

MEMBER SERVICES

Advice Note 8: Accounting for Northern Ireland Charities

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.

CHARITABLE COMPANIES

Charitable companies are bound by the requirements of the Companies (Northern Ireland) Order 1986 in respect of accounts and the form of such accounts.

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Companies are required to prepare an income and expenditure account (equivalent to a profit and loss account) and a balance sheet which gives 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. Details of the items in the accounts should be provided in the form of notes to the accounts. In preparing the accounts, directors must select suitable accounting policies and apply them consistently, make judgements and estimates that are reasonable and prudent, and state if applicable that accountancy standards have been followed.

Unless otherwise stated in the notes to the accounts, the accounts must be prepared on the basis that the company is a going concern, ie on the basis that it will not go out of business in the foreseeable future. If the 'going concern basis' cannot be used, all the assets must be set out in the accounts at the expected values that could be realised if the assets were being disposed of in haste, and the accounts must make full provision for all the cost that would be incurred in winding up the company.

All companies (unless claiming an exemption) 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 (Northern Ireland) Order 1990 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 Registry within ten 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

Exemptions for small companies

Certain small or medium-sized companies may prepare accounts for their members under the special provisions of Articles 254 and 254A of the Companies (NI) Order 1986. In addition, they may prepare and deliver abbreviated accounts to the Registry.

Charitable companies

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 £1.4 million.

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 £1.4 million qualify for partial exemption.

Some small companies may **not** be eligible for the exemption, and must deliver audited accounts to the Registry in certain circumstances, for example if a company is a parent body or subsidiary undertaking. However, 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 to £420,000 gross, and with a combined group balance sheet of not more than £1.4 million net or £1.68 million gross).

What an audit-exempt company has to return to the Registry

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

- (1) For the period ended _____ [date] the company was entitled to exemption under Article 257A of the Companies (Northern Ireland) Order 1986. (In the case of charitable companies which are claiming partial exemption, the reference will be to Article 257A(2) of the Order.)
- (2) Members have not required the company to obtain an audit in accordance with Article 257B(2) of the Companies (NI) Order 1986.
- (3) The directors acknowledge their responsibility for:
 - (i) Ensuring the company keeps accounting records which comply with Article 229.
 - (ii) Preparing accounts which give a true and fair view of the state of affairs of the company as at the end of the financial year, and of its profit and loss for the financial year, in accordance with the requirements of Article 234, and which otherwise comply with the requirements of the Companies Order relating to accounts, so far as is applicable to the company.
- (4) The accounts have been prepared in accordance with the special provisions in part VIII of the Companies (Northern Ireland) Order 1986 relating to small companies.

If the company wishes, it may deliver unabbreviated accounts prepared for its members. The same statements must appear on the unabbreviated balance sheet.

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.

Company members have the right to demand a full audit. Ten per cent of the voting members of a company can demand that an audit of the company's accounts is carried out by giving notice in writing at the company's registered office at least one month before the end of the financial year.

THE CHARITIES' SORP 2005

In March 2005 the Charity Commission for England and Wales published a revised edition of SORP (Statement of Recommended Practice on Accounting and Reporting by Charities). The accounting recommendations of this SORP are based on current financial reporting standards and have been developed in conjunction with the SORP Committee, an advisory committee made up

of charity finance directors, charity advisers and charity regulators. The Committee is also structured to reflect the different charity jurisdictions within the UK.

The Charity Commission has no jurisdiction in Northern Ireland but nevertheless SORP is relevant, firstly, because it sets the standard for accountants dealing with charity accounts and sets out a clear format for accounting practice in relation to charities and secondly, "The accounting recommendations of this SORP apply to all charities in the United Kingdom that prepare accounts on the accruals basis to give a true and fair view of a charity's financial activities and financial position regardless of their size, constitution or complexity. "

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Sources of Further Information

Managing Your Money – NICVA (free to members only)

Charity Accounts 2001: the framework (CC61) www.charitycommission.gov.uk/publications/

Charities SORP 2000: what has changed? (CC62) –
www.charitycommission.gov.uk/publications/

Charities SORP 2005 documents
<http://www.charitycommission.gov.uk/investigations/sorp/sorp05docs.asp>