

Simple is Beautiful:

Small Charity Accounts as if Trustees Mattered



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Appendix

A Review of the Charity Commission's Model Annual Report & Accounts for the Westbeach Youth Club.

1. Overview

The Charity Commission guidance publication, Charity Reporting and Accounting: The Essentials (CC15) explains, in Section 3.4 :

The report's audience is not just trustees and members, funders, donors and beneficiaries, but also the wider public who have an interest in what charities do and what they achieve. Importantly, it brings the charity to life and for those charities that rely on voluntary income as their primary source of funding provides donors with the opportunity to understand how their money was spent and the difference it has made.

The Charity Commission's website contains a number of model Trustees' Annual Reports & Financial Statements for charities of various sizes (*ie*: annual incomes) and legal types

<https://www.gov.uk/government/publications/example-trustees-annual-reports-and-accounts-for-charities>

The model Trustees Annual Reports and Accounts are heavily biased towards larger charities.

Of the 8 model reports presented, 6 are for the minority 20% of charities with an annual income greater than £250,000 and so focus on Accruals accounts. So there are only 2 models for the 80+% majority of charities with annual incomes less than £250,000. and therefore entitled to use Receipts & Payments accounts rather than full Accruals accounts.

Of those 2 models for the preparation of Receipts & Payments accounts, one is of a Parochial Church Council which therefore has to prepare its accounts in accordance with Church Accounting Regulations – which are not applicable to non-church charities.

The only other model Receipts & Payments Report & Accounts for a small charity is for the Westbeach Youth Club But it, unfortunately, is full of demonstrable errors, inconsistencies and obfuscations and is therefore inconsistent with the Commission's requirements that it should "...provide donors with the opportunity to understand how their money was spent and the difference it has made."

As a consequence, the Independent Examination is not compliant with the Charity Commission's Directions. Had the "model" Trustees Annual Report and Accounts been presented to Small Charity Support for Independent Examination it would NOT have been approved but returned to the Trustees for clarification and significant amendment.

This Appendix details those errors, inconsistencies and obfuscations in the Charity Commission's model in order that other charities can see and understand what they are and why they are inconsistent with the Commission's own guidelines.

And, hopefully, it will help other small charity Trustees to avoid making the same mistakes themselves.

2. Detailed Review

Most of the following sub-headings are quotations taken from the Westbeach Youth Club model Trustees' Annual Report & Financial Statements.

2.1. Structure, Governance & Management

2.1.1. How the charity is constituted: Association consisting of 40 members.

The above statement appears in the "Structure, governance and management" section.

In that context the use of the word "members" would naturally be interpreted and referring to the legally defined voting members of the charity. And it would further be natural to interpret "members" as referring to the adult Trustees, volunteers, leaders and supporters of the club, *ie*: rather than "*...our young people aged 11 to 18*" referred to in the section "*Summary of the Main Activities...*".

A common problem with "membership" charities is the potential confusion between:

- a: people who are "members" in a legal sense as defined by the governing document – *ie*: are entitled to attend and vote at General Meetings of the charity; and
- b: those who are "members" the more informal sense of having registered as regular beneficiaries/participants in the activities of the charity – perhaps having also paid what is called a "membership subscription" – but have no legal right to attend and vote at General Meetings.

Whilst it would be unusual for "*young people aged 11 to 18*" to be full legally voting members of their youth club, it would not be impossible (unless their club's governing body prohibited it). Unfortunately the Trustees' Annual Report does nothing to clarify the situation. On the contrary, phrases like "*...the sharing of the skills, aptitudes and life experiences of our young people aged 11 to 18 and volunteers*" and "*A great contribution is made by member volunteers*" are potentially ambivalent to anyone trying to distinguish between the legal/voting members and the participant members of the club. This is particularly important when trying to assess the benefits delivered by the charity in relation to its use of its charitable funds.

Nowhere in the Trustees' Annual Report is there any mention – or even any indication – of the number of 11-18 year old participants/beneficiaries in the activities of the Club.

