OSCR
Scottish Charity Regulator

A Guide to Charity Accounts

April 2019
Scottish Charity Regulator

Contents

Introduction

What this Guide covers

This Guide sets out the legal requirements for preparing charity accounts and getting those accounts externally scrutinised.

The type of accounts that your charity should prepare and the kind of external scrutiny that is required depends on several factors, which we explain in this Guide.

Please read this Guide before you begin to prepare your charity's accounts in order to be clear about what your charity needs to do.

Who is this Guide for?

This Guide is for:

- charity trustees
- people working in or with charities
- independent examiners
- auditors
- professionals who advise charities or who assist charities to prepare their accounts may wish to use this Guide as a tool to help their clients.

Some charities will also have to prepare accounts in line with other legislation and regulations, for example:

- charitable companies
- registered social landlords
- further and higher education institutions
- community benefit societies (CBS or Bencom).

For these charities the Guide will need to be read alongside the other legislation or regulations that are specific to them.

How to use this Guide

The Guide is split into three parts.

1. The Overview

This Guide is for all charities. It gives an overview of the law regarding charities' accounts and essential information relevant to all charities. It will help you decide what kind of accounts you need to prepare.

2. Receipts and Payments Accounts

This Guide is for charities that need to prepare Receipts and Payments accounts.

3. Fully Accrued Accounts

This Guide is for charities that need to prepare Fully Accrued Accounts.

All charities should read Part 1, you will then need to read part 2 or 3 depending on the type of accounts you have to prepare.

Key terms are highlighted in **bold purple type**. These terms will be explained in the **accounting terms glossary** on page 62.

The law and the rules

- **Charities and Trustee Investment (Scotland) Act 2005 (the 2005 Act)**

The main piece of charity law in Scotland that sets out the requirements for being a charity and establishes OSCR.

- **The Charities Accounts (Scotland) Regulations 2006 (the Regulations) as amended**

The Regulations set out in detail what information trustee annual reports and charity accounts must contain and when they must be submitted to OSCR.

- **Statement of Recommended Practice (SORP)**

The SORP sets the framework for charity financial reporting in the UK for charitable companies, charities with income of £250,000 and more and all other charities preparing accruals accounts.

Sources of help and advice

OSCR publishes general guidance for charities, but we can't provide specific advice on the full range of things which can happen in or affect your charity.

Below is a list of organisations, professional bodies and publications that can help with some or all of the areas set out in the Guide and more:

Organisations:

- Local **Third Sector Interfaces** offer a range of support to voluntary organisations.
- The **Scottish Council for Voluntary Organisations (SCVO)**.
- If your charity is part of an umbrella organisation, such as **Early Years Scotland** or the **Development Trusts Association Scotland**, the umbrella organisation or parent charity may be able to give you support.
- The **Charity Commission for England and Wales** is the Regulator for charities in England and Wales and provides information and advice on matters affecting charities in England and Wales.
- The **Charity Commission for Northern Ireland** is the Regulator for charities in Northern Ireland and provides information and advice on matters affecting charities in in Northern Ireland.
- **Companies House** has information on Company law and the accounting rules for companies.

Professional bodies:

- **The Institute of Chartered Accountants of Scotland**
- **The Institute of Chartered Accountants in England and**

Wales

- **Chartered Accountants Ireland**
- **The Association of Chartered Certified Accountants**
- **The Association of Authorised Public Accountants**
- **The Association of Accounting Technicians**
- **The Association of International Accountants**
- **The Chartered Institute of Management Accountants**
- **The Institute of Chartered Secretaries and Administrators**
- **The Chartered Institute of Public Finance and Accountancy**
- **The Association of Charity Independent Examiners**
- **The Institute of Financial Accountants**

Publications:

- Accounting and Reporting by Charities: Statement of Recommended Practice 2015. Copies can be downloaded at: **www.charitiessorp.org**. Hard copies may be purchased from CIPFA. Contact 020 7543 5600.
- **Charity Finance Yearbook 2019** from Charity Finance Magazine.
- Practical Guide to Financial Management for Charities and Voluntary Organisations. By Kate Sayer, 3rd edition, 2007, **Directory of Social Change**. ISBN 978 1 903991.
- Practice Note 11 – The Audit of Charities in the United Kingdom produced by the **Financial Reporting Council**.
- The Charity Treasurer's Handbook. By Gareth Morgan, 5th edition. 2017, Directory of Social Change. ISBN 978 1 78482 013 8.

Part 1: The Overview

Section 1: Introduction

Part 1 gives an overview of the law and essential information regarding charities' accounts that is relevant to all charities. This includes:

- The requirements for accounting records
- How to set your financial year
- Appointing an external scrutineer and their rights and duties
- Reporting to OSCR.

Part 1 also contains information and flowcharts that allow you to determine which type of accounts should be prepared (section 2) and which type of external scrutiny should be used (section 3).

When you have decided which type of accounts you need to prepare, then you can read the part of the Guide that applies:

Part 2: Receipts and Payments Accounts
Part 3: Fully Accrued Accounts

Section 2: Preparing accounts

2.1 The types of accounts that can be prepared

Charities must prepare accounts in one of two ways depending on several factors. These are briefly:

- **receipts and payments**

Receipts and payments accounts are a simple form of accounting that consist of a summary of all monies received and paid by the charity during its financial year in both cash and via the bank account, along with a statement of balances at the year end.

- **fully accrued**

Fully accrued accounts record all the transactions of the charity in the financial year. Fully accrued accounts include income which a charity is due to receive and expenses which are due to be met.
Fully accrued accounts must be prepared in accordance with the methods and principles of the Accounting and Reporting by Charities: Statement of Recommended Practice (the SORP).

2.2 Which type of accounts should we prepare?

Normally a charity's gross income for a given financial year will determine the type of accounts to be prepared for that particular year.

However, if:

- the charity's **governing document** says it should prepare fully accrued accounts, or
- the charity trustees have taken a decision to prepare fully accrued accounts,
- any third party requirements, for example funders, or
- any **enactment** says that the organisation should prepare fully accrued accounts (for example, the provisions of the Companies Act 2006 mean that charitable companies must prepare fully accrued accounts)

then fully accrued accounts must be prepared even if the charity's gross income would otherwise allow accounts to be produced on the receipts and payments basis.

