

Financial news, training and support from
West Yorkshire Community Accounting Service

The Balanced Sheet

Issue 28 • Summer 10

Advice Line
0113 270 6269

www.wycas.org.uk

About WYCAS

WYCAS enables voluntary sector organisations to be more effective in their financial management through the provision of accounting services, training and advice.

Bradford and Leeds Community Accounting Service operating as WYCAS.

Charity number 1076962

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Protect your organisation

Protecting your organisation from unscrupulous fraudsters

The Charity Commission has recently been made aware of a scam involving people being telephoned by individuals claiming to represent the Charity Commission. In the phone calls these individuals claim to be from the "debt collection department" of the Commission and they demand payments for various services and advertisements. Unfortunately fraud, particularly identity fraud, seems to be on the increase and the Charity Commission example above is not unusual. Small charities in particular are vulnerable to fraud and to unscrupulous people looking to exploit the public's trust in charities.

There have been a number of instances where people have been

purporting to collect funds on behalf of unknown charities. The popular scam just now seems to be the bogus clothes collection firms disguising themselves as charitable or giving a large percentage of their profits to charity, when in fact they are entirely profit-driven businesses making no such contribution to charity. If you are unsure check them out on the Charity Commission website, 'Google' the organisation and if you are not satisfied report to your local Trading Standards who may already be aware of their activities.

The rise in identity theft means fraudsters can easily create apparently legitimate organisations through which to

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Spotlight on: Clothing Solutions

WYCAS client, Sandra Hunt of Clothing Solutions in Bradford, talks to Jill Jones

What does Clothing Solutions do?

Clothing Solutions assists disabled people, who have problems with everyday dressing by offering a garment dressmaking and alteration service. With access to retail outlets often being difficult our outreach service has enabled disabled people and older people (particularly in rural areas) to access the service, which can be taken directly to the customer or via a postal service. Clothing Solutions also produces a unique range of bean bags for NHS Trusts for use in physiotherapy and other rehabilitation treatments.

When did Clothing Solutions start and how was it developed?

It started in 1982 as a research project of Bradford College. Having identified the need, it obtained funding and was set up as a bespoke service by Nelly Thornton. She later became a trustee and was given an MBE in recognition of her work. We now have about 500 regular customers.

What achievements are you particularly proud of?



Clothing solutions for disabled people

We have maintained a high quality service throughout the 28 years we have been operating. This was recognised in 2007 when we were a finalist in the innovation and enterprise section of the Business Link Social Enterprise Award. In 2010 I was invited to a reception for the British Clothing Industry at Buckingham Palace, which was a great honour and a clear recognition of the value of our work.

What is the most challenging financial issue for your organisation?

Fundraising and then monitoring and reporting how we spend the funds raised is a continuing challenge. WYCAS has recently helped us with computerising the accounts onto Quickbooks, which makes the financial reporting much easier and we use the WYCAS advice line a lot. WYCAS also do our annual accounts. All staff and trustees enjoy the work we do; it is extremely rewarding because of the real difference that we can make to people's lives.

Email enquiries@clothingsolutions.org.uk, call Sandra on 01274 746 739, or visit www.clothingsolutions.org.uk

Is Charity Registration actually a choice?

When does an organisation become a charity?

Let's start off with a fact:

It is a requirement by law that all charities whose gross income is in excess of £5k must register with the Charity Commission (CC).

In other words, one does not 'create' a charity by registering with the CC, an organisation may already be a charity due to the nature of its purposes (known as 'objects') and the fact that it operates for the benefit of the public. Therefore, if it does not register, its 'trustees' will be in breach of charity law. What this means is that charity registration is not a choice, rather it is a legal obligation.

It is important to remember charity law applies to all charities not just the ones that have registered.

So how do we work out whether or not an organisation is a charity?

