The Trusted Treasurer

Understanding the role of a charity financial officer

INTRODUCTION

All charities in England and Wales have to adhere to specific rules when it comes to their accounts; like commercial organisations, they have a legal duty to manage their finances correctly – but they must follow a unique set of standards. A charity's board of trustees, which almost always consists of unpaid volunteers, is responsible for these undertakings.

However, while the entire board is accountable for the financial management of their organisation, an individual member can be appointed to the specific role of treasurer. The person selected for this position is known as an "officer", along with the charity's chair. According to the National Council for Voluntary Organisations, (NCVO), their key responsibilities include:

- presenting financial reports to the board in a format that helps the board understand the charity's financial position;
- advising the board on how to carry out its financial responsibilities;
- liaising with professional advisors;
- overseeing the preparation and scrutiny of annual accounts.

The role of the treasurer tends to differ from charity to charity. For example, an organisation may also have a bookkeeper, who looks after the accounts on a day-to-day basis, while large charities may have a whole finance committee, which could include people that hold salaried posts.

Perhaps this information is not new to you; maybe you know little or none of it; or you fall somewhere in between. Nevertheless, there's a lot to take into consideration. It is undeniable that charity accounting is a unique discipline - and not everyone is aware of just how different the requirements are from those in the commercial sector - so how can you ensure that your charity fulfils its financial duties optimally?

In this eBook we will look at the essential elements of charity accounting, covering the key areas you need to get to grips with. We will consider the role and responsibilities of the treasurer and, finally, we will explore ways in which you can streamline and improve your organisation's financial processes.

This eBook is not intended to be an exhaustive guide to financial management for charities, but to help and guide you through the often complex rules and regulations, thereby gifting you more time to focus on the core work of your organisation.

THE ROLE OF A CHARITY TREASURER

Although a treasurer is assigned to steer and monitor their organisation's financial activities, they will not necessarily have a lot of hands-on involvement. Indeed, the role can vary widely and more than one person may carry out duties.

However, for the purposes of this eBook, we will use the term treasurer to cover a range of scenarios and discuss the responsibilities that are traditionally associated with this position. When it comes to your own charity, you may find that these tasks are shared out among different people – particularly if you have a larger team. Either way, it doesn't matter: the fundamental principles remain the same.

Essentially, the treasurer serves as the watchdog for a charity's financial management; they ensure that everything rolls along as it should; that their organisation's accounts are accurate, up-to-date and compliant with current legislation; and that there are proper processes and controls in place.

They are responsible for keeping accurate records for income and expenditure and managing their charity's funds and bank accounts. If the treasurer oversees other individuals, they have to ensure that these people are also trained in the proper procedures and understand their tasks and duties.

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A treasurer is in charge of planning and drawing up budgets - and ensuring that these are adhered to. They offer advice and work with the other trustees to determine what's financially feasible and what isn't; much of this decision-making will be dependent on where their organisation's money comes from – whether that's grants, donations, fundraising events, or a combination of these.

They are responsible for reporting regularly to the board and ensuring that their annual return is submitted on time to the Charity Commission. This document details the charity's activities and accounts for the year - but it is substantially different from the return required by Companies House for commercial organisations.

Charities with a gross income of more than £25,000 also have to be independently examined or audited once a year.

The above is an overview of the role of a charity treasurer and highlights key things you should be aware of. However, for more in-depth information, see the resources section at the end of this eBook.

KEY DIFFERENCES BETWEEN CHARITY ACCOUNTING AND COMMERCIAL ACCOUNTING

According to the Charities Act 2011, "charity" refers to any institution that is "established for charitable purposes only". These purposes must be "for the public benefit" and we all know that this definition can vary widely: from the prevention or relief of poverty, to the advancement of the arts, to the promotion of equality and diversity.

