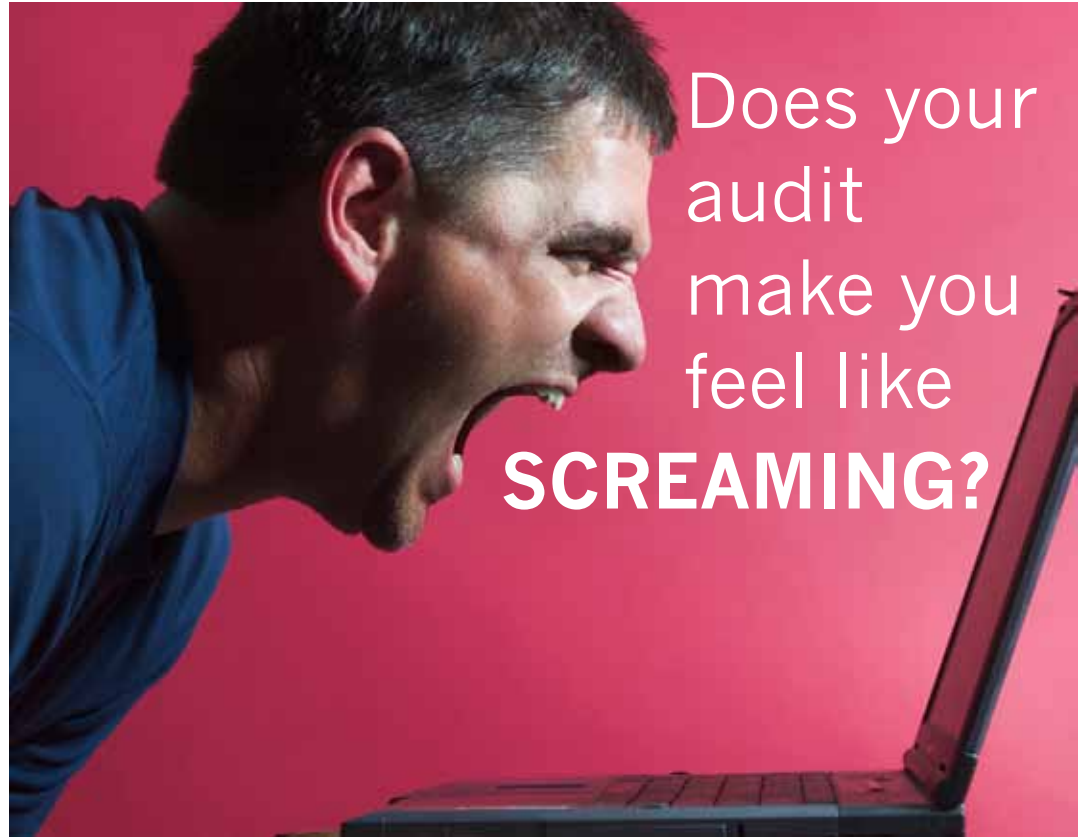


Spring Edition

May 2010



Charity & Education Newsletter



Does your
audit
make you
feel like
SCREAMING?

Preparing for an audit

Preparation is the key....For some people in the financial world mention the word audit and their heart sinks; it means the time of the year that brings about uncertainty, unpredictability and uneasiness. The process of preparation is tiring, frantic and sometimes gruelling, but it does not have to be this way!

An audit should be used as a useful tool to assess your accounting systems to review the quality and reliability of your management accounts. It should be an open and honest forum where recommendations and alterations can be discussed rather than just a formality.

In order to maximise the effectiveness of the audit process it is important to ensure

Continued on Page 4

In this edition

Preparing for an audit	Page 1	In the HotSeat	Page 4
Note from Mark Cummins.....	Page 2	Employment Matters	
Coming out of the recession	Page 2	Horrid form P11D	Page 5
How has the recession affected charities?	Page 3	Interest on late PAYE	Page 6
Fighting for your cash.....	Page 3	New penalties for late payment on NICs	Page 6



Mark Cummins
Charities & Education Partner

Well it seems that we have finally seen the back of the challenging winter, spring is finally in the air, but does this mean the challenging period for the sector is over? Our features on the recession definitely indicate this is not the case, read and take note.