The Charities Act 2006 offers a definition: 'For the purposes of the law of England and Wales, "charity" means an institution which is established for charitable purposes only'. The word 'only' means that all of your objects must be charitable – if one object is not charitable (an example is political campaigning) then that organisation cannot be a charity regardless of the other charitable objects. There is a list of the current 13 charitable purposes on the Charity Commission website:

http://www.charity-commission.gov.uk/charity_requirements_guidance/charity_essentials/public_benefit/charitable_purposes.aspx

Charity registration

So if after comparing your organisation's objects to those listed it appears to be a charity and it has been set up for public benefit, and the income is over £5k you should register with the Charity Commission; however it is not quite as easy as that because they may disagree with you and turn you down! Therefore for all practical purposes, what is or is not a charity

is really up to the Charity Commissioners.

A consequence of this is that those actively wishing to form charities will end up with reliable proof of charitable status because ultimately they will succeed in being registered (they might have to amend their objects though. . .), and then they will be able to enjoy the various tax benefits conferred onto charities – 100% relief from corporation tax on profits from primary purpose trading, 0% VAT on advertising and the construction of charitable buildings, 80% to 100% relief from business rates, reduced rate VAT on fuel and power and access to funders that only fund charities etc.

Charities whose gross income is below £5k are actually prevented from registration with the CC; however if they wish they could register with HMRC until such times as they grow beyond the threshold – for them, this will be proof of charitable status.

However there is uncertainty for those who do not attempt registration – this may be because they don't want to form a charity or because they thought they had a choice about registration. The reality is that either these organisations actually are charities (following the principles stated above) and therefore will be in breach of charity law eg by not registering, or by paying salaries to its directors or committee members (or strictly speaking, its trustees!), or they are not charities and therefore will be exposed to corporation tax on any trading profits (this could include the provision of a service financed by a grant). This is unlikely to be problematic for those very small voluntary groups who survive on memberships, donations and small grants but can be trickier for those delivering some kind of service.

For those who really do not wish to create a charity (usually because the founders want to have control – ie

be the directors, and also get paid because they actually manage the organisation), there are two options:

1. Word the governing document so that it cannot possibly be considered charitable by including non-charitable clauses – eg, political campaigning or including an object about the carrying on of a general trade or business.

2. Alternatively one could choose a legal form that cannot be a charity: For example, a Community Interest Company, cannot be a charity, even if its objects are wholly charitable. In fact the guidance from the CIC regulator actually says 'a CIC may have wholly charitable purposes and be entitled to charitable status, but may not want to be subject to the regulatory requirements associated with being a charity regulated by the Charity Commission'.

So what are the regulatory requirements for charities and CICs?

In reality, for both small charities and small CICs, the regulatory burden is comparable and light. Both have to file accounts to a regulator in a prescribed format, both have to produce a written annual report in a prescribed format, both will have an asset lock written into the governing document and any amendments to their governing documents will need to be accepted by the regulator.

The key differences are that there are no tax benefits for CICs and grant funding may be harder to obtain, however a CIC's directors may receive a salary (though this is actually subject to regulatory limits) and some CICs will be able to distribute profits (again subject to regulatory limits). Essentially, CICs are treated like any other business for tax purposes.

Protect your organisation cont...

Protecting your organisation from unscrupulous fraudsters

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conduct their frauds. Staff may inadvertently pay bogus invoices because their organisation has no appropriate procedures in place to check they are legitimate. Demands for renewal fees in respect of domain names, trademarks or inclusion in directories are scams currently in use. Watch for invoices which do not give a contact number or address – only bank details for direct payment.

Then there are those frauds we least expect, from the people we trust and work with. A simple fraud can be perpetrated, for example, by an employee creating receipts for the

petty cash box, or being in a position to both authorise and pay invoices, or to count and bank monies. The Charity Commission's guidance Internal Financial Controls for Charities (recently revised) makes suggestions regarding segregation of duties to avoid a single member of staff recording and processing transactions, to prevent mistakes and dishonesty. A charity should also ensure appropriate records are kept for monies from collection boxes and lottery sales and it should be standard practice for cheque signing and other financial transactions to require two authorities and signatories. Increasing use of internet banking means similar

procedures should be put in place for electronic transactions. Access to cash, cheque books, equipment and computers should be regulated and passwords protected where possible.