The accounts record £1,080 being received in "Membership Subscriptions". But it is not clear whether that represents £27 from each of the 40 individuals registered as legal/voting members of the charity or an unspecified subscription from the unspecified number of non-voting participant members of the charity (or a mixture of the two).

2.2. Objectives and Activities

2.2.1. Summary of the main activities.....

Apart from a brief mention of a "focus on the Duke of Edinburgh Award Scheme", the rest of this section reads like a litany of "politically correct" platitudes, the purpose of which is to "tick all the boxes" to claim compliance with regulations without any supporting evidence. The only thing missing is a declaration that the charity "believes that apple pie and motherhood are good things".

The actual summary of the charity's main activities is, instead, put in the following section of the Report under the heading of "Achievements and Performance".

2.2.2. A great contribution is made by our member volunteers

The wording of this paragraph further obscures whether the use of the term "members" is referring to adult volunteers who are "members" of the charity under the governing document, or to "young people aged 11-18" who are "members" of the charity in the sense of "beneficiaries".

2.2.3. Any surplus funds which are not likely to be used for activities

This has got nothing to do with reporting "Objectives and Activities".

It should have been placed in section 2.4.2 on the charity's Reserves Policy (see later, where it is also shown to be fundamentally flawed).

2.3. Achievement and Performance

As with the previous section, “Objects and Activities”, the contents of this section have virtually nothing to do with the heading of the section. Instead, this section contains the summary of the charity’s activities which should have been in the previous section.

2.3.1. The Silver and Gold Group passed with flying colours

This short sentence is the ONLY thing in this section which bears even a remote resemblance to a report of “Achievements and Performance”. And even then there is no indication of how many beneficiaries actually achieved the awards.

In particular, it is noted that whilst the Annual Report places much emphasis on reporting activities related to the Physical, Skills & Expedition sections of the DofE Award Scheme it makes no mention of any participation in the Volunteering and (for the Gold Award) Residential sections of the Scheme.

In terms of demonstrating then Public Benefits outcomes of the charity, it would have been thought that the achievements of the participants in the DofE Awards through their volunteering and residential activities would have featured prominently in the report.

Instead, as throughout the Report, the approach seems to be based on the presumption that, like “apple pie and motherhood”, its activities are universally regarded as “good things” and therefore need no further justification for their “Public Benefit”.

In short, while the Report demonstrates significant private benefit to what appears to be the participants in the Club’s activities by enabling them to take part in substantially subsidised activities, it is less clear what the public benefits are.

2.3.2. The new Monday Junior and Senior Clubs were in full swing.....

The opening of this sentence, like a subsequent sentence:

“The Tuesday, Wednesday and Thursday Junior sections meet regularly for games and training.”
convey the impression of an ordinary mixed activities youth club.

There’s absolutely nothing wrong with that, except that it doesn’t quite fit in with the “...focus of our activities remains the Duke of Edinburgh Award...” summary of the WestbeachYC’s charitable objects. Particularly as:

(a) the DofE Awards are only available to young people over the age of 14, so none of the young people aged 11-13 that participate in the charity’s activities can be part of the “focus of the charity’s activities”;

(b) the Silver & Gold DofE Awards are only available to those aged 15+ but there is no mention any participation by anyone of any age in the Bronze Award;

(c) that section implies that the DofE group only meets on Wednesdays and, therefore, is only a relatively small part of the charity’s activities.

This section also refers to:

“Following the purchase of a ... minibus ... WYC has undertaken a broader range of activities,,,,”
Those activities appear to be related to the DofE Award scheme. But a mini-bus can only hold about 12 passengers (plus a driver and some adult leaders). So what percentage of all participants are involved in the DofE Award scheme (as the “focus” of the charity’s activities)?

2.3.3. The keyboard tuition classes have been attended by over a dozen members.....

This is one of the few areas in the Report which actually include any indication of the number of participants/beneficiaries.

But like the rest of the Report it is shrouded in obfuscation.

Having earlier referred to the benefits of “developing practical IT skills”, by following a reference to the success of “keyboard tuition classes” with references to the “IT Suite” can leave the reader wondering what “other instruments” have anything to do with “IT skills”. The reference to “other instruments” makes “keyboard tuition” sound more like a reference to “piano lessons” (or, perhaps, synthesiser keyboard lessons) than to IT lessons in, say, touch-typing.