Essentially, charities are not-for-profit: they need to generate enough money to meet the commitments they have made to their cause – and any excess revenue can be used to further develop the work of the organisation. This is, of course, vastly different to commercial organisations, which are for-profit: revenue needs to be raised to pay taxes and cover employees' salaries – but after these base costs have been covered, the extra money will be used to pay dividends to the shareholders, among other things. Commercial organisations want – and seek to – make as much profit as possible.

Since the work of charities plays such an important role in society – and they don't pay tax - it is unsurprising that they face intense scrutiny and are expected to adhere to specific and rigorous standards. Let's take a look at three fundamental ways in which charity accounting differs from commercial accounting – and what this means for treasurers.

1. Multiple funds

One of the key differences is the necessity for charities to keep track of multiple funds. Monies raised for a specific purpose, like a special programme or event, need to be seen to be used for that objective. Therefore, the treasurer needs to "ring fence" those monies in dedicated funds within their organisation's accounts.

These types of funds are referred to as "restricted funds" in charity accounting parlance. Restricted funds can be either income funds or endowment funds. You can also have unrestricted funds, which can be used for any charitable purpose.

The Charity Commission requires charities to report on each of its funds, detailing where the monies came from and what they were spent on. The accounting methodologies that should be adopted by your organisation are outlined in the Statement of Recommended Practice (SORP).

Therefore, it is important for the treasurer to keep track of each individual fund, while also maintaining a record of their organisation's overall financial position. They can then use this information to keep the board up to date and inform their charity's ongoing financial plan.

2. Charity Commission reporting

All registered charities in England and Wales must submit an annual return to the Charity Commission. However, unlike a commercial organisation, charities are not assessed by revenue and profit margins.

A charity has a legal obligation to "spend income it receives within a reasonable period of time unless there's a good reason not to" (The Charity Commission). Therefore, "the profit and loss account (income and expenditure account) is… replaced by a statement of financial activities (SOFA)" (Sayer Vincent).

The SOFA is a single financial statement that shows all income and expenditure for the year across every fund. If you use the accruals accounting method, you must submit your SOFA in your annual return to the Charity Commission, along with your Balance Sheet.

However, if you use the receipts and payments method, you must instead submit your Receipts and Payments Report and Statement of Assets and Liabilities.

Additionally, charities must submit an annual trustees' report, which outlines what your organisation had planned for the year and how closely what you actually did reflects that.

It is up to the treasurer to ensure that the annual return is completed in full and on time. Their organisation's success will be measured according to what it has achieved in the course of the year – and how that tallies with its charitable aims. We will discuss the annual return in more detail in chapter four.

3. Donations and Gift Aid

Commercial accounting doesn't have to reconcile anything like charitable donations. In the commercial world, you receive money in exchange for goods or services (and usually an invoice). A donation is different because it is money (or items) given in exchange for nothing. Gift Aid is another area not relevant to commercial accounting.

Any donations given to charities by individuals are able to benefit from tax relief. Donors paying UK tax can sign a Gift Aid declaration, which allows your organisation to claim back from HMRC the UK tax that would have been paid on the donated amount.

In other words, you can claim an extra 25p for every £1 you receive from a donor – with no additional cost to them. It may also be possible for you to claim back tax on small cash donations of £20 or less, even without a Gift Aid declaration, under the Gift Aid small donations scheme (GASDS).

All of this means that the treasurer needs to keep track of all donations, in order to ensure that their organisation can obtain the extra money. If a donation was received for a specific purpose, they'll also need to ensure that it is banked to the appropriate fund.

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CHARITY FUNDING: A CLOSER LOOK

As we have already established, any income that a charity has must be used to further the work of the organisation. Larger charities may have salaries to pay and marketing and advertising costs to cover but, generally, any money a charity receives is put back into the organisation.

There are different sources of income for charities and these enable the treasurer to determine an organisation's budgets and wider financial plan.

