THE DIOCESE OF SHEFFIELD

The Annual Accounts – legal requirements and report preparation

Disclaimer

Please note that this guide, 'The Annual Accounts—legal requirements and report preparation,' is not exhaustive. It was sourced primarily from the websites of HMRC, Church Measures, the Association of Church Accountants and Treasurers (ACAT), and Parish Resources.

The guide will be updated if HMRC policy changes regarding the annual accounts legal requirements and report preparation. The guide was last updated on the 1st of November 2024.

The guide links to relevant pages on the HMRC, ACAT, and Parish Resource websites where appropriate and to relevant templates and examples for your use and reference.

You should always seek legal advice where needed. SDBF and its employees are not able to give any advice or recommendations on Investments, please always consult a registered professional regarding these matters and other legal issues.

If you have any queries, please get in touch with Janet Daye at the Diocese of Sheffield. Contact details are at the bottom of this page.

The Generosity and Finance Team hope you find this resource helpful.

Janet Daye

Treasurer and Church Operations Project Support Officer | **The Diocese of Sheffield**

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Introduction to Accounts

Basic legal and practical requirements for preparing accounts

The legal financial requirements

Statutory requirements require three reports to be prepared at the end of the financial year.

1. Annual Accounts
2. Trustees Annual Report
3. Independent Examination Report. An Independent Examiner provides the Independent Examination Report.

Preparation of the Annual Accounts

If your gross annual income is less or equal to £250,000 then you can prepare your accounts on one of two bases:

- Receipts and Payments
- Accruals

If your gross annual income is greater than £250,000 then your annual accounts **must** be prepared using the accruals method.

What is the difference between Receipts & Payments and Accruals accounting?

Receipts and Payments accounting is easier, quicker, and requires less financial knowledge to prepare the year-end accounts than accruals accounting.

Receipts and Payment accounts are not expected to show a 'true and fair view' of the charity's financial activities and state of affairs as required for accounts prepared on an accrual basis. It is recommended, therefore, that accounts be prepared using the Receipts and Payments method.

Accrual accounts must apply accounting standards that present a true and fair view. Accrual accounting requires a set of notes to the accounts.

Please refer to the section on Accrual Accounting within Parish Resources for more information on what to include. Chapter 6 | The Church of England.

The need to account separately for different types of funds

Trust law requires trustees to be able to account separately for each restricted, endowment, and unrestricted fund they manage. The Diocese of Sheffield recommends that the year-end accounts combine all types of funds in a single statement showing unrestricted, restricted, and endowment funds in a separate column. The unrestricted column includes both unrestricted and designated funds.

It is important to understand the four different funds and how they are used:

Unrestricted funds

Any income that comes into the church that is for general church purposes is regarded as unrestricted. The trustees can use this money for any purpose. The funds are not locked for a specific purpose.

Designated funds

Designated money is what the trustees agree to put aside for a particular project or activity of church life. The purpose could cover an area where the PCC requires regular financial reports, eg, the use and maintenance of the church hall, youth or children's work, and repair of the church fabric. Designated funds are shown as unrestricted funds in the accounts. Designated funds are not locked into the specific purpose you have chosen.

Having designated funds is helpful for budgeting purposes. The person responsible for a designated fund must ensure that s/he is within the budget allocated to the designated fund for the year. If there is likely to be a budget overspend, s/he is responsible for informing the trustees. It will be up to the trustees to deal with a deficit. The trustees could transfer funds from unrestricted to the designated fund or raise funds to cover the shortfall. Designated funds are not legally distinct, so trustees can at any time re-designate them for other purposes. This can be very important if unrestricted funds are unavailable to meet foreseeable costs. The recent soaring prices of energy bills are an example of when designated funds could be un-designated so that the church does not go into a deficit position.

Restricted funds

If income is given for a specific purpose, then the money is classed as restricted and cannot be used for any other purpose. The funds are therefore locked for this particular purpose.

For example, if the vicar announces to the church that the trustees want to raise funds to repair the roof, any money donated to this cause is restricted. Grant money is often given for a specific purpose, so the grant fund received becomes a restricted fund in the accounts.

There are important rules you need to be aware of in handling restricted funds:

<u>Underspends on restricted funds</u>

If a restricted fund is underspent, the PCC cannot use the remaining money for general church spending. If, however, the vicar had stated that any unspent funds would go towards general purposes when announcing a request for donations towards the roof repair, then the underspend could be transferred to the unrestricted fund. The announcement must be written and minuted.

It is essential, therefore, to have a written record of a statement made to the public for donations for any specific purpose. The Independent Examiner or Auditor will check that restricted donations have been spent solely for the purpose they were given.