When one searches back through the report for further clues as to what is actually being reported here, the only other reference to anything “musical” is a reference to “games music” – in the “Spring” sub-section of “Achievements and Performance”. But even there it is unclear what is meant.

Is there a simple writing error here?

Should that be “games and music” – *ie*: there is a missing comma to be inserted?.

And if not, what exactly is meant by “games music” (which does not appear to be a commonly understood term)?

In the wider context it seems that the most likely explanation is that there is a missing comma and that the word “music” in that paragraph is just a reference to typical club “disco music” (*ie*: just background music to listen and dance to). But if that is the case, what exactly is meant by “keyboard skills”? Is it about learning to play music on electronic keyboards? And where does that fit into the Club’s charitable objects? Is it part of the DofE activities? Or is it part of IT training? Or is it part of a charitable object which isn’t mentioned anywhere else in the Report?

The point being made here is that this is just another example of an inadequately written report. In this case it is not so much that what is said is inaccurate, just that it is woolly and ambiguous writing as the writer just meanders through thought, jotting down things just as they come to mind. And, in the process, leaving the reader at best mystified and at worst misinformed.

It is characteristic of Annual Reports being written more as an *aide memoire* for, and from the perspective of, people who are already fully familiar with the activities of the charity rather than for “...the wider public who have an interest in what charities do and what they achieve...” and to “... provide donors with the opportunity to understand how their money was spent and the difference it has made ...”.

2.3.4. The Costs of Activities

The accounts show the Club receiving £5,531 in “Awards and Activity Entrance Fees”. This implies, but does not clarify, that such income is on a “per participation in an activity” basis. And the accounts show the Club spending £14,719 on “Awards and Activity Costs”. In other words, the charity is “across-the-board” subsidising those costs by getting on for double what the participants’ (or their parents?) have contributed?.

However, it is clear that “Activity Costs” will vary considerably from one activity to another. The *per capita* costs of basic indoor activities (*eg*: play station, pool table, games music and table tennis) or outdoor games and training will be considerably less than the per capita costs of DofE activities, particularly residential activities at centres with specialist equipment and trainers. In that context, the “Further Financial Review” section comments “The majority of income is applied to the awards and clubs related activity. With the main costs incurred being award entrance fees, staff costs and transport costs”. It is unclear to what the term “award entrance fees” applies. Even in 2018 (instead of 2009) the DofE registration (“entrance”?) fees are only in the range £21 - £28. It can only be assumed that “award entrance fees” is an obfuscation for the costs of specialist courses and activities needed to achieve the DofE award.

2.3.5. We hold a small fund to help families who would otherwise struggle to meet the cost of entrance fees

This is disingenuous !

As indicated in the previous comment “entrance fees” for the DofE Award are minimal. The £777 spent from the “small fund to help families who would otherwise struggle” would have covered the entrance fees of at around 30 such families.

The reference to “Entrance fees” here would therefore instead appear to mean “Activity Costs”.

The cost of entrance fees, paid from both the General & Restricted Fund was £13,342+£777 = £14,119. Of that £14,119:

- (a) £5,531 had been contributed to the General Fund by the participants in the events & activities whose families were, apparently, **NOT** “struggling to meet the cost of entrance fees”;
- (b) £777 had been contributed to the Restricted Fund by appeals to cover the costs for those whose families **WERE** “struggling to meet the cost of entrance fees”
- (c) and the remaining £7,811 came from the General Fund of the charity, from the contributions of the general grant from the Council and the donations of individuals.

The charity’s funds are therefore paying for **well over half** the cost of the events & activities fees for **ALL** families **whether or not** they are “...otherwise struggling to meet the cost...”, with families who are “...otherwise struggling to meet the cost...” being subsidised to an even greater extent (presumably to 100% of the “entrance” fees).

2.4. Financial Review

2.4.1. Our main source of funds this year has been grant funding and entrance fees for participants in the award programme

The above statement, which opens the “Further Financial Review” section, is demonstrably wrong.

