

# **Financial Management and Reporting**

by  
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## INTRODUCTION

1. Any waterway society needs to fill the positions of chairman, secretary and treasurer. Without those the organisation could not function. This chapter looks at:
  - a job description of a treasurer to help a fledgling committee recruit a post-holder,
  - the role and responsibilities of the treasurer, covering the key areas of accounting, financial stewardship and accounting, and
  - some practical guidance for a treasurer in post.
2. As well as being a theoretical chapter it also gives straightforward practical guidance on how to maintain basic financial records. For these purposes it is assumed that the reader has no experience of bookkeeping.

## THE NEED FOR A TREASURER

3. The ability to restore a particular waterway inevitably comes down to money, and normally the lack of it. This lack of funds requires that the scarce resources available must be maximised. Additionally, those funds that are available will by nature be donations or grants of one description or another and the ultimate use of these will need to be reported both to the members and original providers. A Treasurer will not only be someone who reports on financial transactions but who provides a financial viewpoint on key decisions advising on strategy etc.
4. As noted in the chapter covering the legal perspective, all societies, whatever their legal form, must provide financial statements to both their members and to the various governmental bodies to which it is required to report e.g. Inland Revenue, Companies House and the Charity Commission.
5. Finally, but by no means least, the organisation itself will require management information on which to base its expenditure and budgeting decisions.

## PERSONAL QUALITIES AND KEY SKILLS

6. There is a popular misconception that a treasurer should be a qualified accountant, but, while this would clearly be an advantage, it is by no means essential. A large part of the treasurer's job is pure administration. The important skills are those of numeracy, attention to detail and patience! However, if a suitably experienced person is available to complete the task then this will be beneficial as not only will there be a much shorter learning curve, but it may be possible to reduce any third party audit costs at the end of the year.
7. It is important when recruiting a treasurer to ensure that the person undertaking the position is fully appraised of the duties involved. In order to assist with this the next section provides a job description, which could be passed to a prospective treasurer. As already stated, the position is vital to the smooth running of the society, so as a result of this it can be a difficult one to fill. This difficulty should not cloud the judgement of those making the appointment; the volunteer should be carefully briefed to ensure that he or she understands the duties involved. Those giving the briefing should take care to ensure that the individual concerned has the time to complete his tasks properly, without either taking unnecessary shortcuts or putting the society's financial interests at risk. As we will see later on, the majority of the compliance work carries stiff penalties for non-compliance. For example a company limited by guarantee must submit its financial statements to Companies House no later than 9 months from the end of its accounting period. Failure to do so will

render it liable to a minimum fine of £150 (rising to a maximum of £3,000!) and, if the breach continues, the directors may become personally liable. Finally, those recruiting a treasurer should ensure that the considerable time and effort they put into the process, is not wasted by poor selection; leading to either an early resignation or chaos within the organisation.

## **JOB DESCRIPTION**

8. The duties of the treasurer are in 3 parts:

- maintenance of records,
- compliance work (that is, dealing with those tasks needed to comply with the laws and regulations governing a society's financial affairs),
- presentation of information.

This chapter assumes that the society is a registered charity and a company limited by guarantee. This type of organisation has the highest level of statute governing it: compliance with these standards will amply cover other types of organisation.

### **Records and Administration**

- Keep a full record of all the society's transactions.
- Receive and bank all receipts of the society (a Membership Secretary may bank subscriptions).
- Receive details of all requests for payment, carefully review the request, checking to source documentation. Having obtained the necessary authorisation, prepare the cheque and forward, together with supporting documentation to the required cheque signatories.
- Operate the society's Gift Aid scheme.
- Oversee the operation of funds held by sub-committees and individual branches on a quarterly basis.
- Maintain records of gifts/donations for specific purposes (restricted funds) and ensure that the funds are 'ring fenced' from the society's general funds.
- Maintain bank accounts including short term management of balances to maximise interest receivable.
- Deal with some administrative duties e.g. Insurance policies

## Compliance

- Ensure that the society complies with charity and companies legislation (where registered).
- If the company employs staff, ensure that the correct PAYE and National Insurance deductions are made and subsequently paid over to HMRC. Care should be taken to comply with the requirements of Real Time Information which include monthly submissions with fines for non compliance.
- Ensure that financial statements are prepared and, if necessary, audited within the necessary time-frame, presented to the members at the Annual General Meeting (AGM) and filed with the relevant authorities.
- Ensure that the organisation operates within the appropriate VAT and Corporation tax legislation (if necessary with professional assistance)
- Ensure that the Gift Aid scheme rules are obeyed and that the tax recovered is maximised.