If a grant was received, the organisation that gave the grant must be informed of any underspend. The grant-making body may want the underspend returned to them, or they may suggest that the unspent grant can be used for unrestricted purposes. You will need to adhere to the wishes of the grant-making body. Any written communication should be kept and available for your external examiner to view.

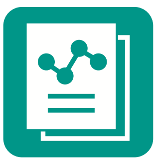
<u>Overspends on restricted funds</u>

If the grant is overspent, the extra money required to complete the specific purpose must come from unrestricted funds.

Endowment funds

Income to, or expenditure from, any endowment fund is entered into the Endowment fund column of the accounts. Endowment funds are either unrestricted or restricted for use. Income generated as interest or dividends is entered in the accounts' unrestricted or restricted column depending on whether the endowment was given for a specific purpose or not. The purpose of an endowment will be stated in the original deed. Endowment funds are funds held in trust for retention. Please see the final section in this resource for more information on endowment funds.

What information is required in the annual accounts?



The PCC should account in full for its incoming resources and for the way those resources are expended, but in many parishes, it is not easy to identify just what the PCC is legally responsible for.

One of the principles of the charity accounting regime is that the charity trustees (here, the PCC members) should identify and include in their annual financial statements any resources that form part of their charity under ecclesiastical or trust law or that it controls and can benefit from.

If you are not sure whether any group or organisation that the church is associated with is under the control of the PCC, then there are specific tests you can apply. Please refer to Sections 2.2 and 2.3 of the PCC Accountability Guide for more detailed information in Chapter 2 | The Church of England.

The list below broadly states what must be considered when preparing the annual accounts and who is responsible for overseeing them.

- Trust funds must be included in the annual accounts if the PCC holds the fund. There are types of trust funds that will **not** appear in the accounts:

  - Trust of a school site held by trustees other than the PCC.
  - Other educational trusts not held by the PCC
  - Vicar and Churchwarden trusts, unless they are special trusts of the PCC.

  You can find more information on Trust funds in Section 2.4 of the PCC Accountability Guide Chapter 2 | The Church of England

- Include all incoming receipts and expenditures from all church funds and church bank accounts. This includes all interest and dividends received.

- All figures must be rounded up or down to the nearest pound. e.g. £4.63 becomes £5.

- Even if the trustees do not prepare the accounts and the Trustees' Annual Report, all trustees, not just the treasurer, are responsible for their content and accuracy.

  The trustees should formally approve the report and the accounts at one of their meetings.

- Sometimes payments are made (or receipts received) for more than one activity (e.g. stationery is used for both fundraising and charitable purposes) or for more than one fund (for example, a payment is partly for routine property maintenance and partly for an improvement funded by a restricted grant).

  In such cases, the payment should be apportioned on a reasonable or known basis and charged to the activities or funds to which that payment relates.

- Although it is not required by law, comparing the accounts to the previous year's figures is helpful.

  It is good practice to include a comparable column, as it assists in understanding the current year's figures. The recommended accounts template for Receipts and Payments based accounting (found at the end of this section), has a separate column at the end of the income and expenditure report to record the previous year's figures.

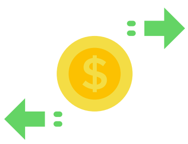
  The figures need to be comparable, which may mean that if there are significant changes to the formatting of the accounts, the previous year's figures will need reanalysis.

- Where a church has an endowment fund which consists of investments:
  - Receipts generated by endowment fund assets (for example, dividends, interest, rent, etc) must appear in the unrestricted or restricted fund column and not in the endowment fund column.
  - Receipts from the disposal of investments, or payments to acquire new investments should be included within the endowment column.
  - Payments made for managing the fund should be taken from the capital of the investments in the fund.

However, the investment management costs will not be paid from the endowment capital if:

- the governing document of the endowment says they must not be;
- insufficient capital funds are available in the endowment to meet such costs. In these cases, investment management costs may need to be charged against unrestricted funds.

How to deal with fund transfers within annual accounts

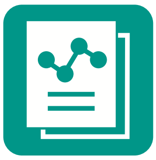


Transfers between funds, i.e. unrestricted, designated, and restricted, must not be viewed as money received or paid out of the funds in question. Transfers are, therefore, dealt with outside of the income and expenditure report. The Receipts and Payments accounts template below, which we recommend you use for your year-end accounting, shows transfers are handled underneath the income and expenditure report in row 61.

Template - Receipts & Payments Accounts

Receipts and Payments Accounts

What is required for Receipts and Payments Accounts?



A Receipts and Payments account only records the transactions that have gone through the bank statements during the financial year.

All income and expenditure for all bank accounts that belong to the church and all church activities must be included in the year-end accounts.

