

Parish Annual Reports

At one time, the Annual Accounts were a separate item on the agenda of the Annual Meeting, albeit that many parishioners found them hard to follow. Since the 1993 Charities Act, there has been an increasing requirement for the accounts (now called Financial Statements) to be related to the activities of the parish over the preceding twelve months. The 2005 Charities Statement of Recommended Practice, or SORP (which is actually a set of rules, rather than mere guidance) now specifies that the Annual Report must be integrated with the Financial Statements and cross referenced with the actual figures.

This means a change for many parishes from the traditional annual report, which often comprised many separate reports from individuals on particular aspects of parish life, with the accounts as a completely separate document. For 2006, a good many parishes began (or continued) the move to the new format, but some have not yet started!

The attached document offers some guidance on how to draw up a report in the correct format. Further help can be found in the booklet, "The Charities Act 1993 and the PCC", sent to all parishes earlier this year.

Although it has been a legal requirement for many years that the PCC ensure that the annual report and financial statements are sent to the Secretary to the Diocesan Board of Finance within 28 days of the annual meeting, this does not always happen. One of the reasons is that, when the report and the accounts are separate, it isn't always clear within the parish who is responsible for sending them to the diocese.

I suspect it is far from clear to many parishes what the diocese actually does with them. They have been a useful reference for an increasing number of diocesan officers seeking to help parishes in various ways, but they have not previously been subject to any comprehensive scrutiny. That changed in 2006. The initial reason for this arose from the discovery of some financial irregularities in a parish which, had they been spotted earlier, might have been prevented from getting out of hand. The second reason has a much wider application. At some point in late 2008 or early 2009, about half of our parishes (those with a total income over £100,000) will need to register directly with the Charity Commission (we will circulate details of the simplified process for this as soon as we have them). One consequence of this is that PCCs will have to complete an Annual Return and submit Report & Accounts to the Charity Commission as well as to the diocese. The Charity Commission takes a much firmer line over late filing and incorrect formats, and they have teeth! These include 'naming and shaming' on the Commission's website, with stronger measures for persistent offenders!

The following feedback from the checks we have made on the 2006 Reports is intended to help parishes to move towards the standards the Charity Commission expect of all charities; **they are not a criticism of hard-pushed volunteers doing their best, often in difficult circumstances!**

1. Signatures

The financial statements must be 'signed off' by the chair of the PCC meeting which approves the accounts before they go to the annual meeting (**not the Treasurer**). This confirms that the PCC, as the trustees, have considered and approved the accounts prepared in their name. The Report section may be signed by the Secretary. Once the Independent Examiner or Auditor is satisfied that the trustees have approved the accounts, s/he will sign the Independent Examiner's or Auditor's

report, which should form part of the financial statements in the Report presented to the Annual Meeting. The Report cannot be validly lodged with the diocese (or the Charity Commission) without these signatures; the Annual Meeting should not strictly receive them either.

Some parishes had genuine difficulty, either in the preparation of the accounts, or in getting them examined/audited before the Annual Meeting. If this happens, the Annual Meeting should be told of the problem, and other business having been completed, the Annual Meeting should be adjourned until the accounts have been completed, approved by the PCC and the examiner's/auditor's report has been signed. The Annual Meeting can then be (briefly) re-convened to receive the Report, which can then be sent to the diocese, etc. **Please note that the Charity Commission will treat anything filed more than 10 months after the year end as late, whatever the reason.**

For 2006, where any signatures were missing, we simply asked for a signed copy of the relevant page. We were also prepared to accept scanned or copied pages. The Commission will not accept these, and for 2007 we probably won't either!

Please ensure that at least three original copies are signed by the relevant people: one for the parish records, one for the diocese, one (if applicable) for the Charity Commission.

2. Contents

Both Appendix 1 to this document and the Charities Act booklet give guidance on what needs to be included.

Reference and Administrative Information

This should include the names of PCC members from the beginning of the financial year to the date when the PCC approved the accounts. This will probably involve several people who only served part of that time; the relevant dates should be included. Check that the number of people agrees with what the Church Representation Rules say. The Treasurer and Secretary are *not ex officio* members.

In addition, there should be sections on:

Structure, governance and management;

Objects and activities;

Performance;

Financial review (could be Treasurer's report)

3. Financial Statements

The form of the financial statements may depend on the income and expenditure of the PCC. Explanation of the levels of income or expenditure (and their definition) which require accruals accounts rather than receipts and payments, and audit rather than independent examination, is given in the Charities Act booklets, but please ask if there are particular questions. **Please note that the £250,000 threshold remains in place for 2007 accounts, but moves to £500,000 for 2008.** There are some dispensations available; further details are given in Appendix 2.