The accounts show Gift Aid receipts for the year of £3,550 with a further £726 still to come. It is not stated, but it is reasonable to assume, that the Gift Aid receipt in year was boosted by a comparable amount similarly carried forward from the previous year. Had there been any material differences in the amount of Gift Aid carried forward an explanatory note would be warranted, given that the Gift Aid received in the previous year was £500 higher even though the income from grants and donations in that year was £1000 lower.

On the premise that the amounts of unreceived Gift Aid brought/carried forward each year are approximately self-cancelling, the £3,550 in Gift Aid received by the charity in-year means that the charity must have received Gift Aided donations (*ie*: from tax-paying individuals) of around £14,200. With the Gift Aid added that means that the total income from donations, including the Gift Aid was around £19,800 – *ie*: a source of funds of comparable magnitude to the annual Council grant of £20,000 and well over 3 times larger than the “*entrance fees for participants*” referred to in the Financial Review.

In summary, the statement in the Further Financial Review that “*Our main source of funds this year has been grant funding and entrance fees for participants in the award programme*” is materially inconsistent with the figures in the accounts.

2.4.2. Any surplus funds are placed on deposit to earn interest.

This statement, from the “Additional Details of Objectives and Activities” is fundamentally flawed.

In Financial Year 2008 the accounts record that the charity earned £352 in interest.

During that year the Bank Base Rate started at 5.5% and fell to 2.0% by the end of the year.

Assuming an average interest rate of 4% over the year the charity would have to have maintained an average balance of £8,800 in an interest-bearing open-access deposit account throughout the year to achieve £352 in interest. With an opening bank balance of £5,481, income of £53,574 and a closing balance of £2,867 that is feasible (though whether it is plausible is a different matter).

2009 was the year in which the Bank Base Rate fell to its long-term record low of 0.5%.

Assuming an average interest rate of 0.7% throughout the year the charity would have to have maintained an average balance of £54,000 in an interest-bearing open-access deposit account throughout the year to achieve £378 in interest. With an opening bank balance of £2,867, income of £46,779 and a closing balance of £12,000 that is **NOT** feasible.

In the absence of a credible explanation for the source of the “interest”, the 2009 accounts are fundamentally flawed.

2.4.3. Following the purchase this year of new computer equipment.....The local Council has agreed in principle to renew funding for a further 3 years.

This statement from the “Summary of Achievements” section is incoherent.

The linking of the two sentences in a single paragraph creates a clear impression that there is Council funding SPECIFICALLY for the IT Suite and its activities. That, in principle, would make the Council funding – or at least the part of it specifically identified as being for the IT Suite – a restricted fund. In which case it should have been properly identified and accounted for as a Restricted Fund in the FY-2009 accounts. But that is not the case.

In fact, the wording of this paragraph leaves it totally unclear exactly what funding the Council has “*agreed in principle to renew ... for a further 3 years*”. Was it the full £20,000 annual grant? Or does it refer to no more than the amount spent on “*purchasing new computer equipment*” – *ie*: up to the £4,784 recorded in the accounts as having been spend on “Assets & Investment Purchases”.

This constitutes a material discrepancy/inconsistency between the written Trustees report and the Financial Statements.

It is also noted that having clearly invested a significant amount of money into the IT Suite in the current year the Trustees have opted not to include either the purchase costs nor the current

estimated value in the account – despite including the cost of the mini-bus which is probably worth rather less than the value of the IT equipment.

2.4.4. We aim to hold at least £10,000 and no more than £15,000 in reserves at the year end.

This statement comes within the Statement of the Policy on Reserves section of the Financial Review.

It is somewhat “curious”, to say the least.

There is nothing to indicate that this is a new policy. But it would seem to be.

At the end of the two previous financial years (Dec 2007 & Dec 2008) the reserves were only £4,174 & £2,867 respectively. In other words, in FY 2008 the charity spent £10,500 (almost 80%) of its cash assets, most, if not all, of which went on purchasing a mini-bus despite the purchase leaving the charity with only £2,867 of reserves, to cover the cost of possible “vehicle repairs” which, just a year later, would be the main justification for holding reserves of £10,000 to £15,000.