Receipts and Payments accounts summarise your cash movements for the financial year. That is, all payments for similar types of expenses or similar activities and all receipts of similar types should be added together.

The Statement of Assets and Liabilities will show the closing cash balance for all your bank accounts:

- **plus,** any money received before the end of the year but only banked in the following year;
- **less** any cheques written or other payments made before the end of the year but not cleared through the bank until the following year.

The Statement of Assets and Liabilities for Receipts and Payments Accounts

The Statement of Assets and Liabilities is **not** a Balance Sheet. A Balance Sheet is used only for accrual accounting. The Statement of Assets & Liabilities lists the PCC's assets and liabilities; a value or an approximate value must be given. It is essential to state what type of fund the asset or liability is, that is, is the fund unrestricted, designated or restricted:

Assets – examples of what to include:

- <u>Cash funds</u>

  Cash amounts in all bank accounts at the end of the financial year, including current accounts, deposit accounts, and in-hand.

- <u>Other monetary assets</u>

  All the amounts outstanding and owed to the church for the financial year reported, e.g., gift aid, hire, rent, services provided, cash collected during the financial year but not yet deposited, etc.

- <u>Investment assets</u>

  Any investments held to generate income and/or increase capital should be listed, including deposit balances.

- <u>Fixed Assets used by the church</u>

Fixed assets used by the church should be listed in separate categories. No amounts need to be given.

Depreciation does not apply to Receipts and Payments accounting. A fixed asset purchased in prior years is seen as fully depreciated in the year of purchase.

Liabilities – examples of what to include

- Total value of cheques sent out during the financial year not cashed.
- Amount of outstanding bills to be paid that relate to the financial year e.g. utility bills are generally sent out after the billing period.
- Income Tax and NI liabilities, and amounts due to staff
- Those items payable sometime in the future or are contingent, for example, loan liabilities (details of lenders, terms, etc may be added); amounts payable on hire purchase and other leasing arrangements; and any other liabilities.

Templates for Receipts and Payments reporting

Below is a link to a Receipts and Payments accounts and Statement of Assets and Liabilities template sourced from the HMRC website. The income and expenditure categories have been prefilled with the category names used in the Parish Return (also below).

The Parish Return has a set of valuable notes under the form. These notes will help you to determine which category your activity fits in. It is important to allocate your activity to the correct category.

For example, the hire of any PCC premises, which includes booking income and maintenance of the hired premises, will fall under Trading. However, rent income from PCC property falls into the Investment Income category.

To complete the other sections of the Receipts and Payments accounts template, please refer to pages 4 to 6 of the Introductory Notes below, which were also sourced from the HMRC website.

Template – R&P Accounts and Statement of Assets and Liabilities

Introductory Notes

Template – Parish Return

Accrual Accounts

An Introduction to Accrual Accounts

There are several important notes to take into consideration when preparing accrual accounts:

A Balance Sheet is required for Accrual Accounting. A balance sheet communicates precisely how much your church is worth—its so-called "book value."

The balance sheet achieves this by listing out and tallying up all of a church's assets, including debtors, liabilities, also known as creditors, and the church's equity as of a particular date, also known as the "reporting date." For the annual accounts, this reporting date will be the 31st of December 20XX.

If your church is considering accrual accounting, then it is vital to understand how accruals work. Knowledge of double-entry bookkeeping is a valuable tool to help you prepare accruals. For free training in double-entry bookkeeping, go to: https://kaplan.co.uk/docs/default-source/pdfs/study-options-demos/ba3-study-text-chapter-4.pdf

For a Balance Sheet to balance, additional entries are entered into the income and expenditure report. These extra entries are:

- Income due for the financial year but has yet to arrive. This income is listed as a Debtor in the Balance Sheet e.g. grants, gift aid claims,
- Expenditure relating to the financial year that requires payment. This expenditure is listed as a Creditor in the Balance Sheet e.g. supplier invoices, cheques issued, PAYE income tax and NI liabilities, salaries, and related pension costs.
- The amount of fixed asset depreciation is entered as Expenditure. The Balance Sheet will represent the value of fixed assets after depreciation.
- The amount of fixed asset appreciation is entered as Income. The Balance Sheet will represent the value of fixed assets after appreciation.
- Legacies must be entered as income in the year the church was notified in writing, not when the legacy is banked into the church account. The legacy will be listed as a Debtor and remain a Debtor until the church has received the full amount due.

  The full amount of the legacy may not be known; therefore, an estimate given by the person or solicitor dealing with the deceased estate must be entered into the accounts. It can often take a few years before the deceased's estate is wound up and the actual value of the legacy is known.