It is recognised that it is often very difficult to implement procedures and segregate duties in small charities, especially those without any permanent employees so in these circumstances trustees will need to become more actively involved.

If you would like further guidance on any of the issues raised by this article do ring WYCAS for advice on 0113 270 6269.

Newsbites

Free information and advice

All our Good Practice Guides are available free of charge from our website www.wycas.org.uk or by ringing 0113 270 6291, including a guide on Financial Difficulties and Insolvency, which unfortunately may be particularly relevant at the moment. If you have any concerns about financial management in your organisation please feel free to ring our advice line for free and confidential advice **0113 270 6269** open 9 to 5 every weekday or to email us on info@wycas.org.uk

Tips for avoiding fines from Companies House

For companies, filing penalties for annual accounts being sent late to Companies House are now £150 for up to one month late and £375 for up to 3 months late. We have found that some groups end up paying a fine for two easily avoid-

able reasons. The first is that all documents, including accounts for Companies House, should be written/signed in black ink. If not they will be returned to you and if you are close to the deadline you may end up sending them back in late and you will be fined. The second reason is that the accounts are sent to us for signing, or to Companies House for filing, without the correct postage on them. Again this delays them and if you are close to the filing deadline you may well find you have to pay the late filing fine. Of course if you send the documents in good time then, even if there is a problem, you will still have time to correct and to get them in before the deadline!

New guide on managing gift aid in charity shops

Sayer Vincent has written a guide providing tax and accounting guidance to charities operating charity shops. Although originally written for Hospices it has useful advice for any charity that runs a charity shop. For those who want to claim gift

aid on the sale of donated goods, there is detailed guidance on how to handle the accounting, gift aid claims, VAT and tax issues that arise. **Download the guide for free from the Sayer Vincent website. <http://www.sayervincent.co.uk>**

Managing in a downturn: staying solvent and surviving well

This guide by Kate Sayer, I Oakley-Smith, S Lloyd, M Bennett £18.95 will be essential reading for anyone involved in running a charity that's feeling the pinch. It contains practical guidance on action to take to manage your finances well during an economic downturn. It also provides information about the legal position, how to spot the early warning signs of trouble as well as practical tips on how to steer a course through troubled waters.

Available from www.dsc.org.uk/Publications

Training and Events

WYCAS organises a training programme in partnership with the five West Yorkshire CVSs. Please contact the relevant training organiser for details of prices and to book a place.

July

1	10am – 4pm	Basic Bookkeeping Tina Ashby 0113 297 7944	Leeds
6	10am – 1pm	Good Financial Management Diane Fox 01274 722772	Bradford
6	10am – 1pm	Staff, Trustees and Volunteer expenses Wayne Illingworth 01422 348111 x211	Hebden Bridge
16	10am – 4pm	QuickBooks - Intermediate Diane Fox 01274 722772	Caltex, Shipley

September

10	10am – 4pm	QuickBooks - Beginners Tina Ashby 0113 297 7944	Leeds
22	10am – 4pm	Managing crisis with funding 'How to deal with a funding crisis before it happens.' Wayne Illingworth 01422 348111 x211	Calderdale

October

8	10am – 4pm	Excel for Bookkeeping Tina Ashby 0113 297 7944	Leeds
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November

4	10am – 3pm	Basic Budgeting & Cashflow Wayne Illingworth 01422 348111 x211	Brighouse
5	10am – 4pm	QuickBooks - Intermediate Tina Ashby 0113 297 7944	Leeds
24	10am – 4pm	Full Cost Recovery Tina Ashby 0113 297 7944	Leeds

At the time of going to press not all the courses have been agreed for the autumn. Please do check our website regularly or register for our e-bulletin for further information www.wycas.org.uk

WYCAS is 10 years old!



We are celebrating by having an event with speakers on the morning of 13th October in Leeds

Watch out for further publicity nearer the time!



Contact WYCAS

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