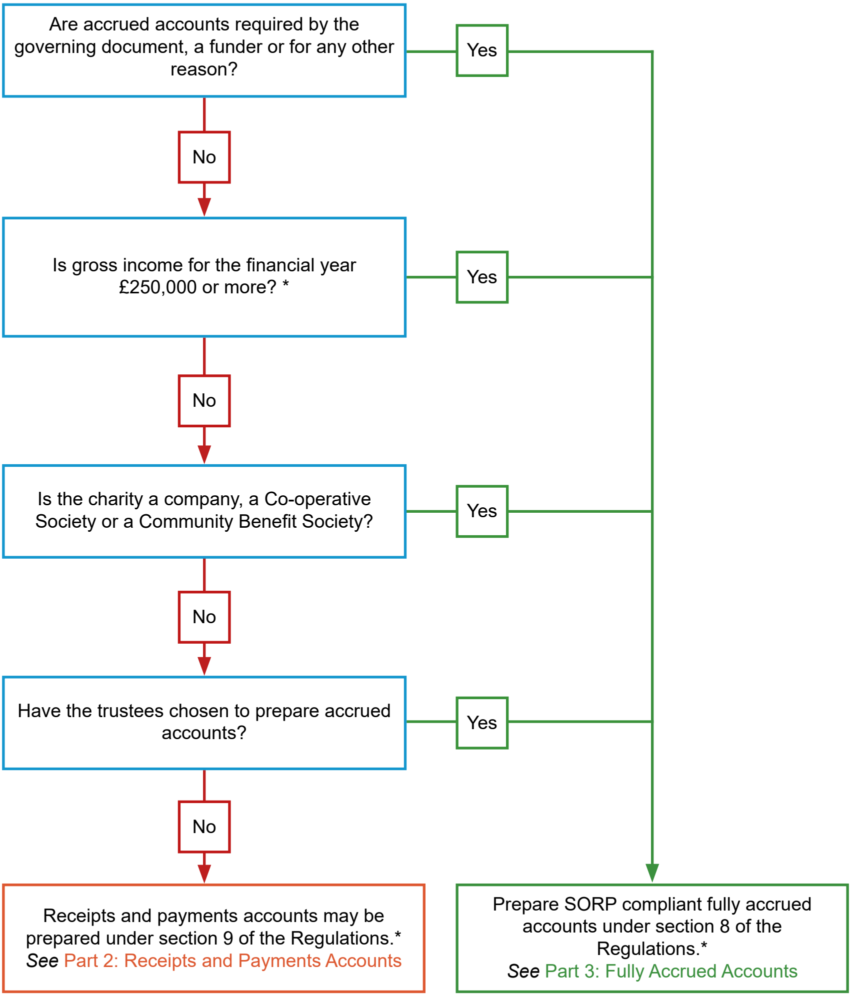
Fully accrued accounts must follow the SORP and, if independently examined, be examined by a qualified independent examiner (see section **3.5 in Part 3: Fully Accrued Accounts**). Charity trustees should fully consider the implications of deciding to prepare fully accrued accounts if they are not otherwise required.

Apart from the statutory requirement, any requirement of the governing document or third party reference to accounts providing a true and fair view of the financial affairs of the charity would require the preparation of fully accrued accounts.

See **Flowchart 1 - Preparing Accounts** on the next page to determine the type of accounts that must be prepared.

Once the charity has established the type of accounts required for the financial period they can read, **Parts 2 and 3 of this Guide**, receipts and payments accounts and fully accrued accounts, for more detailed information on the requirements specific to the type of accounts being prepared.

Flowchart 1 - Preparing accounts



* Charities should also be aware that, depending on their particular circumstances, the accounts they prepare may also need to comply with other legislative requirements (e.g. the Companies Act if they are a charitable company).

Section 3: The external scrutiny of charity accounts

3.1 Background

Accounts must be independently scrutinised. The aim of external scrutiny is to give a degree of confidence in the words and figures presented in the accounts and to confirm that they have been prepared in accordance with the Regulations.

There are two main types of external scrutiny to which charities' accounts are subject:

- audit
- independent examination.

Audit

An audit provides reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In undertaking an audit, a registered auditor must comply with the UK Financial Reporting Council's ethical standard for auditors and International Standards on Auditing (UK).

Many charity governing documents use the term 'audit' when describing the type of external scrutiny to which the accounts should be subject. The charity trustees of charities not required to have an audit under the Regulations or any enactment may consider that the benefits of having an audit are outweighed by the costs. Charity trustees of such charities may wish to review their **governing document** and:

- retain the term audit because they decide that the accounts should continue to be audited, or
- amend the governing document (where they have the power to do so) to reflect the charity trustees' or members' intentions regarding external scrutiny.

Any change to the governing document must be carried out in accordance with the terms of the governing document and with consideration of any professional advice received. Notification of the change to the governing document must also be sent to OSCR within three months of the change being made.

In addition, some funding bodies require the charities to have their accounts 'audited'. Charities whose gross income means they could carry out an independent examination under the Regulations may wish to discuss with their funding bodies what is meant by the term 'audit', and if external scrutiny by an independent examiner as required under the Regulations would be sufficient.

Independent examination

An independent examination is a form of external scrutiny of the accounts which is less rigorous than an audit. It offers an assurance that nothing has been found that needs to be brought to the attention of readers of the accounts rather than the positive expression of a professional opinion based on an audit.

Historically, the term 'audit' has been used loosely to describe any independent scrutiny of accounts. However, under the Regulations if the term 'audit' is used in a charity's governing document or governing document the charity must have its accounts audited by a registered auditor or a person appointed by the Accounts Commission for Scotland or by the Auditor General for Scotland (responsible principally for public bodies).

3.2 External scrutiny and type of accounts prepared

The type of external scrutiny appropriate for a particular charity will be determined by:

- any reference to audit in the **governing document**
- whether the charity is a company
- the charity's gross income and the value of assets held (before deduction of liabilities) for the accounting period
- a decision of the charity trustees to have the accounts audited
- any third party requirements, for example a funder, for an audit.

The answers to the questions in **Flowchart 2 - External Scrutiny Requirements** on page 15 will determine the type of external scrutiny under charity law to which accounts should be subject.

The charity should then read:

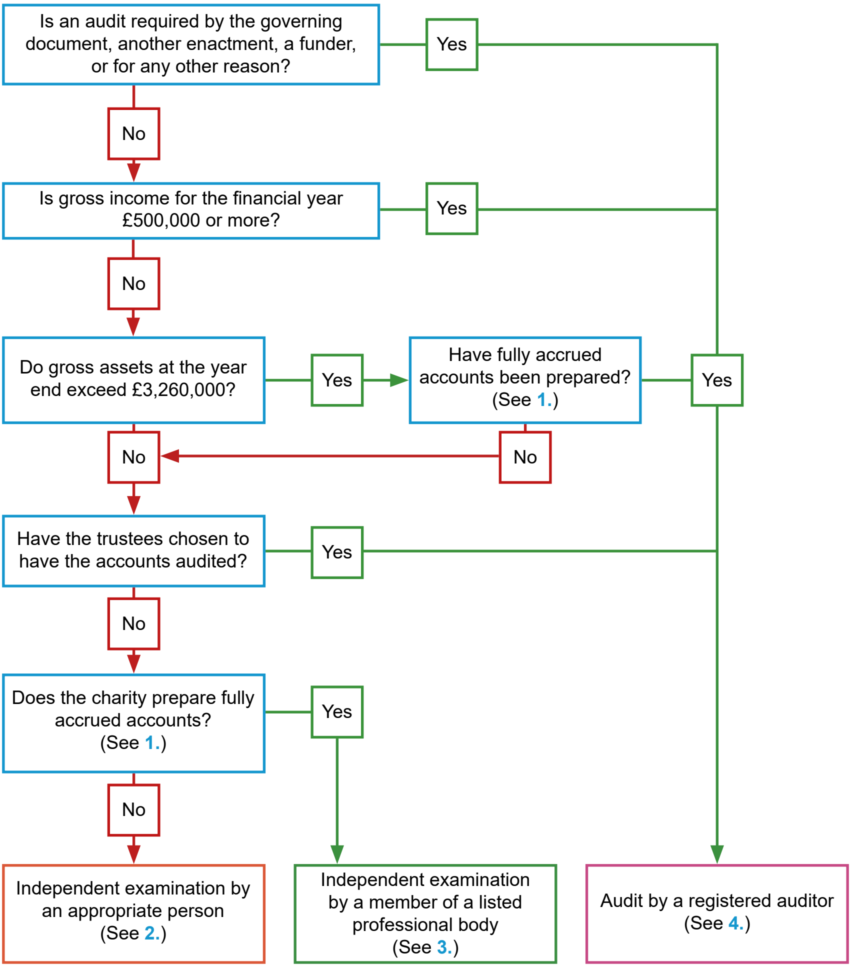
- **Part 2: Receipts and Payments Accounts**