  If the church, following notification of a legacy, receives interim payments from the deceased estate the Debtor figure has to be reduced by the interim payment amount.

- Prepayments, where the service purchased covers two or more financial years, for example, annual maintenance have to be split so that the amount relating to subsequent financial years is shown as income in the current financial year and listed as a Debtor.

- If a grant received covers more than one financial year, it is advisable to carry the grant's balance at the end of a financial year over to the next financial year as a Creditor entry.

When a Debtor or Creditor has been entered, the transaction must be reversed in the next financial year, at the point of receipt of the income due, or when the liability is paid. Prepayments and Grant balance carry-forwards are dealt with as follows:

- For a Prepayment, the Debtor is fully reversed at the contract end date.

- If the balance of a grant has been carried forward as a Creditor, the Creditor transaction will need to be reversed at the start of the new financial year. The balance of the grant will appear as income received.

Guidance on the preparation of Accrual Accounts

Please refer to the following links in the PCC Accountability Guide to help you prepare accrual accounts.

Chapter 7 of the PCC Accountability Guide guides you through accrual accounting and what you must consider. To access Chapter 7, click the link below.

7 Financial Statements (Accruals Accounting)

Chapter 8 of the PCC Accountability Guide gives an example of a prepared report from St Ledger's Church, Ambridge. It is titled '2016 Report and Accounts for the Parochial Church Council of St Ledger's Church, Ambridge'. To access Chapter 8, click the link below.

8 Financial Statements (Accruals Accounting) Example

Moving between Receipts and Payments to Accruals Accounting

If you are moving between Receipts and Payments and Accruals Accounting then Chapter 9 of the PCC Accountability Guide helps you through the process. The chapter also shows a helpful table comparing the two reporting structures and lists the differences in terminology used for each structure.

9 Moving between Receipts and Payments and Accruals Accounting

Templates for Accruals Accounts reporting and accompanying completion notes

An Accrual Accounts template and completion notes sourced from HMRC are provided below. The categories used in the income and expenditure report should be the same as those in the Parish Return (also below). This will allow for easy transfer of figures from your annual accounts to the Parish Return template, which requires completing at the financial year-end. For more information, please view the 'The Parish Return' section.

Template – Accruals Accounts

Completion Notes

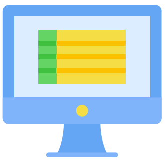
Template – Parish Return

Tools to record accounts

What tools are available to record accounts?

The most used tools to record accounts are spreadsheets and accounting software:

Spreadsheets



Some knowledge of Excel and the use of basic formulae is desirable.

<u>Disadvantages of using a spreadsheet</u>

- A new treasurer or bookkeeper may need help getting to grips with a spreadsheet set up by someone else. Suppose there is no handover from the outgoing treasurer. In that case, it is often frustrating for the new treasurer to figure out how to use the spreadsheet.
- Although you can protect a spreadsheet, it does not allow you to set up different users with different access rights.
- Only one user can access the spreadsheet at a time.
- A spreadsheet created by one person is often very limited in its functionality. A spreadsheet's functionality is determined by the creator's knowledge and experience in charity accounting and knowledge of spreadsheets.

Accounting software

Cloud-based with multi-user access

Can be used on different devices

Import bank transactions and files

Inbuilt help systems

Inbuilt security and back-up

The advantages of using accounting software far outweigh the use of spreadsheets for preparing accounts.

Most accounting software suppliers no longer support desktop software. All accounting software is now cloud-based.

Prices vary between different suppliers. You will need to pay more for a version with additional functionality. You will have to pay a subscription either on an annual or monthly basis. Again, pricing is dependent on the supplier.

The benefits of cloud-based accounting software:

- Access to the software from anywhere that has a broadband connection
- Multi-user access allows more than one user to access the system at the same time
- Users are given different access rights
- Direct importing of bank transactions from your bank account into the accounting software to improve the bank reconciliation process
- Setting up different fund types, i.e., unrestricted, designated, and restricted. You may have several funds that are either designated or restricted. Individual designated and restricted funds are held as sub-headings under the designated or restricted headings.
- If you manage the accounts for different churches with the same PCC, you can keep the accounts for each church separate within the software.
- Some software allows the customisation of reports and saving of these reports. Customised reports are ideal for regular management reporting to PCC, budget holders, etc.
- Some software allows individual supplier and customer account history
- Easy access to help within the software
- Inbuilt security and backup systems.

Some software also allows:

- Setting up budgets. Budgets can be included in the reports and will show the variance between actual and budget figures
- Importing information from a spreadsheet. For example, upload invoices from bookings software downloaded as a CSV file.
- Completion of expense forms within the software and automatic request for authorisation from the line manager
- Claiming Gift Aid
- Preparation of year-end reports in the correct format
- Preparation of the Parish Return at the year-end
- Addition of 3rd party apps to allow extra software functionality.