## Presentation of Information

- Provide timely and relevant information to the managing committee, including regular statements of affairs.
  - Prepare budget and cash-flow forecasts where practicable. Monitor adherence to them and advise as soon as possible deviations therefrom.
  - Keep and make available records of individual budget holder's budget and expenditure against that budget.
9. A volunteer considering the job of Treasurer should also enquire whether there will be assistance within the society from:
- a Membership Secretary (to keep track of annual subscriptions and any donations which come with them) Both jobs are demanding and it is unlikely that doing both is practical in the long term.
  - a Gift Aid Secretary (to keep track of covenanted subscriptions and to reclaim tax on them and on Gift Aid).
  - a fundraiser, either paid or unpaid, who can research into which grants may be applicable and who can deal with the variety of application forms that the grant-making bodies require – a very time-consuming task. The fundraiser will also check that the grant conditions are met, including the rendering of follow-up reports by the organisation and, if appropriate, by external auditors.
  - an Appeals Secretary to organise, operate and maintain the records of an appeal to members, which may be a one-off for a specific purpose or be part of an open-ended appeal for, say, a Restoration Fund.
  - a Sponsorship Secretary, or Group, where sponsorship is obtained and maintained. Sponsors are essential to a waterway society, need work to find them and follow-up work to keep them interested. No sponsor lasts forever - the skill is to keep them supportive as long as possible.

As a rough guide, a waterway society with an annual turnover of £200,000 (plus sponsorship of £100,000) takes its Treasurer, not an accountant by training, an average of an hour a day to administer, even with the help of all the five officials listed above. This includes compliance work, preparing for audit or annual accounts and dealing with the average of 350 Payment Vouchers and 250 Receipt Vouchers each year. It would take longer without a PC and suitable software, particularly at audit time.

10. Clearly it is not possible to prepare a job description that will be completely relevant for every situation but the above list is a useful starting point to assist volunteers considering the job.
11. Hints and tips for the budding treasurer, a lot of the issues discussed here are technical issues however adherence to a few basic thoughts will go a long way:-
  - Keep up to date
  - A voucher for everything
  - Keep it simple!

## **BOOKKEEPING**

12. HM Revenue and Customs (HMRC) will require the same standard of records as the Companies Act. The HMRC website does provide some generic information on record keeping applicable to businesses but it does provide some useful guidance.
13. The basic records which should be kept and that will meet the above standards are based upon the traditional cashbook, although nowadays this can be either paper or spreadsheet based. If the latter approach is adopted, the spreadsheet should be designed so that it is not too idiosyncratic. It should be based closely upon a traditional paper based book. In particular it should be able to be printed on A4 without having to join up separate pieces with sticky tape. However, if the treasurer has no experience of cashbooks then it is advisable to start with a manual book.
14. Cashbooks are sold with a referencing system, which refers to the number of receipts (credit) and payments (debit) columns, e.g. a 3/9 cashbook will have 3 income columns on the left-hand page with 9 payments expenditure columns on the right hand page. This will be in addition to a date and narrative column. When selecting a book it is important not to underestimate the number of columns required. It is much easier to add columns together than to separate a column. The best example of this is the sundries column. There is a great temptation to have 4 or 5 headings with a final catch-all sundries one at the end. The effect is that this becomes the most used column, which then has to be carefully re-analysed, when the end-of-year accounts are prepared.
15. If the society has significant cash transactions (and this is to be discouraged) then a separate cashbook will be required for these transactions. It is important that bank and cash transactions are not mixed. [It is possible to use the back of the cashbook to record cash entries].

16. Practical tips

- Cashbooks can be expensive to purchase, therefore a treasurer should consider using a proprietary loose-leaf system. This is slightly more expensive initially but should in the long term be cheaper.
- If using bound books then have 2, one for the 'odd' years 07,09,11 and one for the 'even' years 08,10,12. That way the treasurer can give the books to the auditor and not fall behind with regular bookkeeping.
- To save re-writing the column headings, the treasurer should write them on the first and last page and then cut the tops off the pages in between, (make sure you're certain about which headings you require before doing this).
- The column headings should not be changed during a financial period.
- Each new month should be put on a new page, unless there are less than ten transactions per month.