The audit process isn't supposed to be scary for organisations, read our thoughts on 'preparing for an audit' and your perception might just change!

As always we have an Employment Matters section which I hope you find useful.

Finally 'in the hot seat' this time is a new client of the firm called Fine Cell Work, their Chief Executive Dr Katy Emck gives an insight into the work the charity does.

Thanks

Mark



Coming out of the recession... tough times ahead. Are you ready?

As the statisticians tell us, we are now emerging from one of the worst recessions the UK has ever seen. Whilst there appears to light on the horizon, our emergence appears to be lacking energy and forecasts for growth are low and are not set in stone. The Charity Commission has reminded us that insolvencies often increase after the end of a technical recession.

Therefore Charities need to be well prepared and proactive and should consider some of the following:

- Budgets & forecasts – should be carefully prepared ensuring that variable income sources are treated as 'bonuses' and not depended upon, within reason.
- Timing of cashflows & facilities – alongside the forecasts should be an assessment of the cash position for the forthcoming year. Cash is king therefore

consideration must be given to the level of liquid resources and the availability of resources either through a bank facility or the realisation of long term investments.

- Sensitivity analysis and flexing – it is important that you are able to prepare for the 'what if' scenarios and that your budget is updated as the year progresses.
- Financial and operational risk management planning – these two risks need to be linked into your short term and long term plans and need to be reviewed regularly.

So is it all doom, gloom and cost cutting for another year or is the joy and bounce of spring enough to encourage the most pessimistic to be optimistic? Careful planning and risk management should ensure that your Charity is well prepared for the future.

How has the recession affected charities?

Everyone by now is fully aware of the recession, it is doubtful that you will not know someone who has been affected by it.

The question is how has it affected the charity sector?

At the beginning of the recession many questions were raised as to how charities would be affected. There was speculation that the government and local councils would cut grants that would be made to charities. Many charities also worried about whether donations would be reduced due to less disposable income being available to the public at large.

Findings of the Charity Commission

The Charity Commission's fourth Economic Survey of Charities (published 28 March 2010) demonstrates the continuing effect of the recession on charities in England and Wales. The key findings are as follows:

- 59% of charities have been affected by the downturn; this is up from 38% in September 2008 and 56% in September 2009. Of those affected, 62% have experienced a drop in income.
- Almost half of charities (47%) expect the recovery of the charity sector to lag behind that of the rest of the economy.
- 19% of charities have seen an increase in demand for services in the last six months. This compares with 17% reporting an increase in demand in September.
- Investment income continues to be most affected, with 62% of charities with investments having seen a decrease in the past six months.
- Larger charities (those with income of £100,000+) have felt the impact of the downturn the most, with 79% feeling the effects and putting in measures to deal with the effects felt, and a third have seen an increase in demand for services.
- 45% of the charities surveyed raise funds from the public; this is the most important source of income for almost a quarter of all charities (23%).

Ways to increase income

Many charities have been reviewing ways in which they raise funds, diversifying where possible, in order to try and preserve current fund levels.

- **Direct debits** – many organisations have been encouraging regular donees to set up direct debits or standing orders in order to maintain a regular flow of income.
- **Mergers and collaborations** – more and more charities are seeking advice on mergers and collaborations as a result of the recession. Age Concern England and Help the Aged are the most high profile organisations to have announced a merger.
- **Fundraising events** – many charities have been increasing the number of fundraising events that they hold.

Recent announcements that the recession is over have led to many people breathing a sign of relief. However it would be naïve to think that the effects of the recession are over. There are still hard times ahead, and lots of work needs to be done in order to keep donations and funding levels up.



Fighting for your cash – legal disputes over legacies.

The RSPCA are currently appealing a recent decision against them in a £2million legacy case. Should the appeal be upheld, it is feared that other charities in the UK will be put off pursuing legitimate legacies.

The main thrust behind this concern is that the RSPCA has already incurred estimated legal costs of up to £1 million.

The main concern is the responsibility of Trustees to ensure they take appropriate measures to secure funds rightfully intended for the Charity and to what lengths they should go.

The Charity Commission states that a judgement must be made balancing the prospect of success against the risks involved.

In smaller charities the prospect of significant legal costs is not an option if there is any possibility of failure, therefore is there another choice?