  or

- **Part 3: Fully Accrued Accounts**

for more detailed guidance on external scrutiny appropriate to the type of accounts prepared.

Flowchart 2 - External Scrutiny Requirements



1. Company charities must always prepare fully accrued accounts.
2. Independent examination by someone who the trustees reasonably believe to have the requisite ability and practical experience to carry out a competent examination of the accounts. Refer to **Part 2: Receipts and Payments Accounts**.
3. Refer to **Part 3: Fully Accrued Accounts**.
4. Audit under the 2005 Act. Larger company charities may also require audit under the Companies Act 2006.

Section 4: Appointment, rights and duties of the external scrutineer

In appointing an independent examiner or auditor, charity trustees should consider the degree of complexity of the charity's accounts and structure. The more complex the organisation and its accounts, a greater level of skill, knowledge and experience is required of the independent examiner or auditor appointed.

4.1 Appointing someone to carry out the external scrutiny

In deciding who to appoint as an independent examiner or auditor, charity trustees should consider the type of accounts the charity prepares and ensure the independent examiner or auditor:

- is independent of the management and administration of the charity
- is eligible under the Regulations to act as an independent examiner or auditor
- is eligible under their professional body's rules and regulations to act as an independent examiner or auditor
- has experience of accounts to the same level and degree of complexity.

The independent examiner or auditor should have no connection with the **charity trustees** that might inhibit their ability to carry out an impartial examination. Whether a connection exists will depend on the circumstances of a particular charity, but the following people will always be considered to have a connection:

- the charity trustees or anyone else who is closely involved in the management and administration of the charity
- a major donor to the charity
- a **close relative**, spouse, partner, business partner or employee of any of the people mentioned above.

An Independent Examiner of Auditor must be completely independent from the management of the charity. They should have no involvement in the record keeping or finances of the charity.

4.2 Access to information for independent examiners and auditors

Under the **2006 Regulations**, independent examiners and auditors have the right of access to any books, documents or other records that relate to the charity which they consider necessary to carry out their work. They may also require information from charity trustees or employees of the charity. This includes past or present trustees or employees.

4.3 Duty of independent examiners and auditors to report matters to OSCR

Under the **2005 Act,** independent examiners and auditors must report to us any matter they become aware of regarding a charity, or any connected organisation, which they believe is likely to be of material significance to us in carrying out our functions. If they believe the matter may not be of material significance but may still be relevant to us carrying out our functions, they may still report the matter.

Further detail can be found within our guidance **Matters of Material Significance reportable to UK charity regulators**.

In addition to the reportable matters set out above auditors and independent examiners may required to report any other matter which may be of significance to us in exercising our functions. Further information is available in our guidance – **Reporting of relevant matters of interest to UK charity regulators**.

There are nine areas that must be reported to us. These areas are detailed on the table starting on the next page.

	Area	Explanation
1.	Dishonesty and Fraud	matters suggesting dishonesty or fraud involving a significant loss of, or a material risk to, charitable funds or assets.
2.	Internal Controls and Governance	failure(s) of internal controls, including failure(s) in charity governance that resulted in, or could give rise to, a material loss or misappropriation of charitable funds, or which leads to significant charitable funds being put at major risk.
3.	Money Laundering and Criminal Activity	knowledge or suspicion that the charity or charitable funds including the charity's bank account(s) have been used for money laundering or such funds are the proceeds of serious organised crime or that the charity is a conduit for criminal activity.
4.	Support of Terrorism	matters leading to the knowledge or suspicion that the charity, its trustees, employees or assets, have been involved in or used to support terrorism or proscribed organisations in the UK or outside of the UK, with the exception of matters related to a qualifying offence as defined by Section 3(7) of the Northern Ireland (Sentences) Act 1998.
5.	Risk to charity's beneficiaries	evidence suggesting that in the way the charity carries out its work relating to the care and welfare of beneficiaries, the charity's beneficiaries have been or were put at significant risk of harm, abuse or mistreatment.

6.	Breaches of law or the charity's trusts	single or recurring breach(es) of either a legislative requirement or of the charity's trust leading to material charitable funds being misapplied.
7.	Breach of an order or direction made by a charity regulator	evidence suggesting a deliberate or significant breach of an order or direction made by a charity regulator under statutory powers including suspending a charity trustee, prohibiting a particular transaction or activity or granting consent on particular terms involving significant charitable assets or liabilities.
8.	Modified audit opinion or qualified independent examiner's report	on making a modified audit opinion, emphasis of matter, material uncertainty related to going concern, or issuing of a qualified independent examiner's report identifying matters of concern to which attention is drawn, notification of the nature of the modification, qualification, emphasis of matter or concern with supporting reasons including notification of the action taken, if any, by the trustees subsequent to that audit opinion, emphasis of matter or material uncertainty identified/independent examiner's report.
9.	Conflicts of interest and related party transactions	evidence that significant conflicts of interest have not been managed appropriately by the trustees and/or related party transactions have not been fully disclosed in all the respects required by the applicable SORP, or applicable Regulations.

Section 5: Accounting records

The 2005 Act requires charities to keep proper accounting records.

The **2006 Regulations** specify that the accounting records must be sufficiently detailed to show and explain the transactions of the charity. In particular they must be able to:

- show, day by day, the money received and spent by the charity
- record the assets and liabilities of the charity
- disclose the financial position of the charity at any time
- produce a statement of account in line with the Regulations.

The 2005 Act also specifies that charities must keep accounting records for at least six years from the end of the financial year in which they are made. However, charity trustees should be aware that the length of time they need to keep records may also be governed by other legislation or by agreements with funding bodies.