In FY-2009 the charity made another large surplus on its day-to-day operational costs enabling it to raise its reserves by £9,233 to £12,000 AFTER spending a further £4,784 on capital assets. *ie:* in FY2009 its operational surplus was £14,017 or 30% of its gross income.

The charity gives no indication of what it had assessed its financial risks to be to justify its Reserves Policy.

As indicated in the previous section, 2.4.3, the report that the Council is said to have “...agreed in principle to renew funding for a further 3 years.” but it is totally unclear as to what funding had been agreed to be renewed. One can only assume that it must refer to the full £20,000 grant (43% of total income) since it wouldn't make sense to continue to fund the IT suite if the WestbeachYC was going to fail due to lack of continued funding (of which there is no mention).

The other significant financial risk to income would be the loss of the voluntary donations.

But the Trustees seem to have overlooked/ignored the significance of donations to the charity's income (£19,800, 42% of total income – see 2.4.1 above). It might be that is because the Trustees had good reason to believe that the donations would also continue to be made. But there is no mention of that either.

Loss of receipts from “Award & Activities Entrance Fees” (£5,531 – misleadingly identified as one of the charity's “main source of funds”), along with “Membership Subscriptions”, would not appear to create any significant financial risk since if either of those losses occurred they would be countered by corresponding reductions in the costs of “events and activities” due to fewer participants.

On payments, the largest single category of payments is “Awards & Activities Costs” (£14,119 in FY-2009). But, as indicated in the previous paragraph, this expenditure is matched by income from the Entrance Fees. So, when necessary, it is possible for the WestbeachYC to control its expenditure on “Awards & Activity costs by restricting the number of participants.

Another large category of expenditure is “Staff Remuneration”. (£9,905 in FY-2009). But the charity reports that “*We keep try to keep staff costs down by employing seasonal staff*”. Again this provides opportunities to reduce costs in line with income, including numbers of participants. And the fact that many staff are seasonally employed means that the charity's financial commitments for costs such as “leave in lieu of notice” and redundancy payments on termination of services are likely to be low.

The above review of the financial risks to which the charity is exposed, based on the charity's own Trustees Report of its activities and accounts, appears to be consistent with the levels of reserves held at the end of FY-2007 & 2008. *ie:* excluding any provision for “vehicle repairs” for the mini-bus (which was only purchased in FY-2008) a reserve of around £3,000-£4,000 seems to have been considered adequate prior to purchasing the mini-bus. It is hard to see why a mini-bus, which is valued at just £8,350, should require the charity's levels of reserves to be increased by £7,000-£11,000 to cover the costs of unexpected “vehicle repairs”.

The other area of risk relating to assets is the cost of the IT Suite.

IT equipment typically has a functional lifetime of around 4-5 years given the rapid development in IT necessitating upgrades before the equipment physically “wears out”. A designated fund to build up reserves to replace the IT equipment in 2-3 years time would make sense. So, coupled with the absence of any mention of the cost/value of the charity's IT assets it is “curious” that no mention is made of that in the Financial Review and Reserves Policy.

In short, for a charity which seems to have a significant year-on-year surplus of income over expenditure, such a poorly defined reserves policy of £10,000 to £15,000 looks more like an “excuse” for having a £12,000 unspent surplus in the bank rather than a realistic provision for likely financial contingencies. And the casual vagueness of the sentence in the section “*Additional Details of Objects and Activities*”:

“Any surplus funds which are not likely to be needed to pay for activities are placed on deposit to earn interest.”

seems only to confirm that.

This is bad practice.

As such it is not a proper reserves policy and will prove counter-productive if it leads donors and funders to believe that the Trustees are:

- (a) not using their charity’s funds/donations for the purposes for which they were given;**
- (b) hoarding money;**
- (c) trying to be “less than transparent” in the way that they are managing their charity’s funds;**
- (d) OR – don’t have any realistic idea of what the charity’s financial risks are.**

2.4.5. Fundraising & Restricted Funds

The accounts report the existence of Restricted Funds but nowhere in the Trustees’ Report & Financial Statements is there any description of what the restrictions on the use of those funds are. So there is no way for an “outsider” (particularly donor and the Independent Examiner) to judge whether the restricted funds have been used appropriately.