Well yes, before the courts are involved the charity should seek mediation and negotiation. Often a part settlement is preferable to a long drawn out dispute that may never prove favourable.

Continued from Page 1

that you are properly prepared. Ensure you are able to provide timely information to the auditors so that you are not significantly diverted from everyday tasks during the audit fieldwork.

Prior to starting an audit, a planning meeting with key staff and/or Trustees should be held either in person or via telephone with your auditors. This meeting covers the key areas of development that have occurred within the organisation and also helps identify the scope of the audit. It is important at this stage for both the auditors and the finance team to be aware of each other's responsibilities in terms of accounts preparation and knowing what information will be supplied to the auditors before they visit. It is paramount that this opportunity is used to express any concerns over the forthcoming audit. It is often the case that your auditor is able to

provide advice, assistance or just reassurance.

The preparation of an audit file is often a good starting point; this file should provide supporting details and documentation to all the figures appearing in the statutory accounts. If supplied ahead of the fieldwork it allows the auditor to focus on key risk areas which should improve the efficiency of the process.

Auditors are required to take a risk based approach and therefore will want to review your key strategic and risk assessment documents. These documents should be updated on a rolling basis and reviewed by the Board of Trustees.

If you have been audited in the past, it is worth reviewing the last report to management issued by the auditors. A standard feature of our approach is to review the progress of past recommendations. Recommendations that were graded as fundamental or

significant in previous reports will always be revisited.

The most important aspect is to keep the lines of communication open, so there should be no feelings of anxiety on either side. Auditors should be used as a reference point to assist you in your working practices. They will have valuable experience of dealing with a large variety of clients and industries and should be able to use that knowledge in making recommendations to you.

At Russell New our audit philosophy is one of 'no surprises'. We see the audit as an all year round process so that we discuss topical issues with our client as soon as they emerge. We firmly believe that the audit process should not to be an arduous or stressful experience.

To discuss your audit requirements on a no obligations basis please contact Mark Cummins
mark@russellnew.com.

in the HOTSEAT

In the hot seat this time is Dr Katy Emck, Chief Executive at Fine Cell Work.

Russell New have recently been appointed our independent examiners and advisors of Fine Cell Work, a registered charity that teaches needlework to prison inmates and sells their products. The prisoners do the work when they are locked in their cells, and the earnings give them hope, skill and independence.

Prison authorities say that the concentration and hard work required and the financial gains, however small, give prisoners an increased sense of self worth.

A substantial amount of the money earned by the prisoners is held by the prison and provides a helping hand when the prisoner is released. Fine Cell Work currently works with 300 prisoners at any one time and their products are sold to museums, interior designers and internationally as well as to the general public.

I have seen the charity through from a start-up with £2,000 in the bank in 1997 to a half a million pound charity in 2010. My aim is to make paid, professional in-cell craft work an accepted part of prison life in the UK, bringing hope, purpose and employment skills to offenders so that they become less likely to re-offend on release.

More about Fine Cell Work can be found at www.finecellwork.co.uk



Employment Matters



It is that time of year again...

the horrid Form P11D, the Return of Expenses & Benefits

These forms are much disliked by accounts department staff and payroll professionals. It is not easy to decide what to put on them, and hard to find someone who is willing to give guidance.

Some of the entries on the forms are completely unavoidable, and these relate to expenses and benefits which give rise to tax or National Insurance liabilities.

Class 1A National Insurance is due on cars and other benefits in kind for the year ended 5 April 2010 and is payable by 19 July 2010 (or 22 July if paid electronically). For the first time this year, a penalty will be charged if payment is late.

The forms P11D or nil returns on form P11D(b) must be submitted to HM Revenue & Customs by 6 July 2010. Penalties will also be levied if the forms are late. A copy of form P11D must also be handed to employees by this date.

A notice to complete a return of Class 1A NI contributions may be issued by post or, if you have registered for online payroll notifications, online in the employer notices section.

However, there is an obligation to complete a return and P11Ds if there are any benefits and /or expenses paid which give rise to an income tax or Class 1A NI liability, even if a notice has not been received. If a notice is received and there are no benefits or expenses to report, then a nil return must be made.

If you are unsure if you need to make any returns, you should seek advice as soon as possible.