The records kept by charities will vary depending on circumstances and may be manual or computerised. Examples of records that a charity should keep are:

- a cash book recording day to day income and expenditure
- bank statements which are reconciled regularly (for example, monthly) with cash book records
- vouchers, invoices, receipts and other supporting evidence of income and expenditure.

Examples of other records that a charity may keep are:

- a general ledger with supporting purchase and sales ledgers, recording day to day income and expenditure but also any sales or purchases that have not yet been paid
- computer spreadsheets
- commercial accounting software with supporting data.

Section 6: The charity’s financial year

The date of the financial year end, or accounting reference date, is an important part of the information about a charity that is contained in the **Scottish Charity Register** (‘the Register’). It is the date to which accounts are prepared by the charity.

6.1 Establishing the financial year

Where a charity is an unincorporated association, a Trust or a **SCIO** the financial year will begin on the date that the charity is entered on the Register.

Where a charity is also a company, the date of the start of the first financial year is the date that the company was incorporated.

Where a charity is established under the law of a country or territory other than Scotland the date the financial year starts will be the date the charity was established.

The first financial year of a charity must be for a period not less than six months and not greater than eighteen months from the date the financial year begins.

Charitable companies must make sure that the establishment of their financial year also complies with the Companies Act.

6.2 Changing the financial year

The charity trustees may specify a new financial year end date for either:

- the current financial year, or
- the financial year immediately before the current financial year
- as long as the financial year is no longer than 18 months and a charity does not have three or more financial years exceeding 12 months in any five-year period.

A notice of the change must be given to OSCR within three months of the date of the decision to change the accounting reference date. The change can be made through the charity's **OSCR online** account.

Charitable companies must make sure that any change to their financial year complies with the Companies Act and that Companies House is notified of any change.

More information about making changes can be found at www.oscr.org.uk/changes

6.3 Removal from the Scottish Charity Register

If a charity is removed from the Register for any reason (as opposed to winding up), it must still prepare and submit accounts to us for any outstanding charity assets held at the time of removal. This is because the assets still need to be used for charitable purposes and we use the accounts to check that is the case.

Former charities are still required to prepare accounts for these assets and make sure the accounts are externally scrutinised in line with the 2005 Act and the 2006 Regulations.

Where a charity is removed from the Register, its financial year will begin on the day after its previous full financial year end and end on the date of its removal from the Register.

More information can be found in our **Monitoring of former charities guidance**.

Section 7: Reporting to OSCR

To keep the Register up to date and allow OSCR to monitor and regulate charities operating in Scotland, we require every charity to provide us with certain information by completing an online annual return.

The 2005 Act gives OSCR the powers to make **inquiries about and obtain information from charities**.

7.1 Online annual returns

Each year, charities are required to complete an online annual return. The online annual return is available to complete through the charity's online account immediately after their year end date. The online annual return must be completed within nine months of the charity's financial year end.

The trustees' annual report and accounts must be submitted when the online annual return is completed.

All charities are required to answer some basic questions including details of their income and expenditure and the activities undertaken to achieve the charity's purpose.

Where the charity's income is £25,000 or more some additional questions are asked, and where income is £250,000 or more there is a requirement for more detail about the charity's finances.

See the **Annual Monitoring** section of our website for more on the process and timescales involved.

7.2 Processing of the online annual return and accounts

The information collected from the online annual returns help OSCR maintain a regulatory system in which the public can have confidence.

It also provides statistics on the sector that are useful to policy makers and the sector itself.

We do not review all the returns and accounts submissions, however we do undertake reviews on both targeted and random bases. Where we receive an external concern about a charity we will consider the online annual return information and the accounts.

Where a review of the online annual return and accounts highlights a matter of concern we may contact the charity for further information.

Currently OSCR publishes the annual reports and accounts of all charities with an income of £25,000 or more and all Scottish Charitable Incorporated Organisations (SCIOs). Where a charity's annual reports and accounts are published on the charity's website or by another regulator (for example Companies House) then we link to those websites.

7.3 Amalgamation, winding up and removal from the Scottish Charity Register

Charities proposing to amalgamate or wind up need to apply for OSCR's consent to take this action. Once consent is given and the amalgamation or winding up put into effect, a final set of accounts made up to the date of amalgamation or winding up must be produced and submitted to OSCR. These accounts must be prepared and subjected to external scrutiny as required by the 2006 Regulations.

For more information on applying for OSCR's consent see our **Making Changes to your charity** webpages.

7.4 Removal from the Register – protection of charitable assets

Charities can be removed from the Register either at their own request or by OSCR. The 2005 Act makes provision for the protection of charitable assets of organisations that continue to operate after being removed from the Register.

An organisation removed from the Register continues to be under a duty to use the assets it had at the date of its removal from the Register, and any income from these assets, for the charitable purposes as set out in its Register entry on the date of removal.

OSCR's powers of inquiry and intervention continue with respect to these assets even though the organisation is no longer a Scottish charity.

OSCR will require a statement of account made up to the date of removal from the Register and thereafter the charity will be required to submit an annual statement of account for these assets, and any income from them, for as long as they are held by the former charity. The annual statement of account for these assets must comply with the 2005 Act and 2006 Regulations.

More information can be found in our **Monitoring of former charities guidance**.

Section 8: Consolidated accounts

8.1 Consolidated accounts

Some charities are part of a group structure with one or more subsidiaries. Producing consolidated accounts for the whole group provides an accurate picture of the charity and all its undertakings. Parent charities with subsidiaries that have a combined gross income of £500,000 or more after eliminating consolidation adjustments in any financial year must prepare consolidated accounts using the methods and principles of the SORP. These accounts must be audited and submitted annually to OSCR.

Where charities prepare consolidated accounts (or have their results included in consolidated accounts) they must still produce their own accounts as required by the 2006 Regulations. The parent charities accounts can be included in the group accounts.

8.2 Consolidated Trustees' Annual Report

Where a parent charity produces consolidated accounts, it may also prepare a consolidated trustees' annual report for the charity and its subsidiaries.

A subsidiary charity which has been included in a consolidated trustees' annual report need not prepare a separate trustees' annual report as long as its own statement of account states:

- that a consolidated Trustees' Annual Report has been prepared, and
- where copies of the consolidated Trustees' Annual Report can be obtained.

Section 9: Connected charities

Some charities are connected by having common or related purposes, or by having a common controlling body or administration, for example, a group of trustees that meet quarterly to consider a number of trusts at the same time. These charities have the option of preparing a single set of accounts to send to OSCR instead of preparing individual accounts. The individual charity with the highest gross income will determine the type of accounts to prepare and the type of external scrutiny required.

Section 10: Charities registered elsewhere in the UK

A key principle of the 2005 Act is that all charitable activities in Scotland should be regulated by OSCR. Therefore charities registered in other jurisdictions, for example England and Wales, but which carry out activities in Scotland, are also required to register with OSCR.