The income record identifies restricted funds raised for a “Youth Aid Appeal” but the title of the appeal does not convey any meaningful indication of its purpose, other than it is probably for young people.

One can deduce from the expenditure recorded from the restricted fund that at least one of the purposes of the fund is contribute to “*Awards & Activity Costs*”. And one might reasonably surmise that included “...*helping families who would otherwise struggle to cover the cost of entrance fees.*”, as mentioned in the section “*Further Financial Review*” But that is by no means necessarily the case. The Trustees could equally well have set aside a small discretionary fund for that purpose.

That the Charity Commission felt it necessary to include a comment about the purpose of the fund in its **commentary to accompany** the model (which is not, formally part of the report & accounts) confirms that the information contained **within** the model is inadequate.

2.4.6. Fundraising & Fundraising Secretary

According to the Fundraising report in section “*Summary of Main Achievements*”, the fundraising activities of the Club produced “...*small but useful sums...*”, mentioning Tombola, Raffles & Jumble Sales, along with what appears to be a one-off “charity car wash” (which was perhaps the major source of funds for the “Youth Aid Appeal”). But there is no other indication of how much of the charity’s income came from its “fundraising” activities. Nor is there any indication of how much the charity spent on fundraising activities (as is required if the amount is not zero)

As detailed earlier, around £14,000 of the £16,250 of income under “*Donation & Grants*” (*ie*: other than the £20,000 Council grant) must have come from significant donations from identifiable (*ie*: as tax-paying) individuals.

So it would be reasonable to regard that as “fundraising” too.

Given that the amount is “material” (a significant “feather in the cap” for a Fundraising Secretary?) it seems odd that it should not be mentioned as such (unless they were all unsolicited spontaneous donations – *ie*: not a response to “fundraising” activity).

So it seems a little odd that the section on “*Names of the charity trustees who run the charity*” sees it appropriate to report the name of a Fundraising Secretary – responsible for raising what appears to be just a few hundred pounds, whilst there is no mention of a Treasurer responsible for the raising and management of the other tens of thousands of pounds of charity funds.

3. Independent Examination

3.1. Compliance with the Charity Commission's Directions.

Direction 12 of the Charity Commission guidance – **Independent examination of charity accounts: Directions and guidance for examiners (CC32)** – requires that:

“The examiner must compare any narrative information or figures in the trustees’ annual report with the accounts in order to identify any material inconsistency between the trustees’ annual report and the accounts”.

As detailed above, the model Trustees’ Annual Report & Financial Statements for the Westbeach Youth Club demonstrably fails that Direction in several areas. It is therefore surprising that it has been given an unqualified Independent Examination report.

It is also pointed out that such data inconsistencies, accompanied by “woolly” and somewhat eulogistic reports of activities and achievements are an early warning sign of poorly controlled financial managements with the associated risks of potential or actual inappropriate uses of charitable funds, if not actual theft or fraud.

Certainly if the Westbeach Youth Club model of a Trustees’ Annual Report & Financial Statements had been presented to Small Charity Support for Independent examination it would have been returned for significant explanation and amendment before being approved.

3.2. General

The version of the Independent Examiner’s statement in the model is long-since out of date.

The accounts are not signed off by the Trustees.

4. In Conclusion

As a model of the Trustees’ Annual Report and Financial Statements for a small charity using Receipts & Payments accounts, the Charity Commission’s Westbeach Youth Club model is full of the kinds of mistakes and omissions described in its recent reports:

Accounts Monitoring Review: The Quality of Small Charity Accounts

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/515138/amr_the_quality_of_small_charity_accounts.pdf

Do Charity Annual Reports & Accounts Meet the Reader’s Needs?

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/729585/Accounts_monitoring_charity_accounts_quality.pdf

As such it is more an example of what the Annual Report and Financial Statements should **NOT** look like than an example of best practice for others to follow.