The software you purchase will be limited by its functionality. You can trial different software free of charge before you buy. The trial will help determine whether the software suits your church's needs and requirements.

The new software should be set up at the beginning of the financial year. The Opening balances required for the software will be the balances at the end of the year in your previous year's annual accounts.

The new software must be set up correctly. First, work through the settings and tick the options related to your organisation and type of financial accounting. For example, the settings will allow you to select accruals if accounts are to be prepared using this method.

Thought needs to go into the design of the system. The chart of accounts within the software should follow the required format for charities. Please use the category headings in the adapted 'R and P statement - HMRC template' when setting up the categories in the software. The chart of accounts will then reflect the same names as the income and expenditure category names in the Parish Return (also above). You can add subheadings within the system's chart of accounts if the system allows you.

Year End Reporting

What is the Parish Return?

The Parish Return form must be completed at year-end after the annual accounts are finished. This is not a legal requirement but a Diocesan requirement.

To complete the Parish Return, you must transfer the figures from your annual accounts into the Parish Return Online system. If you are new to the system, please email treasurers@sheffield.anglican.org to add you as a user. Temporary user login details will be sent to your email address.

If you are new to the system, please email Janet Daye, who will provide you with a temporary login and the user guide. The user guide to the Parish Return Online system is also available on the system.

The Parish Returns Online system holds data and information from CofE churches across the UK. The data entered is immediately available at parish, diocesan and national church levels. Previous years' data and information are archived within the system, allowing individual parishes to see their progress. At a Diocesan and National Church level, the statistics provided by the system help to plan resource allocation.

If you do not have internet access, complete the template below and email or post it to the Diocese of Sheffield. The addresses for both are on the first page of this document.

Template – Parish Return

The Trustees Annual Report

Statutory requirements require a Trustee Annual Report to be prepared at the end of the financial year.

About the Trustee Annual Report

- Joint responsibility of the PCC (Parochial Church Council)
- Puts financial statements into perspective and relates them to the wider life of the church
- Reviews past year and links financial plans for the future
- To be received by APCM (Annual Parochial Church Meeting) to discuss

- Independent Examiner needs to see at least a draft of the report as part of the scrutiny of the financial accounts
- The PCC must pass the Trustees Annual Report as part of their scrutiny of the accounts. This must be done before the APCM and dated and signed by the chair of the PCC meeting
- The report should be attached to the year-end set of financial accounts for distribution within the church and to be made available to the public.

Key points are to be covered in the Trustee Annual Report

All the key points are summarised below. For further details please refer to Chapter 3 | The Church of England

1. Objectives & Activities

To state:

- The purpose of the church, is to show public benefit. A summary will suffice.

  The church's governing document or constitution states the church's prime purpose. As identified in the financial accounts, the church's activities, projects and services are the supporting evidence required to show that your church is working towards its prime purpose.
- The policy on grant-making, social investment, and volunteer contribution if applicable.

2. Achievements and Performance

To state:

- A summary of the main achievements. The achievements must identify the difference the church work has made to the circumstances of its beneficiaries and society
- The main achievements against the objectives set for the financial year
- The performance of fundraising activities against the goals set for the financial year
- The church's investment performance against any goals set for the financial year.

3. Financial Review

To give:

- A review of the financial position at the Year End
- The PCC's policy for holding reserves, why they are held and the amount held

- The reasons for having zero reserves
- Details of funds materially in deficit
- An explanation of any uncertainties about the charity continuing as an ongoing concern.

4. Structure, Governance and Management

To state:

- The type of governing document.
- How is the charity constituted?
- The trustee selection methods to include details of any constitutional provisions e.g. election to post or name of any person or body entitled to appoint one or more trustees.
- The church's Administrative Information:

– The Church's Name and location

– The Registered Charity Number, if applicable

– The charity's Principal Address

– Names of the PCC trustees who manage the charity, including office (if any), dates acted if not for the whole year, name of person or body who appoints trustees

– Provide names and addresses of bankers, legal and advisers to the PCC, and the Independent Examiner or Auditor.

5. Funds held as custodian trustees on behalf of others

To give:

- A description of the assets held in this capacity.
- The name and objects of the charity on whose behalf the assets are held and how these falls within the custodian charity's object.
- The details of arrangements for safe custody and segregation of such assets from the charity's assets.

6. Plans for future periods

- To state the PCC strategies for the future, including key objectives and activities planned to support them.

7. Declarations

- The trustees must declare that they have approved the trustees' report.

One or two trustees must give them:

- Signature(s)
- Full Name
- Position eg Secretary, Chair etc
- Date.