Where there is no separate Scottish entity registered, such charities can prepare and submit to OSCR a set of accounts that covers all their UK activities. However, OSCR would expect to see some narrative in the trustees' annual report referring to activities in Scotland.

See our guidance on **Cross-Border charities** and the rules about accounts on our website for more information.

Part 2: Receipts and Payments Accounts

Section 1: Introduction

Part 2: Receipts and Payments Accounts sets out the legal requirements for charities preparing Receipts and Payments Accounts and having those accounts externally scrutinised.

It should be read in conjunction with **Part 1: The Overview**.

Section 2: What are receipts and payments accounts?

Receipts and payments accounts are created using a simple form of accounting that summarises all monies received and paid via the bank and in cash by the charity during its financial year, along with a statement of balances.

The closing bank balance to report in the accounts should be:

- The balance at the bank on the last day of the financial year.

  Plus

- Any money received before the end of the year but only banked in the following year.

  Less

- Any cheques written before the end of the year but not cleared through the bank until the following year.

The main differences between receipts and payments and fully accrued accounts are that:

- in receipts and payments accounts no adjustments are made for the timing of the income or payments to bring them in line with the period to which they relate. So, for example, if a charity pays its rent in advance just before the end of the financial year, the payment will be recorded in the accounts of the year it was actually paid, rather than in the year to which the payment relates.

- the purchase or sale of assets for cash would be included in the receipts and payments accounts as a payment or a receipt in the reporting period. Assets owned by the charity should be shown separately on the statement of balances for information.

- changes in the value of assets are not included in receipts and payments accounts.

Formal accounting standards are primarily concerned with ensuring that accounts show a true and fair view of a charity's financial affairs do not apply to receipts and payments accounts.

However, the receipts and payments accounts must give sufficient detail to enable a reader to gain an appreciation of the transactions of the charity and of any surplus or deficit.

Can my charity prepare receipts and payments accounts?

Non-company charities with a gross income of less than £250,000 can prepare accounts on a receipts and payments basis unless:

- the **governing document**
- any law or
- a decision of the trustees
- any third party requirements, for example a funder requires the charity to prepare fully accrued accounts.

Charitable companies, registered social landlords, community benefit societies (CBS or Bencom) and further and higher education institutions **cannot** prepare accounts on a receipts and payments basis.

Section 3 Content of receipts and payments accounts

Under the 2006 Regulations, receipts and payments accounts must consist of:

- a Trustees' Annual Report
- a report from an external scrutineer
- a statement of the receipts and payments
- a statement of the balances as at the last day of the financial year
- notes to the accounts.

Both the statement of balances and the **trustees' annual report** must be signed by one or more of the charity trustees on behalf of all the **charity trustees** and specify the date on which both were approved.

To allow comparisons to be made, all figures in the accounts must include the corresponding amount for the previous financial year. The accounts must also distinguish between **restricted, unrestricted, expendable and permanent endowment funds** held by the charity.

OSCR has produced a **receipts and payments work pack** on our website that can be used to assist with the preparation of receipts and payments accounts. The work pack includes detailed guidance and templates that can be completed.

3.1 Trustees' Annual Report

A charity's financial statements alone do not provide all the information a reader would need to gain a full picture of the charity. The financial statements cannot easily explain:

- what the charity has done – its outputs
- what the charity has achieved – its outcomes
- what difference the charity has made – its impact.

The financial statements also do not provide information on the structure, governance or management arrangements of a charity. All of these should be addressed in the trustees' annual report which is an important element of a charity's annual reporting. **Charity trustees** should be actively involved in preparing it. The report should enable a reader to understand how the numerical information presented in the financial statements relates to the organisational structure and activities of the charity.

The trustees' annual report must include the following information:

- the name of the charity as it appears on the Scottish Charity Register and any other name by which the charity is known
- the charity's **Scottish Charity Number**. This will begin SC followed by six digits the first being 0 (zero)
- the address of the **principal office** of the charity.

Where the charity does not have an office the annual report must give the name and address of one of the charity trustees, unless the charity is entitled to exclude the address from its entry in the Register because OSCR is satisfied that to include this information would jeopardise the safety or security of people or premises.

- the names of all the charity trustees during the financial year and on the date the annual report was approved by the charity trustees unless:
    - there are more than 50 charity trustees, in which case the names of 50 charity trustees is sufficient. Office bearers should be included – for example, Chair, Treasurer
    - the charity is entitled to exclude the names of the charity trustees because OSCR is satisfied that to include this information would jeopardise the safety or security of people or premises.
- the particulars of the governing document of the charity that contains its purposes and regulates the administration of the charity. This would include:
    - how the charity is constituted (for example, unincorporated association, SCIO or trust)
    - the organisational structure of the charity (for example,

    a membership which elects a management committee or self-appointing trustees)
    - the relationship of the charity to any other body (for example, affiliation with an umbrella group)

- the purposes of the charity as set out in the **governing document** of the charity

- a description of how charity trustees are recruited and appointed, including the name of any external body entitled to appoint charity trustees

- a summary of the main activities of the charity and achievements in the financial year

- a description of the policy the charity trustees have adopted to determine the level of reserves to be held by the charity. This should include:
    - the level of **reserves** held
    - why they are held
    - the amount and purpose of any designated fund, and the likely timing of any expenditure that has been set aside for the future
    - if the charity has a deficit, an explanation of how it came about and what steps are being taken to rectify it
    - an analysis of donated facilities and services, if any, that the charity received during the financial year.

See our **Charity Reserves factsheet** on our website for more information on reserves and reserve policies.

The Trustees' Annual Report must be signed by one or more charity trustees on behalf of all the charity trustees and specify the date on which the statement of account, of which the trustees' annual report forms part, was approved.

We have specific guidance on **Trustee Annual Reports** on our website which sets out the legal requirements and good practice.

3.2 Statement of receipts and payments

The statement of receipts and payments provides an analysis of the incoming and outgoing cash and bank transactions for the year. The analysis must show the following categories separately:

Receipts

- donations
- legacies
- grants
- receipts from fundraising activities – for example, sponsorships
- gross receipts from trading – for example, charity shop income
- receipts from investments other than land and buildings
- rent from land and buildings
- gross receipts from other charitable activities.

In addition:

- the proceeds from sale of fixed assets
- the proceeds from sale of investments

should be shown separately from the above receipts.

Payments

- expenses for fundraising activities
- gross trading payments
- investment management costs
- payments relating directly to charitable activities, detailing material items
- grants and donations relating directly to charitable activities
- governance costs relating to:
  - independent examination or audit
  - preparation of annual accounts
  - legal costs associated with constitutional matters or trustee advice.

In addition:

- purchase of fixed assets

- purchase of investments

should be shown separately from the above payments.

The statement of receipts and payments must distinguish between unrestricted and restricted funds, as well as any expendable and permanent endowment funds. This is usually achieved by giving each fund a separate column in the accounts. Where a charity has more than one fund in any of these categories it should present the total funds held in each. The notes to the accounts must then explain in sufficient detail the content of the unrestricted, restricted and endowment funds so that the reader gains a full understanding of the accounts.