From a statutory point of view the financial statements should contain **either**

- A Statement of Financial Activities (SOFA)

- A Balance Sheet
- A Certificate signed by the auditor or independent examiner

or

- A Receipts and Payments account for each of the PCC's funds
- A Statement of Assets and Liabilities
- A Certificate signed by the auditor or independent examiner

In both cases, it is expected that the first two items will contain summary figures, with Notes giving more detailed analysis where necessary, and which describe the accounting policies adopted.

Restricted, unrestricted (and **endowment** where appropriate) funds should be shown separately. (The columnar format is probably best).

An "income and expenditure account" is **not** a part of the statutory accounts.

Examples of layouts for all of the above can be found in the Charities Act booklet.

4. What should be included

- Please make sure that **all** funds under the PCC's control (see Charities Act booklet for definition) are included in the SOFA/R&P accounts, including endowment (capital) funds. Investment income and interest arising from a permanent endowment should not be shown in the same fund as the permanent endowment, but rather a restricted or unrestricted fund, depending on the uses to which the income may be put.
- Any transfers between funds should be shown (gross, not netted off) in a separate line (or lines) below the Net Incoming Resources/Excess of Receipts over Payments.
- Certain income is handled by the PCC, and passes through the bank and the 'books', but should not appear in the financial statements (except perhaps as a liability on the balance sheet if it is held at the year end). Such income includes wedding and funeral fees due to the incumbent (as opposed to the PCC), whether assigned or not, and special collections made for specific charities (as opposed to ordinary church collections designated by the PCC). Gift Aid may only be recovered on donations made to the PCC, which it may designate. If the PCC designate the collection before it is made, then the income is restricted, as is any tax recovered.

5. Mission Figures: Finance Return

As well as the statutory requirement to submit the Annual Report, parishes are also asked to complete the annual Finance Return form issued by the Archbishops' Council. They use this for statistical purposes, but many dioceses use the information in parish share calculations or for other purposes.

If the financial statements are in the correct format, it should be possible to complete the re-designed Finance Return without significant re-analysis of the accounts. I would be glad to receive comments on the ease of completing the form and the clarity and comprehensiveness of the Notes. The form is available electronically via the website (www.cofeguildford.org.uk) and can be returned electronically as an email attachment. We will continue to check the return against the financial statements.

Please note the Return asks for the cost of **major** repairs and new building work to be listed separately. This should not include **all** routine repairs and maintenance.

Notes from Training presentation on Charities SORP 2005

Annual Report :

- The Annual Report puts all the PCC's financial statements into perspective and relates them to the wider life of the Church. It will review the past year and link financial plans to future vision.
- The full content of the report is recommended as best practice for all PCCs, but for those PCCs which do not require an audit (currently if gross income and expenditure for the year are both less than £250,000) there are some reductions in the disclosures. Where a disclosure is optional for smaller PCCs it is marked with an asterisk. *

Annual Report : Reference and Administrative information

This information should be given each year, even though much of it may be the same as for the previous year, it may be recorded separately from the main body of the report:

- The full name (town/village and church dedication)of the PCC.
- The location of the church (or address if it has one) and the PCC correspondence address. This could be the church office, that of the incumbent or of an officer of the PCC.
- The names of all the members of the PCC who have served since the commencement of the financial year until the approval of the accounts. This is a list of all those who have been trustees of the charity. PCC Officers should be indicated.
- The names and addresses of bankers, legal and other advisers to the PCC, and of the independent examiner or auditor *
- The name of the person or persons to whom day to day management is delegated e.g. the Incumbent.*

Annual Report : Structure, governance and management

This section should make clear to the reader the legal framework within which the PCC operates, and how decisions are made. It should include:

- An explanation of how the PCC is constituted. (See suggested wording for most PCCs in the book).
- If the PCC has any related trusts or charities, an explanation of the relationship of the PCC to those trusts.
- A statement that the appointment of PCC members is governed by and set out in the Church Representation Rules.
- A brief description of the way the PCC organises itself in order to carry out its aims and objectives. *
- The policies and procedures adopted for the recruitment, induction and training of PCC members. *
- A statement confirming that the major risks to which the PCC is exposed, as identified by the PCC members, have been reviewed and systems or procedures have been established to manage those risks. *

Annual Report : Objectives and Activities

This section establishes the framework under which the PCC has operated in the year and its intentions. It should provide:

- A statement of the aims of the PCC. The PCC (Powers) Measure 1956 states the PCC is 'to co-operate with the minister in promoting in the parish the whole mission of the Church, pastoral, evangelistic, social and ecumenical'. Mission / Vision statements can also be included.
- An explanation of the PCC's main objectives for the year. These may, largely, remain constant from year to year, but may also include a particular focus for a year.
- An explanation of the strategies and activities that have been adopted to enable the PCC to achieve its objectives.
- An explanation of the contribution of volunteers where they play a significant role in either the charitable activities of the PCC or in generating funds. *
- The policy for making grants or donations should be given (including how potential recipients are identified). *

Annual Report : Achievements and Performance

This section sets out the outcomes from the planned strategies and activities in the year in the context of the objectives which the PCC set. For a PCC not subject to the requirement for an audit this section will probably be a summary of the main achievements for the year. Larger PCCs should include:

- A review of the charitable activities undertaken that explains the performance achieved against the objectives set. *
- Where they are material, a review of the performance of fundraising activities against the objectives set for them. *
- Where material investments are held, details of investment performance against the investment objectives set. *
- A commentary on those factors within and outside the PCC's control which are relevant to the achievement of the objectives. *

Annual Report : Financial Review

The report will paint a picture of the financial position of the Church which will supplement the accounts and assist the reader in understanding what it is that they are being asked to support financially and how those resources (and others) are being stewarded and used. (It should also review the financial position of any subsidiary undertakings which the church may have). This section of the report should also include:

- A statement of the PCC's policies on the reserves that are held stating the level of reserves held and why they are held.
- An explanation of the circumstances which have given rise to any fund which is materially in deficit and details of any steps being taken to eliminate that deficit.
- Details of principal funding sources and how expenditure in the year under review has supported the PCC's key objectives. *
- Where material investments are held, the investment policy and objectives, including the extent to which social, environmental or ethical considerations are taken into account. *

Annual Report : Plans for Future Periods

For larger PCCs the report should then provide the reader with an explanation of the PCC's plans for the future (this will be the current year at the time the report is presented), including the key objectives and activities planned to support them. These will then form the basis of the objectives and activities section of the next report. *

Annual Report : Funds held as Custodian Trustees on behalf of others

In some circumstances the PCC may act as a custodian trustee for the assets of another charity. Where this is the case the report should give a brief description of the assets held; the name and objects of the charity on whose behalf they are held and an explanation of how this fits with the objects of the PCC; and details of the arrangements for the safe custody and segregation of such assets from those of the PCC.

Practicalities

- It is suggested that the PCC secretary should lead this, in collaboration with the Incumbent as Chair of the PCC, and the Treasurer.
- Whilst the previous five slides look very long, the resulting report need be no more than a couple of pages long : see the sample report in section 6.20 (shorter guide) or 14.1 (full guide)
- The Examiner/Auditor will need to see at least a draft of the Report.
- The revision of the Annual Report to conform to SORP is largest in the first year – the sample outline is available on the web in Word format at www.parishresources.org.uk/treasurers/AnnualReport.doc

Dispensations

1. We have become aware of two quite separate dispensations relating to thresholds, but not in time to affect the 2006 Accounts! Either may well be useful for 2007 (or possibly beyond, in one case).
2. The first relates to the 'two year rule'. Under the Charities Act 1993, if total income or gross expenditure exceeded £250,000 in the current year or in either of the two immediately preceding years, the accounts had to be professionally audited rather than independently examined. The Charity Commission has the power to grant an exemption from this requirement for 2007 (ie if the £250,000 threshold was exceeded in 2005 or 2006) provided that the income in 2007 is less than £250,000, that the exceeding of the limit previously was exceptional and can be explained, and that the PCC believes that an audit would be disproportionate to its current activities. It may be that a legacy or a fund-raising campaign might place a PCC in situation where this dispensation was appropriate. This is a transitional provision for 2007 only, since the new threshold will apply to 2008 and the 'two year rule' will no longer apply. ***A standard for of wording for application for this dispensation is available on request from me or from the following weblink:***

<http://www.charitycommission.gov.uk/supportingcharities/ogs/indexi15.asp>

3. The second dispensation relates to the disregarding of income (and expenditure) from special appeals for work to the church building so far as thresholds are concerned (it must still be shown in the accounts!). Email advice from the Charity Commission is as follows:

I can confirm that there is a specific dispensation on income and expenditure from special appeals to re-order, improve and extend church buildings. This brings the PCC (for whom the church building is not shown on the balance sheet) in line with the other charities for whom income and expenditure can be capitalised as fixed assets. This dispensation applies to income and expenditure both in relation to the accruals accounts threshold of £100,000 and to the audit threshold of £250,000.

The charity should put any requests for such a dispensation in writing to the Commission.