments account straight from their cashbooks if they choose to.

For a church whose total income is between £100,000 (the old threshold), and £250,000 (the new threshold), they may make the decision to change for the year ended 31 December 2009. The accounts for this year of change should be accompanied by a note stating the decision, and comparative figures should be adjusted back to a R&P basis if possible.

The change to looking at each accounts year by itself for the application of these new thresholds will make life a lot easier if a church's income peaks in one year (e.g. a large legacy received). The fact that the accruals threshold has moved well away from the £100,000 level will also help to make the need to change less frequent.

There is no change in the need to prepare all accounts on a funds basis, showing at least restricted and endowment funds separately. Few churches have endowment funds, and they have not been included in the example and proforma. If your church has endowment funds, please see examples in the ACAT handbook and other links.

#### **Further guidance**

This guidance is being published on the URC website.

Hard copies of this guidance and the proforma model and worked examples are available from Synod offices in England and Wales.

On the next sheet are some other useful and important links for further information, including some notes on using the R&P proforma.

On the final sheet are some notes on preparing the Annual Report, and an example is provided at the website link.

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#### Useful Links

##### Public Benefit

Under current charity law, charities have to show that their activities provide a public benefit.

**The Charity Commission** has published guidance on the way charities for the advancement of religion might deal with this in their reports.

For general guidance, see:

<http://www.charity-commission.gov.uk/publicbenefit/publicbenefit.asp>

For guidance specific to the advancement of religion, see (and especially Annex B):

<http://www.charity-commission.gov.uk/publicbenefit/pbreligion.asp>

An example of an Annual Report (of an imaginary parish church that covers all the bases) is at:

<http://www.charity-commission.gov.uk/Library/publicbenefit/pdfs/pbexemilions.pdf>

and also, with accounts and a commentary, at:

<http://www.charitycommission.gov.uk/Library/investigations/sorp/pdfs/arstempb.pdf>

**The Association of Church Accountants and Treasurers (ACAT)** provides excellent, and more detailed, guidance in its members handbook, including on the Annual Report requirements. All Treasurers of United Reformed churches were enrolled as members of ACAT in 2008, and should have a copy of the handbook and receive periodic updates. ACAT also holds conferences and issues quarterly newsletters.

Newsletters may be viewed on the ACAT website:

[www.acat.uk.com](http://www.acat.uk.com)

**The Charity Commission** remains the authoritative reference source, although they address all types of charities, and not specifically churches.

[www.charitycommission.gov.uk](http://www.charitycommission.gov.uk)

Their specific publications on this matter are:

Accounting and Reporting by Charities: Statement of Recommended Practice (SORP 2005)

Charity Reporting and Accounting: The essentials April 2009 (CC15b) can be found at:

<http://www.charitycommission.gov.uk/publications/cc15b.asp>

Independent Examination (advice on appointing an independent examiner, their duties and preparing an independent examiner's report) is at:

<http://www.charitycommission.gov.uk/publications/cc31.asp>

##### Using the R&P accounts proforma

The proforma is intended to cover matters to be included in a 'typical' URC. Of course there is no such thing!

There follow a few suggestions and reminders to help users:

- as most churches are not yet registered charities, the proforma assumes excepted charity status.
- the R&P proforma sheet has links to the Notes sheet, and both contain formulae to calculate various totals.

If users add or remove lines they may need to adjust the formulae too.

- the figures contained in the relevant Notes should be gathered, and entered there before completing the remaining figures in the R&P proforma itself.
- churches are free (especially in the Notes) to change descriptions to fit local usage, to add lines to show additional detail, or to delete analysis lines that have no relevance to the particular church. For example, some may wish to have a note separating regular giving from the loose offertory, or to analyse Church running costs and Programme activity costs in a different way.
- please ensure that the information needed by your Synod for Ministry and Mission Fund calculations is readily identifiable.
- Signature: The accounts must be signed by a trustee on behalf of all the trustees. This may be the chair or the church treasurer. In any case, the treasurer should sign a Treasurer's Statement as shown on the Examiner's Report page.

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**Annual Report** (see also the chapter in the ACAT Handbook)

An Annual Report is obligatory for churches which are registered charities, i.e. those with income above £100,000 and all churches in Scotland. For the remainder, it is not yet obligatory, but in view of the likelihood that nearly all churches will be registered charities within a few years, we consider it good governance to comply with at least the minimum requirements for smaller charities. The Trustees' Annual report should be attached to the Accounts whenever a full set is distributed.

#### **Content of Annual Report**

There are legal requirements on the content of annual reports. These are described in section H of the Charity Commission's publication CC15b "Charity Reporting and Accounting: The Essentials 2009", and are much less detailed for charities not subject to audit than for larger charities. Section 3 of the chapter in the ACAT Handbook also describes them. This note draws attention to aspects of particular relevance for URC purposes. Sections in Red Font are applicable only to churches that are registered charities.

a) **Reference and administrative details** of the church, its trustees and advisers. As trustees, it should give the names of any ministers or elders who were members of the elders' meeting on the date the report was approved, and of any others who served during the financial year, with dates of cessation or commencement if appropriate.

#### b) **Structure, Governance and Management**

- The nature of the governing document.
- How the trustees are constituted.
- How the trustees are recruited and appointed.

#### c) **Objectives and Activities**

- A summary of the objects of the church. For nearly all URC churches, this is on the lines of: 'The object of the church is the advancement of the Christian faith for the benefit of the public in accordance with the Scheme of Union of the United Reformed Church'.
- A summary of the main activities undertaken to further those objects for the public benefit. This could include the church's mission statement if you have one. Charity Commission guidance (see the links sheet) is most helpful and is necessary reading.
- A statement that the trustees confirm that they have had regard to the Charity Commission's guidance on public benefit.

#### d) **Achievements and Performance**

- A summary of the main achievements of the church during the year. This can be a mixture of facts/statistics and reflection on achievements, difficulties and challenges.

#### e) **Financial Review**

- An opportunity to comment on the church's financial performance, position and prospects.
- Registered charities must include a policy on reserves, if any. For many reserves are only an aspiration, but where funds are set aside (designated) for a future purpose this should be stated and reasons given.
- Details of any fund materially in deficit, the reason for deficit and steps being taken to eliminate it.