17. The key with book keeping is two-fold; the first is to ensure that the books are kept up to date and the second is to ensure that just enough work is done on a daily/weekly basis to ensure that year end work is kept to a minimum. When writing up a cashbook care should be taken to ensure that each entry is accompanied by sufficient detail to enable it to be identified at a later date. When the book is being completed each entry will seem as clear as day, but, 3, 6 or 18 months later the mists of time will have descended and it will be much more difficult to remember the detail.

18. Appendix A contains a basic sample of a cashbook for one month. Each entry should be given a folio or index number cross-referenced to the invoice; for payments the cheque number can be used. The date recorded should be the date on which the cheque is written. The total expenditure should obviously be entered into the total column with the expenditure then being transferred into the relevant column. It may of course be that a transaction has been raised covering a number of different headings, this is perfectly acceptable, but the allocation should be clearly identified on the supporting documentation.

19. It is advisable to enter cheques and receipts on a regular basis. This will both ensure that the cashbook is kept up to date and that the writing up of the book does not become too much of a task, which is then put off.

20. At the end of the month, or perhaps quarter if there really are very few transactions, the cashbook should be completed for the period. The first part of this process is to obtain the relevant bank statements. When discussing the provision of statements with the organisation's bank the treasurer should arrange for the statements to be drawn up to say the 3rd of the month so that the statement arrives by the 10th and therefore the cash book can be kept up to date.

21. Once the statements have been received the entries should be checked to those in the cashbook. The best approach to this is a systematic one, marking off the payments first. Each entry on the bank statement should be marked with a tick, and then the corresponding entry in the cashbook alongside the entry in the total column should be ticked. When the payments have been marked and any standing orders/direct debits entered the receipts can be entered.

22. Having completed the entries for each month the book should then be cross added; that is each column added down and the total of the analysis columns agreed to the TOTAL column. This may sound like very elementary advice, but simple techniques like this will ensure that accounts can be drawn up very quickly. If a professional firm is being paid for this work, then any time that can be saved for them will reduce your bill.
23. When the addition and cross-addition have been completed the receipts and payments should be reconciled to the bank account. This is the one most important step to be completed, for without this the book cannot be guaranteed to be complete. Once again if this is not balanced then year-end professional costs will be much higher than needed. The first step is to produce a summary of the cashbook for the month. A typical example will look like this:-

	£		£
Opening balance	1012.50		
Receipts	2345.78	Payments	1278.35
		Closing balance	<u>2079.93</u>
£	<u>3358.28</u>	£	<u>3358.28</u>

N.B. The receipts and payments amounts should agree to the respective total columns.

The closing balance will then need to be reconciled to the bank statement. All non- cleared (unticked) items should be recorded as follows: -

	£	£ Balance
per cashbook		2079.93
Less uncleared cheques		
15.11.X8 Postage	100.00	
23.11.X8 Materials	230.92	
		<u>330.92</u>
		1749.01
Add uncleared receipts		1254.32
Balance per bank statement		<u>3003.33</u>

24. Before leaving the cashbook it is important to ensure that the supporting documentation is in place. In a 'charitable' organisation, whether registered with the Charity Commission or not, it is extremely important to maintain good documentary evidence to support all income and expenditure. This and other aspects of internal control will be covered in greater detail further on in this chapter.

## PETTY CASH - THE IMPREST SYSTEM

25. Inevitably a treasurer will be required to hold a small cash balance. This will be used to reimburse members of the society for such things as postage and stationery. In order to avoid the need for a substantial balance an upper limit of say £20 should be placed on petty cash reimbursements.

26. The recognised way to operate a petty cash system is the "imprest system". Under this system an initial float is set up, out of which all payments are made. Thus, at any time, the cash balance plus payments vouchers will equal the initial float. When the float needs replenishing, a cheque should be drawn for the value of payments made since the last "top-up" and thus restore the cash to the initial level.
27. As with the main bank account a petty cash book should be kept. The book is written up in a similar manner to that described in the previous section. The main difference being that the only receipt will be cash top-ups from the main bank account. At each month end an account should be drawn up as described in paragraph 23. Vouchers should be kept for all petty cash transactions and should be referred to the petty cash book

## **OTHER RECORDS**

28. In addition to the cashbook it is recommended that the following files be kept:-
  - Paid expense invoices, cross-referenced to the relevant cheque/cash payment, filed in payment order.
  - Unpaid expense invoices.
  - Income documentation, cross-referenced to the cashbook and paying in slips.
  - Such computer printouts as are appropriate.
  - Correspondence files