An example of a completed Trustee Annual Report, for St Emilion's Church, Barchester and guidance notes can be viewed here Microsoft Word - Final TAR.doc (parishresources.org.uk)

The Independent Examination

The type of scrutiny required depends on the charity's income and assets. If gross income is under £1 million, an independent examination is needed, and an audit is needed if it exceeds £1 million.

However, an auditor must be engaged if your governing document states that a full audit is required. If your charity's governing document is dated before the 1st of March 1992, the term 'audit' may mean the requirement for independent scrutiny. Therefore, you can choose an independent examination unless reference is explicitly made to an audit by a 'qualified auditor' or an audit by a 'qualified accountant' (for example, a chartered accountant).

Engaging an Independent Examiner

There are specific points your trustees need to be aware of when engaging an Independent Examiner.

The examiner must:

- have the ability and experience, in charity accounting, to conduct the examination
- not have a close relationship with any of the charity's trustees
- not be involved in the day-to-day running of the charity.

Purpose of an Independent Examination

An independent examination aims to give the charity's trustees, supporters, beneficiaries and the wider public some independent assurance that the charity's money has been adequately accounted for and accounting records kept..

Independent examination is a 'light touch scrutiny involving the examiner checking for specific matters only. Because it is narrowly defined and does not involve forming an opinion on whether the accounts are 'true and fair', it usually costs less than an audit.

The rules on independent examination also apply to excepted charities ie churches that are not registered with the Charities Commission.

Further guidance for trustees to understand what is involved in an independent examination can be found here Independent examination of charity accounts: guidance for trustees - GOV.UK (www.gov.uk) or in Chapter 11 | The Church of England

The church trustees are responsible for the following:

- ensuring receipt of a ‘Letter of Engagement’ from the independent examiner
- agreeing arrangements for preparing the accounts and a timetable for the examination
- preparing for the independent examination
- ensuring that all the church’s accounting records, documents, trustees and key staff are available to the examiner
- agreeing on any changes to the Trustees Annual Report and Accounts made by the Independent Examiner
- ensuring receipt of an appropriate report from the Independent Examiner at the end of the examination. Suppose the examiner finds the accounts misleading or matters of material significance, and the trustees do not agree to appropriate amendments. In that case, the examiner will fail the accounts and not provide a report. An examiner is obliged to notify the Charities Commission of any matters of material significance.
- filing the independent examiner’s report with the trustees’ annual report and annual accounts

Template – The report from the Independent Examiner must contain this information

What the Independent Examiner is looking for

Chapter 11, section 12, of the PCC Accountability Guide, lists the areas an independent examiner will examine in depth. Follow the link to Chapter 11 Chapter 11 | The Church of England

Broadly, the Independent Examiner will look for the following:

- An adequate audit trail, that is, supporting evidence is available, for all income and expenditure transactions
- Authorisation by warden/line manager for purchase of items
- Regular bank reconciliations
- Correct formatting of Year-End accounts
- Approval by the trustees of significant income and expenditure items. The approval needs to be minuted in the PCC Minutes
- Review of accounts and comparison of accounts to the records
- Key points of the Trustees Annual Report are covered.

What are the submission dates for the Annual Reports?

The Annual Accounts, the Trustees' Annual Report and the Independent Examiner Report are to be submitted to the following bodies:

Annual Parochial Church Meeting (APCM)

The 1st of January to the 31st of May

The date for the Annual Parochial Church Meeting (APCM) is decided by the PCC. The date of the APCM must be between the 1st of January and the 31st of May. The following documents are to be available to church members attending the APCM and after that to members of the public:

- The Annual Accounts
- The Trustees Annual Report
- Independent Examiner Report.

Diocese of Sheffield

by the 31st of May

The following documents must be submitted to the Diocese of Sheffield by the 31st May. For example, the diocese may extend this date if unforeseeable circumstances occur. The documents can be emailed or posted.

- The Annual Accounts
- The Trustees Annual Report
- Independent Examiner Report
- Parish Finance Return – data should be submitted online Parish Returns Online. Email Janet Daye if you require user rights.

Email address: finance@sheffield.anglican.org

Postal address: 95-99 Effingham Street, Rotherham, S65 1BL

Charity Commission – if the church is registered

by the 31st of October

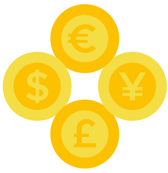
The following documents must be submitted to the Charity Commission within 10 months after the end of the financial year. For most Church of England churches, the submission deadline date is the 31st of October.