Grants

A number of organisations, including the National Lottery's Big Lottery Fund, provide grants to charities that fit specified criteria. This money does not have to be paid back and is not subject to tax. However, in order to receive one of these grants, a charity must put together a convincing bid – and this requires time and careful preparation.

Writing on the Guardian, Emma Jacques says that before submitting a bid a charity should consider whether their proposal is deliverable, winnable and financially viable.

She writes: "Make no mistake - this is a sales pitch! Your evidence of research needs to be complete and compelling; your engagement with your target audience well documented, showing clear demand for your work. Your outcomes must be clear and measurable; your management and financial models shown to be robust. In short, you must show your organisation to be capable, credible and visionary, with definite aims and objectives."

Clearly, a grant can have a large impact on a charity, with budgets heavily affected. The treasurer will play a key role in bidding for grants and planning out a course of action depending on the result.

Gifts and donations

Donations can come from private individuals or organisations, including corporate bodies; they may be received via standing order, bank transfer or cash from regular or ad-hoc donors. Private individuals paying UK tax can also sign a Gift Aid declaration, which allows your charity to claim back from HMRC the UK tax that would have been paid on the donated amount.

If donations are received for a specific purpose, they will need to be banked to the appropriate fund, as will any Gift Aid accruing from these. However, often money is gifted without any additional requirements and it is up to the treasurer to decide how it will be used.

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Fundraising events

Many charities hold key events throughout the year to raise funds – and heighten awareness for their cause. The nature of these can obviously vary greatly, but big money-spinners tend to come in the form of Christmas balls, summer fetes and the like.

It's important for the treasurer to ensure that any fundraising activities are financially viable and keep in line with the charity's aims – and, more importantly, the law (which can be quite complex).

There is detailed advice about the rules surrounding charities and fundraising. For more information see the resources section at the end of this eBook.

Reserves

In some circumstances, charities can keep reserves. This money serves as a safety net if an organisation suffers a loss of income; but it can also be used to pursue new ventures.

If your organisation has reserves you will need to draw up a policy outlining why you need them and what the money is being used for - and you will also need to report on the reserves in the trustee's annual report.

REPORTING TO THE TRUSTEES AND THE ANNUAL RETURN

The treasurer is responsible for reporting regularly to the board of trustees – for example, on a quarterly basis – in order to update them on the financial health of the charity.

The Honorary Treasurers Forum advises: "The treasurer should ensure that management accounts are prepared on a regular basis and that there is a target timescale for their production. The treasurer should also agree with the trustees the type of financial reporting they require and the extent of it."

Among other things, the trustees will want to know:

- whether the charity is solvent;
- how budgets compare to income and expenditure figures;
- how fundraising activities and projects are performing;
- whether the charity is compliant with current legislation.

It will be down to the board as a whole to make any final decisions, but the role of the treasurer is to inform and navigate the discussion as appropriate.

The annual return

As we have previously discussed, at the end of each year, charities in England and Wales must submit an annual return to the Charity Commission. This process will be overseen by the treasurer, who should ensure that the return is completed on time.

The accounting methodologies that should be adopted by your organisation are outlined in the Statement of Recommended Practice (SORP). The return itself will need to be signed off by an independent examiner or a qualified auditor.

The return must include three key parts:

1. A trustees' report
2. Statements outlining your organisation's year-end financial position
3. Notes providing further explanation for those statements

The trustees' report is intended to lay out exactly what a charity does, helping stakeholders and potential funders to understand what happens on a day-to-day basis, where money comes from and how it is spent.

Charities with an income of less than £25,000 only have to send this report to the Charity Commison if requested to do so; charities with an income of less than £500,000 only need to prepare a simple report; but charities with an income exceeding £500,000, as well as charitable companies and charitable incorporated organisations (CIOs), need to complete a full trustees' report. Charitable companies and CIOs also have to submit an annual return to Companies House.