## **USE OF COMPUTERS**

29. Nowadays the vast majority of us have some form of computer and the use of these and suitable software has a lot to recommend it. Commercial business focused software has its limitations when it comes to dealing with Restricted funds. However there are specialist software packages. But specialist can mean expensive.
30. In common with most activities, it is important to select the right tool for the job. When considering whether to use a computer the first item on the agenda is the number of transactions. If, there are fewer than say 30 per month then a paper based cash book would be recommended. For between 30 and 75 transactions then a spreadsheet would be suitable (unless there are a large number of restricted fund transactions, see paragraph 34).
31. It is unlikely that a new organisation will exceed 30 transactions per month and even less likely that it will exceed 75 transactions, although it should be pointed out that these numbers are for guidance only and should not be taken too literally. If, however there were more than 75 transactions then it would be worth considering the use of a proprietary software package. Given the expected life of this publication it would not be appropriate to recommend a particular product. The most important aspect of a purchase is to identify your precise needs before purchasing. It is important to take professional advice before making a final decision as not only is software expensive but also time consuming to get wrong.

## **ADMINISTRATION**

32. The largest part of a treasurer's role is taken up by routine administration. The following section gives some practical tips based on experience, the implementation of which will



ensure that the time taken is kept to a minimum:

- Society officials should be encouraged to render their claim forms promptly. All claims should be properly completed on a form such as that in Appendix B. It should be made clear that a jumble of till receipts stapled to a piece of scrap paper is not acceptable. The act of returning unsatisfactory claims will soon encourage proper completion of the forms. It is also tempting to accept an email as a claim, in my view there is no substitute for a well prepared claim form with the original documentation.
- The treasurer should aim to be known to pay claim forms equally promptly. Members will not expect claims and other correspondence to be dealt with promptly unless the treasurer does the same.
- The treasurer should try to keep up to date with the routine administration.
- All members frequently involved in correspondence should keep a detailed record of postage expenditure.
- Travel expenses are frequently a thorny issue. If all members were reimbursed for their travel expenses the society would simply fold. The general rule must therefore be that no expenses are paid. The only exceptions to this rule will be paid staff in the pursuit of their duties and members required to attend a meeting at some distance from the normal meeting place. In order to avoid problems all expenditure should be authorised in advance both the rate payable and purpose of the journey.

## **RECORD RETENTION**

33. HMRC requires that, in addition to the current financial period, 6 full years (plus the current year) of records should be retained. While it is acknowledged that storage of records can become a problem it is recommended that all records be kept for at least 20 years. There are two reasons for this recommendation: the first is that in the event of legal proceedings they could potentially form part of the defence. In the case of damages, a case can be heard anything up to 20 years after the event. Secondly and on a more pleasant note, it is clearly hoped that the scheme will be a success and accordingly the early records may well become of interest at an historical level. Waterway restorers are always very pleased to be able to review the original Company records. Who knows who will want to look back at the restoration records in the next century - or the one after?

## **MANAGEMENT INFORMATION**

34. The controlling committee of the society will require timely and relevant information on a regular basis. As was discussed earlier, the restoration of a waterway inevitably becomes an issue of finance. The directors, as members of the board or council of management, need good quality information to assist in the decision making process.
35. There are two different types of information required by the directors for decision making. This is because they have two distinct roles to play. The first is as overall custodians of the assets belonging to the organisation, the other is that of steering a course towards the group's overall aims.
36. The historical information presented to the meeting (both verbally and in writing) should give details of all transactions or a minimum of the key transactions, since the last meeting. This should start with the funds available at the end of the last meeting and, after detailing the transactions during the period conclude with the balance at the current date.

37. If there are what are now called 'restricted funds', i.e. amounts provided for specific purposes, then these should clearly be differentiated from the normal funds. The transactions on this account will need to be shown separately.
38. Having a large number of 'restricted funds' can cause additional record keeping problems for a treasurer. This may occur because a number of specific donations have been received or that there are a large number of enabled fund-holding committees within the organisation e.g. geographical branches, fundraising or machinery maintenance committees. If this is the case, then separate fund records will need to be kept, the total available funds should be divided into the individual accounts with each transaction recorded on its own record sheets. If there are any more than say 4 funds, then such an approach should be adopted.
39. This approach means that instead of just the restricted accounts having specific funds records, the general account will require a separate record. The total funds available will then be reconciled to the individual accounts.
40. Aside from the historical information, a treasurer should if necessary provide cash-flow forecasts and budget reports. The organisation should ensure that it only spends the funds that are at its disposal. A budget report will give monthly or quarterly comparisons of income and expenditure compared to budget.