Any transfers from a **restricted, unrestricted, expendable endowment or permanent endowment fund** into another fund must be shown separately from the receipts and payments.

3.3 Statement of balances

As well as a statement of receipts and payments, the accounts must contain a statement of balances. The statement must reconcile the cash and bank balances at the beginning and end of the financial year with the surplus or deficit shown in the statement of receipts and payments.

As with the statement of receipts and payments, the statement of balances must distinguish between **restricted and unrestricted funds**, as well as any expendable or permanent **endowment funds** held by the charity.

In addition the statement of balances must also:

- summarise the investments held by the charity at their market valuation
- summarise the other assets held by the charity, including gifted assets, either at their current value if available or at cost. Where the charity trustees consider the valuation to be lower than the cost, the valuation should be used
- include a total estimate of the liabilities of the charity at the financial year end
- contingent liabilities must be shown separately.

The statement of balances must be signed by a **charity trustee** on behalf of all the charity trustees and specify the date on which the statement of account was approved by the charity trustees.

3.4 Notes to the accounts

Notes are an important part of the accounts. They expand on or explain the information contained in the statements of receipts and payments and balances, and will help a reader understand the accounts.

The notes to the accounts must contain the following information, unless this information has been provided in the **Trustees' Annual Report**:

- the nature and purpose of each fund held by the charity, including any restrictions on their use

- the number and amount of any grants paid out by the charity, the type of activity or project supported by those grants, and whether they were paid out to an individual or an organisation

- the amount of remuneration paid to a charity trustee or person connected to a charity trustee (a connected person). Any remuneration must be in accordance with the **2005 Act** and the note must specify the authority under which the remuneration was paid. If no remuneration was paid to a charity trustee or anyone connected to a charity trustee this must be stated

- the total amount of expenses, if any, paid to charity trustees and the number of charity trustees receiving expenses. If no expenses were paid to charity trustees this must be stated

- the nature of any transactions between the charity and any charity trustee or person connected to a charity trustee. This may include, for example, a charity trustee purchasing an asset from the charity or a charity paying a firm for services such as professional advice where a charity trustee has a substantial interest in the firm. This note must include:
  - the nature of the relationship

    - the nature and amount of the transaction
    - any outstanding balance at the financial year end

- any further information required to reasonably assist the reader to understand the statement of accounts.

3.5 Example accounts

To assist charities OSCR has published example sets of accounts which illustrate receipts and payments accounts that comply with the 2006 Regulations. These example accounts can be found at **Section 6**.

It should not be assumed that the examples show the only way of presenting an item or that they include all the disclosures for a particular type of charity. Indeed many charities may choose to provide more detailed notes than those required by the 2006 Regulations. Any examples provided by OSCR are not designed to be used as a substitute for reference to sections 3.1 to 3.4 in this Part of the Guide and the 2006 Regulations.

Section 4: External scrutiny

External scrutiny is where a person, independent of the charity must review the accounts and produce a report, attached to the accounts, that highlights any issues to the reader.

4.1 What type of external scrutiny should be carried out?

Non-company charities may prepare receipts and payments accounts where their gross income in a financial year is less than £250,000.

Charities that have prepared accounts on a receipts and payments basis can subject their accounts to an independent examination unless:

- the **governing document** of the charity requires the accounts to be audited
- the **charity trustees** have decided to have the accounts audited
- any enactment requires the accounts to have been subject to an audit.

If any of these requirements apply the charity must subject the accounts to an audit by a registered auditor. Refer to Section 3 of **Part 3: Fully Accrued Accounts**.

4.2 Independent examination

Independent examination is a less onerous form of **external scrutiny** than an audit and is available, under the 2006 Regulations, for charities with a gross income under £500,000. This threshold has been set at a level where the more detailed audit scrutiny is not deemed essential as an independent examination is deemed rigorous enough for this size of charity.

An independent examiner reviews the accounting records kept by the charity and compares them with the accounts prepared from those records. The examiner then prepares a report which provides the information required by the 2006 Regulations and provides an assurance as to whether or not anything has been found that needs to be brought to the attention of readers of the accounts.

The independent examination of receipts and payments accounts must be carried out by someone independent of the management and administration of the charity and who the trustees believe has the required skills and experience to carry out a competent examination of the accounts.

See section 4.1 in **Part 1: The Overview** for an explanation of who would be considered independent of the management and administration of the charity.

In deciding who might have the required skills charity trustees should take into consideration the degree of complexity of the charity's accounts. The more complex the accounts the more experience the independent examiner will require. The types of people who charity trustees could consider as having the required skills and experience might include for example:

- full or associate members of the Association of Charity Independent Examiners
- qualified accountants currently in employment
- retired accountants
- other people familiar with financial matters who can demonstrate familiarity with the current reporting requirements for Scottish charities.

4.3 Content of the independent examination report

After completing the independent examination of a charity's accounts the examiner must make a report to the charity trustees which:

- states the name and address of the independent examiner and the name of the charity concerned

- is signed and dated by the independent examiner and states any relevant professional qualifications they may have or of which professional body they are a member. The independent examiner must sign and date their report at the same time or shortly after, but not before, the charity trustees approve the accounts

- specifies the financial year of the accounts to which the report relates

- specifies that the report is an examination carried out under section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005

- states whether or not anything has come to the attention of the independent examiner which gives them reasonable cause to believe that:
    - proper accounting records have not been kept
    - the accounts do not agree with the records
    - the receipts and payments accounts do not comply with Regulation 9

- states whether or not the independent examiner believes there is anything that should be drawn to the attention of readers to help them understand the accounts

- states if any of the following matters have become apparent to the independent examiner:
    - there has been any material expenditure or action not in accordance with the purposes of the charity
    - that information to which the examiner is entitled has been withheld
    - that there is a material inconsistency between the accounts and the annual report prepared by the charity trustees.

An example independent examiner's report is shown as part of the example accounts within **Section 6** of this Guide.

4.4 Audit

Where a charity has prepared accounts on the receipts and payments basis and an audit is required, the audit must be carried out by a registered auditor. An audit report of receipts and payments accounts will not comment on whether the accounts provide a true and fair view of the financial affairs of the charity. However, the audit report will say whether or not the statement of account properly presents the receipts and payments of the charity.

The auditor must prepare a report on the accounts for the charity trustees that:

- states the name and address of the auditor and the name of the charity

- is signed by the auditor or someone authorised to sign on behalf of a company or partnership

- states that the auditor is a person who is eligible to act as an auditor in terms of **section 1212 of the Companies Act 2006**

- states the date of the report and specifies the financial year of the accounts to which the report relates

- specifies that it is a report carried out under **section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005**

- states whether, in the opinion of the auditor:
    - the statement of account complies with Regulations 9(1), (2) and (3) dealing with receipts and payments accounts, and
    - properly presents the receipts and payments of the charity for the financial year, and the statement of balances at the year end

- contains a statement where the auditor has formed the opinion with regard to the following, that:
    - proper accounting records have not been kept
    - the accounts do not agree with the records
    - there is a material inconsistency between the accounts and the annual report prepared by the charity trustees
    - that information to which the auditor is entitled has been withheld.

