

REQUIREMENTS FOR CHURCH ACCOUNTS

Churches are required to produce accounts in accordance with the requirements of the Charity Commission regardless of whether the church is a registered charity or not. In essence there are three basic requirements:

- Maintain accounting records (ie cash book and supporting vouchers)
- Retain the accounting records for at least six years
- Prepare accounts in accordance with the requirements set out below and make them available to the public on request

Gross income less than £25,000 in the relevant financial year

- **Basis of Preparation**
Accounts may be prepared on either the receipts and payments or the accruals basis.
- **External Scrutiny**
There is no requirement to have the accounts independently examined or audited.

Gross income over £25,000 and less than £250,000 in the relevant financial year

- **Basis of Preparation**
Accounts may be prepared on either the receipts and payments or the accruals basis.
- **External Scrutiny**
Accounts must be subject to examination by an Independent Examiner.

Gross income over £250,000 and less than £500,000 and with gross assets less than £3.26 million in the relevant financial year

- **Basis of Preparation**
Accounts must be prepared on the accruals basis.
- **External Scrutiny**
Accounts must be subject to examination by an Independent Examiner who must be a member of a recognised professional accountancy body.

Gross income over £250,000 and less than £500,000 and with gross assets more than £3.26 million in the relevant financial year

- **Basis of Preparation**
Accounts must be prepared on the accruals basis.
- **External Scrutiny**
Accounts must be audited by a registered auditor.

Gross income over £500,000 in the relevant financial year

- **Basis of Preparation**
Accounts must be prepared on the accruals basis.
- **External Scrutiny**
Accounts must be audited by a registered auditor.

Basis of Preparation of Accounts

There are two ways in which church accounts may be prepared: the receipts and payments basis and the accruals basis. Receipts and payments is the simpler method.

Receipts and Payments

Accounts prepared under the receipts and payments basis consist of a summary of all cash receipts and payments taking place during the financial year. "Cash" includes bank and building society current and deposit accounts. The accounts will not include adjustments for outstanding invoices, amounts owing to the church, and non-cash items such as depreciation. A statement listing assets and liabilities at the year end is also required (in place of a formal balance sheet).

Receipts and payments accounts will therefore not show, technically, a "true and fair view" of the church's financial activities and state of affairs at the year end as provided under the accruals basis. Accounting standards, which are primarily concerned with the presentation of a true and fair view, will therefore not apply to such accounts. However receipts and payments accounts should be prepared in a consistent way from year to year.

Further details can be obtained from the Charity Commission who have produced an information pack "CC16 – Receipts and Payments Accounts".

Accruals

Accounts prepared under the accruals basis consist of a balance sheet showing the church's financial position at the end of the year, a statement of financial activities (SOFA) during the year and explanatory notes. The figures in the cash book will be adjusted by the inclusion of "debtors and prepayments", "creditors and accruals", and non-cash items such as depreciation. Such accounts are required to show a "true and fair view".

It is assumed that churches choosing to adopt this method of accounting will have sufficient expertise "in house" and so further explanations are not included in this publication. Further details can be obtained from the Charity Commission who have produced an information pack "CC17 - Accruals Accounts".

Fund Accounting

Church accounts may consist of three types of funds: unrestricted, restricted and endowment and each type must be presented separately, either by the use of separate sections or by the use of a columnar format.

Unrestricted Funds

Unrestricted funds (often known as general funds) are expendable at the discretion of the church in furtherance of the church's objects. Part of an unrestricted fund may be designated by the church for a specific purpose, and referred to as designated funds, but this serves an administrative purpose only. The funds remain unrestricted funds.

Restricted Funds

Restricted funds are subject to specific trusts imposed by the donor. The trusts may be declared either by the donor (eg for Bibles) or by the terms of an "appeal" (eg next Sunday's offering will be given to the XYZ Mission). The church may not accept restricted gifts which, when spent, would result in the church incurring expenditure outside its objects.

Endowment Funds

Endowment Funds arise when a capital sum is given under terms which permit only the income arising to be spent (eg the donor specifies that the capital must be invested, with the investment income being used to support, say, the children's work).

Independent Examiner

An Independent Examiner must be a person having financial expertise, but not necessarily a member of a recognised professional accountancy body (unless the church's income is in excess of £250,000 per annum). For an examiner to be truly independent he should have no connection with the church. Whether a connection exists will depend upon the circumstances of a particular church but the following persons will normally be considered to have such a connection:

- a) Those who are closely involved in the leadership or administration of the church
- b) A major donor to or beneficiary of the church or
- c) A close relative, spouse, partner, business partner or employee of any person who falls within (a) or (b) above

Model Independent Examiner's Report

See Appendix One

Charity Commission Contact Points

Internet: www.charity-commission.gov.uk
Telephone: 0845 300 0218
Fax: 0151 703 1555
Post: Charity Commission, PO Box 1227, Liverpool, L69 3UG.

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APPENDIX ONE

INDEPENDENT EXAMINER'S REPORT TO THE DEACONS AND MEMBERS OF
[INSERT NAME OF CHURCH]

I report on the accounts of the church for the year ended [*insert date of year end*] which are set out on pages 1 to XX.

Respective responsibilities of deacons and examiner

The deacons of the church are responsible for the preparation of the accounts. They consider that an audit is not required for this year (under section 43(2) of the Charities Act 1993 [the Act], as amended by section 28 of the Charities Act 2006) and that an independent examination is needed.

It is my responsibility:

- to examine the accounts (under section 43 of the Act, as amended);
- to follow the procedures laid down in the General Directions given by the Charity Commission (under section 43(7)(b) of the Act, as amended); 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 church 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 the deacons 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 (other than that disclosed below*)

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

- to keep accounting records in accordance with section 41 of the Act; and
- to prepare accounts which accord with the accounting records and comply with the accounting requirements of the Act

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.

**Please delete the words in brackets if they do not apply*

Signed

.....
[*name of Independent Examiner*] [*Professional Qualification, if any*] [*Address*] [*Date*]