## **BUDGETING**

41. The operation of a budget system is essential. Two or three months before the start of the financial year a budget should be prepared. This budget is the society's plan for the forthcoming year and will include virtually all key activities; this is because most parts of the society's plans will need money. The budget therefore plays a key part in the society's strategic planning and should be handled with care: the inclusion or exclusion of projects can have an effect on the motivation of volunteers. The preparation of the budget should not be delegated to the treasurer alone; ideally a sub-committee should produce the document which is then considered by the board.

## **EMPLOYING STAFF**

42. This a common issue for waterway organisations, with the staff likely to be either project officers or construction industry professionals. Before looking at the practicalities of employing staff, e.g. deduction of PAYE and National Insurance, it is important to consider whether an individual is employed or self-employed. This is a topic that is often raised, as many people are aware that it is cheaper to 'employ' a self-employed individual as opposed to an employed one. This disparity is due to Employers National Insurance, which for employees earning over £153 per week (2014/15 rates) is 13.8%. For an employee with a gross wage of £2,000 per year the organisation would be required to pay £184 National Insurance per month to the HMRC, together with the income tax deducted from the gross wages.
43. The question of whether an employee is self employed or not has occupied the minds of professionals, Inland Revenue Officials and Judges for many years. Many thousands of words have been written on the subject; hence it is only possible to give brief guidance. HMRC provide a great deal of guidance via their Website.

[/www.hmrc.gov.uk/employment-status](http://www.hmrc.gov.uk/employment-status)

44. In order to decide whether an employee is self-employed the following factors need to be considered.

*For employment*

- There is control by another over the manner in which the work is performed.
- The person performing the work is restricted from delegating his work.
- The person performing the work does not bear the losses or keep the profits.
- The person performing the work does not provide tools.
- The person is required to work set regular and defined hours.
- Holiday and sick pay are paid.

*For self-employment*

- There is no control over the manner in which the work is done.
- The work may be delegated.
- The person bears all losses and keeps all profits.
- The person provides all tools.
- There are no fixed hours.
- No holiday or sick pay is paid.

An individual will be deemed to be self-employed if on balance the majority of answers point to self-employment. Rarely will the result be so clear-cut that all of the answers point one way or the other.

45. If there is any doubt then a professional's opinion should be sought. The potential costs from an incorrect status decision are substantial and will include interest and penalties.
46. Assuming that the employee is to be taxed as an employed individual, the society will need to register as an employer with HMRC unless the employee earns below the National Insurance lower earnings limit - currently £111 per week.
47. The operation of a PAYE scheme can be complex and initially daunting. HMRC require all employers to operate under the Real Time Information scheme. Full guidance on this can be found via the HMRC website.

This requires the use of software either supplied by a commercial software house such as SAGE, Quickbooks or Iris or HMRC do offer a basic tool free of charge which is adequate for an employer with a single employee.

48. It is to be stressed that, if there is any difficulty with the operation of the scheme, professional help should be sought. Many accountancy practices operate a PAYE bureau and will work on fixed fee basis. Incorrect operation can render the society liable to substantial penalties. For example incorrect submission of the end of year summary carries a penalty of up to £3000. Against this an accountant may charge £25 per month, plus VAT to operate a one person PAYE scheme.

## **CORPORATION TAX**

49. An organisation's chargeability to corporation tax is discussed in the 'Waterway Societies and their Constitutions - the Legal Perspective' chapter.