The statement must contain the grounds for forming any of the above opinions.

In preparing the audit report the auditor must carry out such investigations as he or she feels necessary to enable them to form an opinion regarding the matters above.

Where an auditor appointed by **charity trustees** ceases to act as the auditor he or she must send to the charity trustees:

- a statement of any circumstances connected with the auditor ceasing to hold that office that he or she feels should be brought to the attention of the charity trustees, or

- if the auditor considers there are no circumstances that need to be reported to the charity trustees, a statement that there are none.

The auditor must also send to OSCR a copy of any statement he or she has sent to the charity trustees containing circumstances connected with the auditor ceasing to hold that office that he or she feels should be brought to the attention of the charity trustees.

4.5 Duty to report matters to OSCR

See section 4.3 of **Part 1: The Overview** for guidance on the independent examiners and auditors' duty to report matters to OSCR under the **2005 Act**.

More detail relating to this can be found within our guidance **Matters of Material Significance reportable to UK charity regulators** on our website.

In addition to the reportable matters set out above, auditors and independent examiners are may also to report any other matter which may be of significance to us in exercising our functions. Further information is available in guidance avilable on our website – **Reporting of relevant matters of interest to UK charity regulators**.

Section 5: Reporting to OSCR

The statement of account and report from the independent examiner or auditor must be submitted to OSCR each year. The accounts should be submitted at the same time as the charity's **online annual return**.

See our **Annual Monitoring** website page for more information and section 7 of **Part 1: The Overview** for detailed guidance on the requirements for reporting to OSCR.

Section 6 Example accounts

The example accounts we've published here are intended to show you how to prepare compliant accounts according to various circumstances. We've included examples that meet the requirements of the two charity Statements of Recommended Practice (SORPs).

You can find further information on the charity SORPs on the SORP micro site - **http://www.charitysorp.org/about-the-sorp/example-trustees-annual-reports**

Receipts and Payments accounts	Fully Accrued accounts
SCIO Accounts **https://www.oscr.org.uk/media/1800/2015-01-27-example-accounts-scio.pdf**	Scottish limited company group accounts prepared under SORP FRS102 **https://www.oscr.org.uk/media/1929/2015-08-04-1-arts-theatre-trust-scottish-version-group-example.pdf**
Unincorporated Association Accounts **https://www.oscr.org.uk/media/3442/glendale-after-school-club-scottish-charity-no-sc074551.pdf**	Scottish limited company group accounts prepared under SORP FRSSE **https://www.oscr.org.uk/media/1930/2015-08-04-2-frsse-example-of-accounts-arts-theatre.pdf**
Receipts and Payments Workpack **https://www.oscr.org.uk/managing-a-charity/charity-accounting/receipts-and-payments-accounts-work-pack/**	Scottish unincorporated accounts prepared under SORP FRS102 **https://www.oscr.org.uk/media/2091/2015-12-01-the-almond-grant-trust-frs-102-example.pdf**

	Scottish unincorporated accounts prepared under SORP FRSSE **https://www.oscr.org.uk/media/2370/2015-07-15-the-almond-grant-trust-frsse-example-accounts.pdf**
	Example accounts for an independent school **https://www.oscr.org.uk/media/2257/2016-06-02-sample-tar-for-independent-schools.pdf**

Part 3: Fully Accrued Accounts

Section 1: Introduction

This Guide sets out the legal requirements for charities preparing Fully Accrued Accounts and getting those accounts externally scrutinised. It should be read in conjunction with **Part 1: The Overview**.

Section 2 Preparing fully accrued accounts

This section tells you when and how to prepare fully accrued accounts.

2.1 Should the charity prepare fully accrued accounts?

Fully accrued accounts must be prepared by a charity that fulfils at least one of the following criteria:

- has a gross income for the year of £250,000 or more
- is a company or a Registered Social Landlord or a Community Benefit Company or a Higher or Further Education Institution
- the governing document or any enactment of Parliament says the charity should prepare fully accrued accounts, or accounts that give a true and fair view of its financial affairs
- a third party, for example a funder, requires fully accrued accounts
- the trustees have decided that they will prepare fully accrued accounts.

See Preparing Accounts in **Part 1: The Overview,** to check what type of accounts a charity must prepare.

While a charity with a gross income under £250,000 may be able to prepare accounts on a receipts and payments basis, the charity trustees may decide to prepare fully accrued accounts because they want their accounts to show the financial affairs of the charity on a true and fair basis. However, because fully accrued accounts must follow the SORP and, if independently examined, be examined by a qualified independent examiner (see **section 3.3**), charity trustees should fully consider the implications of deciding to prepare fully accrued accounts if they are not otherwise required.

2.2 How should the charity prepare fully accrued accounts?

Accounts prepared using the accruals basis should recognise income when the effect of the transaction or other event results in an increase in the charity's assets. This normally depends upon entitlement to the resources, probability of receipt and a reliable estimate of the amount.

This is not necessarily the same date as when monies are received. Expenditure should be recognised when the liability is incurred, which is when there is a legal or constructive obligation committing the charity to the expenditure. This is not necessarily the same date as when monies are paid out.

It is generally recognised that for a statement of account to give a true and fair view of a charity's affairs it should be produced on the fully accrued basis. This means that they must be prepared in accordance with UK Generally Accepted Accounting Principles (GAAP) and the methods and principles of the SORP.

The SORP sets the framework for charity financial reporting in the UK for any charity preparing fully accrued accounts. Charitable companies and charities with income of £250,000 or more will always be required to prepare fully accrued accounts.

Two new editions of the SORP were issued in January 2015. These were based on the relevant accounting standards at that time – FRS 102 and the FRSSE.

Following the withdrawal of the FRSSE for accounting periods starting on or after 1 January 2016 all charities preparing fully accrued accounts should now be using the Charities SORP (FRS 102).

The SORP aims to:

- improve the quality of financial reporting by charities
- enhance the relevance, comparability and understanding of information presented in accounts
- explain and clarify the interpretation of accounting standards when applied to charities.

Schedule 1 of the 2006 Regulations specifies that fully accrued accounts must be prepared in accordance with the methods and principles of the SORP. This reference has been updated to reflect the new editions of the SORP and includes reference to any SORP update bulletins.

Registered social landlords and further or higher education institutions must prepare their accounts as specified in their own industry Statement of Recommended Practice (SORP). Their accounts must contain an income and expenditure account in place of the statement of financial activities along with a balance sheet and notes to the accounts.

Given the complexity of both the SORP and the preparation of fully accrued accounts, charity trustees may wish to consider using professional accountants when preparing accrued accounts if the charity does not have the skills in-house.

This document will only provide a general outline and the key requirements for fully accrued accounts because further, more detailed, information can be found in the SORP.

