

Accounting for Northern Ireland Charities

NOVEMBER 2011



ACCOUNTING REQUIREMENTS

The Charities Act (Northern Ireland) 1964 applies to all Northern Ireland based charities, whether incorporated or unincorporated. Section 27 of the Charities Act (Northern Ireland) 1964 requires the trustees (ie the committee) of a charity:

- (1) To keep proper books of account with respect to the affairs of the charity.
- (2) To prepare consecutive statements of accounts each consisting of:
 - (i) A receipts and payments or an income and expenditure account relating to a period of not more than fifteen months.
 - (ii) If the value of the property belonging to the charity exceeds £500 and the Department for Social Development so directs, a balance sheet relating to the end of that period.
- (3) To preserve the books of account and statements of account relating to any charity for a period of at least seven years, unless the charity ceases to exist and the Department permits the books and statements to be destroyed.

A charity's governing document (constitution, articles of association) usually specifies that the charity is required to carry out an audit or independent examination of its annual accounts. The charity must comply with its constitution, unless there is a stricter requirement in legislation.

The Charities Act (NI) 2008 makes provision for the accounting requirements for unincorporated charities, however secondary legislation is required to bring this into being. Please see the end of this advice note for the proposed new thresholds.

CHARITABLE COMPANIES

Charitable companies are bound by the requirements of the Companies Act 2006 in respect of accounts and the form of such accounts.

Charitable companies are required to prepare accounts on an accruals basis and are therefore subject to the Charities SORP which requires that notes to the accounts are provided, giving details about items in the accounts. Applying the Charities SORP to the accounts should help to give a 'true and fair' view of the company's results for the year and of its financial affairs at the end of the financial year.

All companies, unless claiming an exemption (see below), must appoint an independent auditor at the Annual General Meeting of the company at which it presents its accounts. A company auditor is a duly qualified person under the terms of the Companies Act 2006 and who is a member of a recognised supervisory body. Auditors have a duty to report on the accounting records and annual accounts of the company. In order to fulfil this duty, auditors have a right of access at all times to the charity's books and records.

The audited accounts must be filed with Companies House within nine months of the end of the financial year to which they relate. In addition to the income and expenditure account, balance sheet and notes, the accounts should include a directors' (trustees') report and an auditor's report.

EXEMPTION FROM COMPANY LAW AUDIT REQUIREMENTS

Depending on the gross income of the company a full audit, partial audit or independent examination will have to be carried out on the accounts.

Exemptions for small companies

Companies Act 2006 contains a savings order on the audit exemption rules for charitable companies from the old Companies (NI) Order 1986. So the rules in relation to exemption from audit for smaller companies will remain the same until charity law makes appropriate provision for the audit requirements of charitable companies.

These rules are now contained in The Companies Act 2006 (Commencement No. 6, Saving and Commencement Nos. 3 and 5 (Amendment) Order 2008 [2008 No. 674 (C. 26)]. The rules on audit are:

For a charitable company to qualify for total audit exemption, it must qualify as small, its gross income must be not more than £90,000, and its balance sheet total must be not more than £1.4m can claim exemption from audit.

Charitable companies which qualify as small and have a gross income between £90,000 and £250,000 and a balance sheet total of no more than £1.4m qualify for partial exemption.

Some small companies may not be eligible for the exemption, and must deliver audited accounts to Companies House in certain circumstances, for example, if a company is a parent body or subsidiary undertaking. Though if the two companies were small in scale they could be considered 'a small group' (for charities, this would be a combined turnover of £350,000 net - £420,000 gross, and with a combined group balance sheet of not more than £1.4m net or £1.68m gross).

What an audit-exempt company has to return to Companies House:

Qualifying companies may deliver unaudited accounts to Companies House in the form of an abbreviated balance sheet and notes containing the following statement above the director's signature on the balance sheet:

- (a) For the year ended <insert date>, the company was entitled to exemption under Article 257A of the Companies (Northern Ireland) Order 1986. No members have required the company to obtain an audit of its accounts for the year in question in accordance with Article 257B(2).
- (b) The directors acknowledge their responsibilities for complying with the requirements of the Companies Act 2006 with respect to accounting records and the preparation of accounts.
- (c) These accounts have been prepared in accordance with the provisions applicable to companies subject to the small companies' regime.

Small company/abbreviated accounts must also make the following statement on the balance sheet above the director's signature:

Companies House have also advised that companies may want to state that they are a charity to ensure that the accounts are not rejected for referring to the Companies (Northern Ireland) Order 1986.

PLEASE NOTE:

If a company's governing document (memorandum and articles) contains a requirement that the accounts must be audited, then the governing document must be followed. In addition, the company members' have the right to demand a full audit.

If the governing document requires an independent examination of the accounts, as opposed to an audit, then this external scrutiny must be carried out.

THE CHARITIES' SORP 2005

The Statement of Recommended Practice on Accounting and Reporting (SORP) by Charities applies to all charities in the UK which prepare accounts on the accruals basis. It does not refer to charities which prepare receipts and payments accounts. SORP sets the standard for accountants dealing with charity accounts and sets out a clear format for accounting practice in relation to charities.

The Charity Commission for NI has indicated that it will be requiring charities registered in NI to comply with SORP if they compile accrual accounts.

THE CHARITIES ACT (NI) 2008

Whilst the Charities Act (NI) 2008 makes provision for the accounting and audit requirements of charities which are unincorporated bodies (associations and trusts) it will take secondary legislation to bring these provisions into being. Articles 63-65 does not make provisions for the accounts and audit of those charities which are companies.

Unincorporated charities with an income of under £100,000 must get an independent examination to be carried out by an independent examiner who is reasonably believed by the trustees to have the requisite ability and practical experience to carry out a competent examination of the accounts. Alternatively they can choose to have an audit. Charities in this income band will be required to prepare their accounts on a Receipts and Payments basis.

Charities with an income falling between £100,000 and £500,000 can have an independent examination carried out by a reporting accountant, a member of the Chartered Institute of Public Finance and Accounting or a Fellow (*this should be a Full Member as stated in the Bill which was introduced, the Department has agreed to change this in the secondary legislation which is to follow*) the Association of Charity Independent Examiners if they choose not to have a full audit. Charities in this income band will be required to prepare their accounts on an accruals basis, even if they are not a company.

All charities which have an annual income of £500,000 or more will be required to carry out a full audit and prepare their accounts on an accruals basis.

It is not known when the new accounting regulations will come into being for all charities, it is hoped that the draft regulations will be consulted upon in the spring of 2012. Please see NICVA's dedicated charity law reform webpage for the latest up-to-date information on the progression of the Charities Act.

SOURCES OF FURTHER INFORMATION

Charity Commission for England and Wales

Charities SORP 2005 documents

w: www.charitycommission.gov.uk/investigations/sorp/sorp05docs.asp

Please note that the accounting and audit threshold for charities in England and Wales are different to Northern Ireland, however the charities SORP is UK wide.

Best Practice in Finance and Governance in the Voluntary and Community Sector - a directional and support aid developed by Government and the Sector representatives. It highlights the Government's requirements of the sector particularly when providing grant aid.

To obtain a hard copy, please contact:

t: 028 9082 9432 or download from
w: www.dsdni.gov.uk

Developing Governance Group

Online resource of governance materials mapped to the Code of Good Governance.

w: www.diycommitteeguide.org

Charity Commission for Northern Ireland.

w: www.charitycommissionni.org.uk

Companies House

w: www.companieshouse.gov.uk

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