## **VAT**

50. VAT may have very wide implications for any waterway body especially when it becomes involved in major expenditure on restoration. The field of VAT legislation has become particularly complicated and the discussion of VAT treatments for large projects is beyond the scope of this chapter. However, in line with the aim of providing sound initial advice the following paragraphs give preliminary guidance.
51. An entity is required to register for VAT if its annual taxable turnover exceeds the current registration limit (available from HMRC). Broadly speaking taxable turnover will be the provision of goods or services, such as the operation of a tea-room or trip boat. Therefore the receipt of donations and gifts are outside this definition. Sponsorship can be a difficult area as the term is applied to many different transactions. If the sponsorship merely involves the attaching of a name to an item such as a lock or bridge then this is more in the nature of a donation with an acknowledgement of thanks. But, if the sponsoring organisation receives services or goods as a result of the sponsorship then this may be a taxable receipt. As always, if in doubt seek professional advice.
52. The most important aspect of VAT compliance is to monitor taxable turnover (on a 12 month rolling basis) and ensure that registration is completed as soon as it is required (there are strict penalties for late registration) and, in any case, within 30 days of reaching the registration limit.
53. HMRC provide several useful publications: The VAT Guide (Notice 700) Charities (Notice 701/1/2004)  
  
These are downloadable from the HMRC website.
54. A frequently asked question is whether the organisation should suffer VAT on its purchases. Unfortunately the basic answer is yes: unless the society is registered for VAT it cannot recover any VAT charged to it. A small minority of transaction may be zero-rated, typically these would involve either listed buildings or the disabled. The local VAT office will provide further details.

## **INTERNAL CONTROLS**

55. The board of directors is responsible to the members for the funds of the company. Clearly the board does not have the time to approve each and every transaction; it must therefore establish a framework for the financial operations of the company i.e. internal controls.
56. A key part of these controls is the provision of information to the board; this has already been covered under the management information section.
57. The authorisation of orders and the making of payments must be adequately controlled. It is important that all costs incurred must be correctly authorised. In order to avoid unnecessary requests to the board a 'de minimis' level should be set for routine expenditure such as office costs and plant repair. These transactions will of course be reported to the board within the management information.

58. If the organisation operates a budget system then the board should consider appointing budget holders, who will be able to use the budgeted funds without referring the matter to the board. Unless such a scheme is in operation all orders should be approved by the managing committee and minuted as such.
59. The payment of cheques should be authorised by 2 directors (out of a larger pool of say 4 or 5); any more than this will cause administrative difficulties. **UNDER NO CIRCUMSTANCES SHOULD BLANK CHEQUES BE SIGNED.** This may seem like obvious advice, but this practice is rife within the charitable sector and is not acceptable under any circumstances. It is often tempting to sign say 5 blank cheques for the treasurer to use between meetings; this completely defeats the objective.
60. If the time taken to obtain a second signature causes problems then it is possible to agree with a bank that the treasurer alone can sign cheques up to a pre-set value - say £100. Whilst not ideal this is preferable to the signing of blank cheques. Any cheques signed in this manner should be reported to the next board meeting.
61. The maintenance of adequate documentation has already been discussed; this documentation should be given to the cheque signatory prior to signature. **CHEQUES SHOULD NOT BE SIGNED WITHOUT THE APPROPRIATE DOCUMENTARY SUPPORT.**
62. The use of cash should be discouraged as this gives an additional control risk. Any cash that is received should be banked intact and not used for expenditure. Wherever possible the provider of the cash should provide a document to accompany the cash, which can then be filed by the treasurer.
63. If the society receives a large volume of donations by post, consideration should be given to making arrangements for all post to be opened by two people. This will reduce the exposure to risk.
64. Online banking – many organisations within the voluntary sector find the use of online banking extremely beneficial and efficient. They allow the easy payment of expenses saving time and postage costs. This itself brings new risks and the requirement for internal controls. In particular it means that unless the bank is chosen carefully effectively the treasurer has sole signing rights in that he/she would enter the payment on line and make the payment.

I believe that the use of sole on line authorisation is something to be avoided. Several banks have though addressed the issue and allow one person to enter the transaction and then email another signatory to say that there is a transaction requiring a second authorisation. At present CAF and Unity banks offer this service and I am sure more will follow. CAF is only available to registered charities whereas Unity bank offers it for all voluntary sector businesses.

## **BRANCHES/SUB COMMITTEES**

65. There may be occasions where geographical branches or sub committees are allowed to operate independent bank accounts. In these circumstances the same controls should be applied as to the central organisation. The only amendment to the system should be that, in addition to providing management information to its own controlling committee, regular information should be passed to the overall board of directors. This would normally be on a quarterly basis and should be strictly adhered to.