- The Annual Accounts
- The Trustees Annual Report.
- Independent Examiner Report

Important considerations for completing your accounts

Types of bank accounts and what they are used for

The following types of bank accounts Current, Deposit or Savings, Investment, and Endowment are described below:



Current account

A current account is used for receipts and payments related to the church's daily operations, including upkeep, church projects, and activities.

Interest rates are very low or non-existent.

The church needs only one current account. A bank sets up church bank accounts as business accounts, which should be in the name and address of the church or church office. Church bank accounts must **not** be in the treasurer, vicar's name and/or personal address, or any other person's name.

Historically, churches have held many current accounts, each for a different activity. If bank accounts were set up some years ago, the treasurer might need to learn the full extent of the number of bank accounts in use or those no longer in use. Bank accounts can only be closed by the signatory or signatories. If signatories have died or moved to an unknown address, any balance remaining in the bank account will be difficult to release. All other known current accounts, besides the one in general use, should be closed, and the balance transferred to the current account.

All church bank accounts must have at least two signatories. At least two signatories must sign all purchases paid by cheque. If payment is made by online banking, two signatories must process the payment: one enters the bill or expense claim ready for payment, and another must check and pay the bill or expense claim.

Deposit or savings account

Used to build up reserves often and provides easy transfer of monies to the current account. A 'term' deposit is a fixed-term deposit or a fixed-rate bond. A term deposit account offers competitive fixed interest rates that don't change from the day you open the account until the end of your agreed term.

Investment account

An investment fund is a supply of capital belonging to numerous investors used to collectively purchase securities while each investor retains ownership and control of his shares. There are inherent advantages of working as part of a group, such as reducing the risks of the investment by a significant percentage.

Endowment accounts

Endowment funds are funds held in trust for retention. Usually, these will be investments but may also be property held as endowments for use by the charity. The investment receipts must be spent for the purposes indicated in the governing document, either unrestricted or restricted.

There are two forms of endowment: permanent and expendable.

- Permanent endowment means the trustees do not have the power to spend the capital.
- Expendable endowment means the trustees have the option, under certain conditions as stated in the trust funds governing document, to spend the capital as if it were the charity's income.

Informing your church's bank every time there is a change of trustees

Whenever there are one or more changes to your trustees, you must inform your bank of the changes by completing and submitting a new bank mandate. You need to get the bank mandate form from your bank.

Your bank will not accept a completed bank mandate supplied by another bank.

If a bank mandate form is unavailable on your online banking site, one of the bank signatories must contact the church's bank and ask for one.

Gift Aid and Gift Aid Small Donations Scheme

Your church, as a charity, can claim 25p from HMRC every time an individual donates £1. This is called Gift Aid. To claim gift aid:

- You need to apply for recognition as a charity with HMRC using their online service - Register your charity's details.
- Follow the rules on which donations you can claim Gift Aid on.
- You can claim Gift Aid online - you should get your payment within 5 weeks.

What the donor needs to do

The donor must:

- have paid at least as much in Income Tax or Capital Gains Tax in that tax year as you want to claim in Gift Aid
- make a Gift Aid declaration that permits you to claim it.

If the donor has not made a declaration you may still be able to claim on cash donations of £30 or less, under the Gift Aid small donations scheme (GASDS).

For example, you can claim cash donations collected at a church service, or donations of £30 or less collected by a contactless device under this scheme.

To help you claim Gift Aid, the Giving & Generosity team at Sheffield Diocese has written a set of instructions for registering for Gift Aid and claiming Gift Aid. You can find another helpful resource at Claiming-Online-December-2019.pdf (churchofengland.org)

VAT – Value Added Tax

You will only need to register for VAT if your church's business gross annual income for 24/25 exceeds £90,000. For a church, business income only covers the area of trading. Most churches will not have to worry about ever exceeding this income threshold.

Trading activities include selling books at a bookstall, letting of the church hall, sales and advertising of church magazines, membership fees, payments for events, etc., where these are distinct from fundraising. If you are wondering whether an activity falls under trading, it is recommended that you get advice from the Diocese of Sheffield or a tax professional.

Your church may wish to consider registering voluntarily for VAT if you are below the threshold. VAT registration has drawbacks. The treasurer has to put in labour time to calculate the VAT amount s/he can claim back. The work includes separating the business from the non-business elements of the church activities. The VAT Return must only record the VAT calculation for the business elements of your church. You will find more information on VAT here:

https://www.gov.uk/guidance/how-vat-affects-charities-notice-7011

https://www.gov.uk/how-vat-works

Employment considerations

PAYE

You usually have to operate PAYE as part of your employer's payroll. PAYE is HMRC's system to collect Income Tax and National Insurance from employment. You will need Employers Liability Insurance from an authorised insurer as soon as you become an employer. More information can be found here: Employers' liability insurance - GOV.UK

You do not need to register for PAYE if none of your employees is paid £123 or more a week, gets expenses and benefits, has another job or gets a pension. However, you must keep payroll records.

