

Financial Reporting & Best Practice for Arts Organisations

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Organisations with Reporting Requirements

- Charities Regulator
- ODCE/CRO
- Governance Code
- Arts Council

Question

How can arts organisations effectively, and efficiently, meet the requirements and standards set by all four organisations?

Answer

1. Configure the organisation as a Company Limited by Guarantee (CLG)
2. Prepare Financial Statements in accordance with the Statement of Recommended Practice (SORP) for Charities

Limited Company

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graph TD; A[Limited Company] --> B[Limited by Share]; A --> C[Limited by Guarantee]; B --> D[Private Limited Company]; B --> E[Designated Activity Company (DAC)]; C --> F[Company Limited By Guarantee (CLG)];
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Limited by Share

Private
Limited
Company

Designated
Activity
Company
(DAC)

Limited by Guarantee

Company Limited
By Guarantee
(CLG)

Companies Limited by Share



Private Limited Company

- No memorandum & articles of association
- No stated 'objects'
- Shareholders entitled to assets on w/up
- Shareholders entitled to dividends
- Best suited to profit motive

Designated Activity Company

- Must have memo & articles of association
- Stated objects – i.e. must declare it's designated activity
- Shareholders entitled to assets on w/up
- Shareholders entitled to dividends
- Best suited to profit motive

Company Limited by Share

- Company has a share capital
- Directors account to the shareholders at AGM
- May or may not have a memo & articles of association
- S/h entitled to assets on w/up
- S/h entitled to dividends
- Best suited to profit motive
- Companies are *required* to report under FRS 102

Company Limited by Guarantee

- Company has no share capital
- Directors account to the members at AGM
- Company has a 'constitution'
- Members not entitled to assets on w/up
- Members not entitled to dividend
- Members 'guarantee' to cover the liabilities of the company up to max.€5
- Best suited to non-profit motives
- Charities are *recommended* to report under SORP

Guarantee Company

'Old' Company Ltd. by Guarantee

- Min. 7 members
- Min. 2 Directors + Secretary
- Company governed by Memo & Arts
- Had 'Limited' after company name
- Audit requirement under company law

New' Company Ltd by Guarantee

- Min. 1 member
- Min. 2 Directors + Secretary
- Company governed by Constitution
- Has 'CLG' after company name
- No audit requirement under company law

Advantages of CLG Structure

1. Membership neither own assets nor entitled to dividends
2. Structure best suited to non-profit motive
3. Constitution sets out company's charitable/non-profit objectives
4. Favoured by Arts Council, and other funding bodies

Advantages of CLG Structure (contd.)

5. Members exposure to liability limited to €5
6. Structure and constitution ease the passage to charitable status and CHY number
7. Best structure to recruit non-executive board of directors and members.
8. Non-profit CLG structure well-suited to reporting under the SORP

Statement of Recommended Practice for Charities (SORP)

Developed to assist preparers of accounts, and charity trustees, report in a manner that is:

- Informative
- User-friendly
- Transparent
- Relevant
- Understandable
- Comparable

SORP for Charities

- Under company law, company directors are required to prepare accounts in accordance with FRS 102, including a Directors' Report
- If a company, which is also a charity, prepares its accounts in accordance with the new SORP for Charities, including a Trustees Report, it will *also* comply with FRS 102.

Annual Financial Statements under SORP

- Trustees'/Directors' Annual Report
- Income & Expenditure A/c
- Balance Sheet
- Cashflow Statement
- Notes to the Accounts

Examples of all these, with appropriate headings and prompts, are included in the Arts Council publication 'Financial Statements Guidance Notes'.

Advantages to CLGs Reporting under SORP

- Complies with FRS 102 and Co. Law
- The Directors' Report and Trustees' Report may be combined, to satisfy Charity Regulator
- Favoured form of reporting by the Arts Council
- The accounting structure is much more user-friendly, informative, transparent and relevant for trustees/directors, thereby significantly enhancing governance over finances.

In summary, CLGs who account under SORP will be much better placed to satisfy the reporting requirements of:

- Companies Registration Office
- Charities Regulator
- Funding bodies e.g. Arts Council
- Governance Code