## ANNUAL ACCOUNTS

66. Having dealt with the appointment of a treasurer and the first year of duties, the final part of this chapter looks at the year-end procedures. Included within this section is practical guidance on how to reduce professional costs, consideration on whether an audit is required and the deadlines to be adhered to.
67. The preparation of annual accounts is perhaps the most daunting aspect of the treasurer's role. It should be said that unless the treasurer has some form of formal accountancy training or experience then professional help will be required for all but the smallest of societies. If the group has a turnover of less than say £25,000 (this again is only a guide) and is an unincorporated organisation then a simple receipts and payment statement reconciling opening and closing bank balances will suffice. But, if the society is a company limited by guarantee and or a registered charity then accounts must be drawn up using the normal accounting conventions. Additionally for companies limited by guarantee the accounts need to be presented in Companies Act format and in accordance with SORP 2005 - Charities (Statement of recommended practice). Hence the suggestion that professional help is virtually unavoidable.
68. If professional assistance is required then the treasurer can do a lot to ensure that the time taken by the accountant, and hence the bill is kept to a minimum.
- The records should be clear and neat with all supporting documentation logically and accurately filed.
  - The monthly cashbook pages should be correctly completed, cross added and balanced to the bank account.
  - If you are using proprietary software it must be reconciled to the bank accounts.
  - Depending upon the software used, either an electronic copy of the data should be supplied or printouts.
  - An annual summary should be prepared giving the total income and expenditure divided between the cash book headings. A summary bank account should be prepared, showing the opening bank balance, income and expenditure and balance at the year-end.
  - A breakdown of important cashbook headings should be produced, suitable headings being sundries – both receipts and payments, repairs and restoration costs and capital expenditure.
  - A list of outstanding income and unpaid invoices should be prepared, supported by the appropriate documentation.
  - A list of all equipment held.
  - A list of all directors who served in the year, giving dates of appointment and resignation.
69. Clear and succinct information will greatly assist the professional accountant.
70. When appointing an accountant it is important to obtain a quote in advance and in order to do this all the relevant information will need to be presented. Failure to do so may lead to additional charges. It is well worth asking for a discount on the normal rate as many accountants undertake a small number of assignments on an honorary basis.

## AUDIT - IS ONE REQUIRED?

71. There is a common misconception when it comes to the word "audit". Many people believe that the checking of an income and expenditure account by an unqualified but respectable volunteer is an audit. This is not the case. An audit is defined as "an independent examination and expression of opinion" and must be carried out by a registered auditor. [Under current regulations an auditor must be a member of either the Institute of Chartered Accountants or the Association of Chartered Certified Accountants and authorised by them

to carry out audits.]. The difference between this and the former example is that the examination by an auditor will look at all aspects of the financial statements, including the internal controls and prospects for the company. The auditor is certifying that not only has the information held in the cashbook been carried into the accounts correctly but also that the information in the cashbook is complete i.e. there are no omissions. However, there are many circumstances where an examination as opposed to an audit will be perfectly acceptable.

72. A formal audit is only required in the following circumstances:

- Where a company limited by guarantee breaches 2 of the following 3 conditions: (a) has an annual turnover in excess of £6,500,000, (b) has gross assets exceeding £3,260,000 or (c) employees more than 50 people
- Where a registered charity has a turnover in excess of £500,000, or assets in excess of £100,000.
- Where the constitution of a trust or unincorporated group requires an audit.
- Where an audit is requested by more than 10% of the members of a company limited by guarantee.
- Where the directors voluntarily opt for an audit.

73. If an audit is required there are certain formalities that must be adhered to with regard to the appointment of an auditor. In the first year of operation the board may appoint the auditor. But, thereafter the appointment will need to be made by the AGM, unless the auditor resigns during his term of office - in which case the board may once again appoint.

74. Unless a formal audit is required an independent examination will be needed for registered charities with a turnover between £25,000 and £500,000.

75. However, there is a common expectation within members of an organisation that the accounts should be checked by someone other than the treasurer. Accordingly an examiner should be appointed to check that the accounts are in accordance with the records presented to him. The examiner should if possible be professionally qualified but this is not a formal requirement.

**76. The examiner should be asked to plan his work in order to be able to sign a report such as the following (suitable for companies limited by guarantee):-**

**Independent examiner's report to the trustees of "WXY Charitable Company"**

I report on the accounts of the company for the year ended 30 April 20XX, which are set out on pages 00 to 00.

**Respective responsibilities of trustees and examiner**

The trustees (who are also the directors of the company for the purposes of company law) are responsible for the preparation of the accounts. The trustees consider that an audit is not required for this year under section 144(2) of the Charities Act 2011 (the 2011 Act) and that an independent examination is needed. The charity's gross income exceeded £250,000 and I am qualified to undertake the examination by being a qualified member of [named body].