If you are operating PAYE, as part of your payroll, you must complete specific tasks during each tax month. A tax month runs from the 6th of one month to the 5th of the next.

You can find out how to run PAYE, and the tasks you need to complete every tax month, from HMRC:

- https://www.gov.uk/paye-for-employers
- https://www.gov.uk/running-payroll

Payroll tasks are managed more quickly if you have payroll software. Payroll software will automatically complete the required monthly tasks and calculate each employee's income tax and National Insurance liabilities. When the tax thresholds change, the software automatically updates or asks the end user to update the system. There are several ways to access payroll software:

- HMRC has free PAYE software you can use:

  https://www.gov.uk/basic-paye-tools

- If you use accounting software, it's likely the software has a payroll module. This may come as an extra cost.

- Dedicated payroll software is available. The site below lists free and paid software recognised by HMRC. Clicking on a supplier name in the list will take you directly to their website. Most software allows a free 30-day trial. Trialling software will help you decide whether it is right for you and meets your church's requirements. https://www.gov.uk/guidance/find-payroll-software-that-is-recognised-by-hmrc

Employment Allowance

As a church, you can apply for Employment Allowance from HMRC. For 24/25, the allowance is up to £5,000 for the year. When your claim has been accepted, the allowance must be applied against the employer's NI contributions for all staff on PAYE for 24/25. You will need to apply for Employment Allowance every fiscal year.

To claim through your payroll software, put 'Yes' in the 'Employment Allowance indicator' field next time you send an Employment Payment Summary (EPS) to HM Revenue and Customs (HMRC).

For more information on the Employment Allowance go to https://www.gov.uk/claim-employment-allowance

Pension auto-enrolment requirements

Employers must provide a workplace pension scheme for eligible staff as soon as their first staff member starts working (known as your 'duties start date'). This is a legal requirement, and you could be fined if you don't act in time. For more information on workplace pensions, please go to Set up and manage a workplace pension scheme: Employers and eligible staff - GOV.UK (www.gov.uk). Most churches register with the Church of England's Pension Board or NEST.

You must also complete a compliance declaration within 5 months of your duties start date. Use the Compliance checklist provided by the Pensions Regulator to ensure you've covered everything.

You must enrol and make an employer's contribution for all staff who:

- are aged between 22 and the State Pension age
- earn at least £10,000 a year
- normally work in the UK.

If staff become eligible because of a change in their age or earnings, you must put them into your pension scheme and write to them within 6 weeks of the day they meet the criteria.

Even if an employee is not eligible to be auto-enrolled in the pension scheme, you must send them a letter saying they can join if they wish.

An employer must pay at least 3% of an employee's 'qualifying earnings' into the staff's pension scheme. Check your pension scheme to determine what counts as 'qualifying earnings.

Under most schemes, the qualifying earnings are the employee's total earnings between £6,240 and £50,270 a year before tax. Total earnings include:

- salary or wages
- bonuses and commission
- overtime
- statutory sick pay
- statutory maternity, paternity or adoption pay.

The minimum percentage of an employee's pensionable salary paid into a pension fund is 8%.

Both the employer and employee are to meet the minimum percentage of 8%. For example, an employer agrees to pay 5% of employees' pensionable salary. Employees will be asked to top up the pension by contributing 3% of their pensionable salary to make the minimum total of 8% paid into the pension scheme.

Sometimes, an employer will agree to contribute 8% or more. The employee can then decide whether to add additional voluntary contributions (AVCs) to boost their pension pot.

Paying contributions

You must deduct contributions from your staff's pay each month. You'll need to pay these into your staff's pension scheme by the 22nd day (19th if you pay by cheque) of the following month.

You must pay your employer contributions for each employee by the date you've agreed with your provider every time you run payroll. You must backdate any missed payments.

A set of checklists to help in the preparation of the annual reports

Below is a set of checklists you may find helpful in the preparation of the year-end reports:

- Preparing the year-end financial accounts
- Engaging an Independent examiner
- Preparing the Trustee Annual Report

The Generosity and Finance Team thanks all church treasurers and bookkeepers within the Diocese of Sheffield for their dedication and commitment to their roles.

As treasurer and/or bookkeeper you are vital to the church's success in meeting its prime purpose. The financial information you provide the PCC throughout the year ensures that the PCC can make informed decisions for the church's benefit and prosperity.

Please reach out to the team at Church House should anything in this toolkit be unclear or if you would like to discuss the areas of support available to you and your parish.

Blessings

The Generosity Team