Avoid P11Ds! HMRC grants dispensations for non-taxable expenses.

The best way to reduce the amount of effort expended on this annual task is to make use of P11D dispensations where possible.

These may be obtained for such expenses as travel and subsistence, entertaining, office expenses and sundry business expenses – anything which does not give rise to a tax or National Insurance liability. If a dispensation can be agreed with the Inspector, then expenses covered by the dispensation need not be included on the form P11D.

You can apply to HMRC using dispensation request form P11DX. You can also make a request on line at www.hmrc.gov.uk/paye/exb/schemes/dispensation.htm

If you already have an agreed dispensation, we understand HMRC have announced their intention to review all dispensation agreements which are 5 years old or more.

So, be prepared! Read the next paragraph about record keeping...

Record-keeping

To support the entries on forms P11d or to justify qualification for dispensation, it is important to keep records for employee expenses and where appropriate, business mileage.

Failure to keep accurate records can lead to lengthy negotiations with HMRC and possibly significant tax charges, backdated up to six years, with interest and penalties.

PAYE Settlement Agreements (PSA)

PAYE Settlement Agreements may be used to settle tax and national insurance on some taxable benefits, when it is difficult to allocate them to individual staff members, for example – say on a pool car. This again saves having to report the benefit on the form P11D as any tax due on the benefit is paid by the employer.

Russell New offers a PAYE systems review service in which we check your records and procedures and provide advice on PAYE and P11d compliance. We can assist with applications for dispensation and negotiate PAYE settlement agreements. Please contact Mark Cummins or Sylvia Spencer for more information.

Interest on late PAYE – new rules for the new Tax Year

Have you paid all your PAYE and NIC deductions over to HMRC yet? If not – pay it as soon as you can, as interest will now be accruing, since 19th April.

HMRC is introducing more stringent policing of PAYE payment with new penalties for paying late in future.

The penalty depends on how much is late, and how many times payments are late in a tax year. One late payment is overlooked, but after that, a penalty will be payable for

all instalments paid late – so make sure you get your tax and NI payment off to HMRC in time to reach them by the 19th of the month.

If you find that you struggle to fit these things in to a busy day, as an alternative, you can consider outsourcing payroll to a bureau to help you meet all these deadlines.

Your payment due by 19th May is the first one affected by these changes – pay it on time!

New penalties for late payment of NICs on benefits

There are now tax geared penalties for late payment of National Insurance Contributions. Here is a timetable to help you pay everything on time.

19 April 2010	All outstanding PAYE for 2009/10 due <i>Interest will be charged if paid late</i>		
19 May 2010	End of year returns and P14s due <i>Penalties for late delivery are £100 per month, or part month, for every 50 or part 50 employees. These penalties increase after twelve months.</i>		
31 May 2010	Employees to be provided with P60 for 2009/10		
5 July 2010	PAYE Settlement Agreements (PSA) to be agreed with HM Revenue & Customs		
6 July 2010	P11D and P11D(b) due <i>Penalties for late delivery are £100 per month, or part month, for every 50 or part 50 employees provided with benefits. These penalties increase after twelve months.</i>		
19 July 2010	Class 1A National Insurance due <i>Interest and a penalty will be charged if paid late.</i> <ul style="list-style-type: none"> • 5% penalty if the full amount is not paid within 30 days of the due date • An additional 5% penalty if the full amount is not paid within 6 months of the due date • A further 5% penalty if the full amount is not paid within 12 months of the due date 		
22 July 2010	Class 1A National Insurance due - electronic payment		
19 October 2010	Tax and Class 1B National Insurance on PSAs due <i>Interest and a penalty will be charged if paid late.</i> <ul style="list-style-type: none"> • 5% penalty if the full amount is not paid within 30 days of the due date • An additional 5% penalty if the full amount is not paid within 6 months of the due date • A further 5% penalty if the full amount is not paid within 12 months of the due date 		
19th of every month	PAYE and NIC deductions due for payment		
	No of times payments are late in a tax year	Penalty Percentage	Amount to which penalty percentages apply
	1	No penalty	Total amount that is late in the tax year (ignoring the first late payment in that tax year)
	2-4	1%	
	5-7	2%	
	8-10	3%	
11 or more	4%		