Having satisfied myself that the charity is not subject to audit under company law and is eligible for independent examination, it is my responsibility to:

\* the accounts under section 145 of the 2011 Act;

\*to follow the procedures laid down in the general Directions given by the Charity Commission under section 145(5)(b) of the 2011 Act; and

\*to state whether particular matters have come to my attention.

### Basis of independent examiner's report

My examination was carried out in accordance with the general Directions given by the Charity Commission. An examination includes a review of the accounting records kept by the charity and a comparison of the accounts presented with those records. It also includes consideration of any unusual items or disclosures in the accounts, and seeking explanations from you as trustees concerning any such matters. The procedures undertaken do not provide all the evidence that would be required in an audit and consequently no opinion is given as to whether the accounts present a 'true and fair view' and the report is limited to those matters set out in the statement below.

### Independent examiner's statement

In connection with my examination, no matter has come to my attention:

(1) which gives me reasonable cause to believe that in any material respect the requirements:

\*to keep accounting records in accordance with section 386 of the Companies Act 2006; and

\*to prepare accounts which accord with the accounting records, comply with the accounting requirements of section 396 of the Companies Act 2006 and with the methods and principles of the Statement of Recommended Practice: Accounting and Reporting by Charities

have not been met; or

(2) to which, in my opinion, attention should be drawn in order to enable a proper understanding of the accounts to be reached.

Name:

Relevant professional qualification or body:

## PRESENTATION OF THE ACCOUNTS

77. Having either completed the accounts or arranged for a professional to do so they should first of all be presented to the board for approval. Following this they may need to be returned to the auditors for their final signature.
78. The accounts should be sent to all members (free of charge) at least three clear weeks before they are presented to the AGM.
79. The final part of the treasurer's role for the year is to present the accounts to the members at the AGM. The treasurer should provide a brief five-minute synopsis of the year's transactions, highlighting any significant year-on-year changes and other salient points. There should then be an opportunity for questions from the floor. Following this the accounts should be formally approved by vote.
80. Providing more detailed information than contained in the formats laid down by statute may assist the presentation to the members of a company limited by guarantee. This would include the Annual report of which the accounts form part. More details of the requirements of the Charity commission can be found on their website

## DEADLINES

81. Unincorporated bodies do not have any legal deadlines but again best practice should be seen as following that set down by statute for companies limited by guarantee: that is, the accounts must be approved by the members and filed with Companies House within 9 months of the year-end.
82. Late submission will incur a time-based penalty of a minimum of £150, rising quickly to £3,000 and doubling if you were late in the preceding year.
83. Companies have the option of filing a much reduced set of accounts called abbreviated accounts; if a society would like to reduce the amount of information available to the public then its accountant will be able to prepare these. This will incur additional costs, hence many groups choose to file the full accounts, as they take the view that the accounts are available to all via their society magazine.



## APPENDIX A

## CASHBOOK EXAMPLE

### Receipts

Date	Narrative	Ref.	Total £	Subscriptions £	Donations £	Other £
06.01.X8	Membership	230	15.00	15.00		
16.01.X8	Donation - M. Smith	231	25.00		25.00	
17.01.X8	Talk fee - given by P. Duncan	232	20.00			20.00
23.01.X8	Income from canal day	233	145.90			145.90
			205.90	15.00	25.00	165.90
			(1)	(2)	(3)	(4)

N.B. (1) = (2) + (3) + (4)

### Payments

Date	Narrative	Ref.	Total £	Office £	Restoration £	Other £
08.01.X8	Postage	162	23.20	23.20		
12.01.X8	GM Stores - 3 Tons aggregate	163	125.00		125.00	
19.01.X8	Office World - printer ribbon	164	5.29	5.29		
25.01.X8	Companics House - annual return fee	165	15.00			15.00
			168.49	28.49	125.00	15.00
			(1)	(2)	(3)	(4)

N.B. (1) = (2) + (3) + (4)

## APPENDIX B

## EXPENSES CLAIM FORM

THE LOAMSHIRE & MIDDLESHERE TRUST LTD

To: The Hon Treasurer

From:

Please repay me for the following expenses incurred and/or items bought on behalf of the Trust.

Date of item	Budget	Details/Description	Amount

TOTAL £

Cheque No ..... issued on (date)

..... Received £ ..... Signature

..... L&MCT Form PDI