The SORP defines the recommended layout of the financial statements and these differ depending upon whether your organisation's submission is in accruals or receipts and payments format. Currently, there are two versions of the SORP, each of which suggests a different layout for the return. SORP 2005 covers returns for accounting years that start on or before December 2014, and SORP 2015 covers those that start on or after January 2015.

The principal financial statements of the return are: the Statement of Financial Activities (SOFA) and the Balance Sheet for accruals submissions; the Receipts and Payments Report and Statement of Assets and Liabilities for receipts and payments submissions.

In both cases, these statements show the total revenue split between the various fund types (unrestricted, restricted and endowment).

For further information, see the resources section at the end of this eBook.

The audit or independent examination

Charities with a gross income of more than £25,000 also have to be independently examined or audited once a year. Generally, the Charity Commission rules are as follows:

- charities with a gross income between £25,000 and £1 million must be independently examined;
- charities with a gross income over £1 million must be audited;
- charities with a gross income of more than £250,000 and total assets exceeding £3.26 million must be audited.

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THE ROLE OF CHARITY ACCOUNTING SOFTWARE

There's no getting around the fact that there's a lot to do when it comes to charity accounting – but there are ways to streamline the process and prevent it from becoming a burden on the work of your organisation.

Many charities find themselves relying on spreadsheets and other outdated procedures, which are time-consuming and not as effective as they once were – and it can be difficult to pass complex paperwork onto a new treasurer.

If your organisation doesn't implement proper accounting procedures it can be incredibly difficult to keep track of your charity's financial position and completing your annual return can prove a real nightmare.

Software that is specifically tailored to charity accounting can provide the perfect solution. Among other things it can help you to:

- keep track of multiple funds;
- manage donations and Gift Aid;
- create budgets;
- prepare the annual return.

But, of course, even technology can't replace an excellent treasurer.

CONCLUSION

All charities in England and Wales have a legal obligation to implement healthy and thorough financial management practices. This responsibility falls on the shoulders of the board of trustees, with a treasurer usually appointed to navigate this often complex journey.

In reality, the role of the treasurer – and the degree to which they work on the day-to-day accounting essentials - varies greatly, depending on the size and resources of the charity in question. However, the attendant duties remain the same, whether they fall to one person or many.

With that in mind, hopefully this eBook has been a useful source of information for your charity and pointed you in the right direction to further deepen your knowledge.

Perhaps you've realised there are areas that you need to pay more attention to; or maybe you feel assured that you are covering all the bases. Either way, you can never know too much about charity accounting.

RESOURCES

The role of the treasurer

- The essential trustee: what you need to know, what you need to do
  The Charity Commission, gov.uk
- The Honorary Treasurers' Forum
- Other roles on a board
  Knowhow Non-profit, NCVO

Key differences between charity accounting and commercial accounting

- Charities SORP
- Charity reporting and accounting: the essentials
  The Charity Commission
- Claiming Gift Aid as a charity
  The Charity Commission, gov.uk

Charity funding: a closer look

- Fundraising
  The Charity Commission, gov.uk
- Institute of Fundraising
- Big Lottery Fund
  The National Lottery
- Funding Central
- Charity financial reserves
  The Charity Commission, gov.uk

Reporting to the trustees and the annual return

- Charity reporting and accounting: the essentials
  The Charity Commission. Gov.uk
- Send a charity's annual return
  The Charity Commission, gov.uk
- File your annual return or accounts with Companies House
  Companies House, gov.uk

The role of charity accounting software

- Paxton charities accounting software
  Paxton

ABOUT PAXTON

Paxton has been developing software solutions for the public, private and not-for-profit sectors since it was formed in 1979. We are the only end-to-end accounting and bookkeeping solution for charities and churches in the UK.

We have earned a reputation with our customers for producing highly functional, quality accounting software for professional use.

Call us on +44 1234 21 66 66 to talk through your charity accounting challenges or to discuss any of the points raised in this eBook. We would love to hear from you.

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