Copies of the SORP can be downloaded at **www.charitiessorp.org**
Hard copies may be purchased from CIPFA: **www.cipfa.org**

2.3 Content and principles to be used when preparing fully accrued accounts

Under the 2006 Regulations, the statement of account for fully accrued accounts must consist of:

- a **Trustees' Annual Report** from the charity trustees of the activities of the charity. The content of the annual report is detailed in the SORP. There are different requirements depending on the size of the charity. The annual report is a crucial component of the statement of account and its preparation should actively involve the charity trustees. It provides information that is not contained in the financial statements that will enable a reader to understand how the numerical information relates to the organisational structure and activities of the charity

- an **external scrutiny report** from either an independent examiner or auditor

- **a statement of financial activities** (often referred to as the SOFA) of the charity that gives a true and fair view of the income and expenditure resources of the charity and their application during the financial year

- **a balance sheet** that gives a true and fair view of the state of the financial affairs of the charity at the end of the financial year

- **a statement of cash flows**, if appropriate

- **notes to the accounts** that explain the accounting policies adopted and explain or expand on the information contained within the main accounting statements. See the SORP for more information.

The balance sheet and trustees' annual report must be signed by one of the charity trustees on behalf of all the charity's trustees. Both documents must also specify the date on which the statement of account of which they form part was approved by the charity trustees.

The trustees' or directors' report of a charitable company is often signed by the company secretary. Where the company secretary is not also a charity trustee the report must be signed by a charity trustee; it may in addition be signed by the company secretary.

The statement of account must be prepared in accordance with the methods and principles set out in the SORP.

Additional information must be provided in the notes to the accounts where the statement of financial activities and the balance sheet are insufficient on their own to provide a true and fair view.

If compliance with the SORP for the preparation of accounts would not be consistent with giving a true and fair view, the trustees should depart from the SORP to the extent necessary to give a true and fair view. We would anticipate this happening only in very rare circumstances; any such departure must be explained in the notes to the accounts.

To allow comparisons to be made any figures in the statement of financial activities or balance sheet must include the corresponding amount for the previous financial year or period. Where the corresponding amount referred to has a different definition it must be adjusted to allow a comparison to be made.

Where there is no figure to be shown in the statement of account but there was a corresponding amount in the previous year, then the previous year's figure must be shown.

The statement of financial activities must distinguish between **unrestricted, restricted and endowment funds.** However, where a charity has more than one fund in any of these categories the statement of financial activities should present the total funds held in each. The notes to the accounts must then explain in sufficient detail the content of the unrestricted, restricted and endowment funds so that the reader gains a full understanding of the accounts.

Section 3: External scrutiny

This section tells you about the two types of external scrutiny, Independent Examination and Audit, when they should be carried out and what they entail.

3.1 What type of external scrutiny should be carried out?

This depends on its gross income and net assets or whether or not the charity is also a company. See **Part 1: The Overview** to check the type of scrutiny to which a charity must subject its statement of account.

3.2 External scrutiny of fully accrued accounts

All charities must have their accounts externally scrutinised in either the form of an independent examination or an audit.

Under charity law a charity preparing fully accrued accounts can have an Independent Examination where:

- gross income is under £500,000, and
- gross assets are £3,260,000 or less

Unless:

- the governing document of the charity requires the accounts to be audited, or
- the charity trustees have decided to have the accounts audited, or
- any enactment requires the accounts to be audited.

Where the thresholds are exceeded then an audit must be carried out by a registered auditor, or in the case of public bodies the Auditor General for Scotland or an auditor appointed by the Accounts Commission for Scotland.

Where a charity prepares consolidated accounts as the income of the group (after consolidation adjustments) is £500,000 or more, then these consolidated accounts must be audited.

Where the charity is a company then the requirements of the Companies Act 2006 also apply. If the charitable company does not meet the conditions for audit exemption under company law and therefore requires an audit under the Companies Act 2006, an audit is required under both the 2006 Regulations and the Companies Act 2006.

For further information about the requirements of the Companies Act 2006 you should contact your accountant.

3.3 Who can carry out an independent examination of fully accrued accounts?

For charities which produce fully accrued accounts, the independent examination must be carried out by a member of one of the following professional bodies:

- **The Institute of Chartered Accountants of Scotland**
- **The Institute of Chartered Accountants in England and Wales**
- **Chartered Accountants Ireland**
- **The Association of Chartered Certified Accountants**
- **The Association of Authorised Public Accountants**
- **The Association of Accounting Technicians**
- **The Association of International Accountants**
- **The Chartered Institute of Management Accountants**
- **The Institute of Chartered Secretaries and Administrators**
- **The Chartered Institute of Public Finance and Accountancy**
- **The Institute of Financial Accountants**
- a full member of **The Association of Charity Independent Examiners**
- the **Auditor General for Scotland**
- a person appointed by the **Accounts Commission for Scotland**.

See section 4 in **Part 1: The Overview** for guidance on deciding who to appoint as an independent examiner.

3.4 Content of the independent examiner's report

After completing the independent examination of a charity's accounts the examiner must make a report to the charity trustees which:

- states the name and address of the independent examiner and the name of the charity concerned

- is signed and dated by the independent examiner and states any relevant professional qualifications they may have or of which professional body they are a member. The independent examiner must sign and date their report at the same time as or shortly after, but not before, the charity trustees approve the accounts

- specifies the financial year of the accounts to which the report relates

- specifies that the report is an examination carried out under section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005

- states whether or not anything has come to the attention of the independent examiner which gives them reasonable cause to believe that:
  - proper accounting records have not been kept
  - the accounts do not agree with the records
  - the accounts do not comply with Regulation 8

- states whether or not the independent examiner believes there is anything that should be drawn to the attention of readers to help them understand the accounts

- states if any of the following matters have become apparent to the independent examiner:
  - that there has been any material expenditure or action not in accordance with the purposes of the charity
  - that information to which they are entitled has been

withheld
    - that there is a material difference between the accounts and the annual report prepared by the charity trustees.

An example independent examiner's report can be found at **Section 6.**

3.5 Audit

Where a charity has prepared accrued accounts and requires an audit, the audit must be carried out by a registered auditor or by the Auditor General for Scotland or by an auditor appointed by the Accounts Commission for Scotland following UK auditing standards.

The auditor must prepare a report on the accounts for the charity trustees that:

- states the name and address of the auditor and the name of the charity

- is signed by the auditor or someone authorised to sign on behalf of a company

- states that the auditor is a person who is eligible to act as an auditor in terms of section 1212 of the Companies Act 2006

- states the date of the report and specifies the financial year of the accounts to which the report relates

- specifies that it is a report carried out under section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005

- states whether, in the opinion of the auditor:
    - the statement of account complies with Regulation dealing with fully accrued accounts and gives a true and fair view of the financial affairs of the charity at the end of the financial year, and of the incoming resources and their application in that financial year

- contains a statement where the auditor has formed the opinion with regard to the following that:

- proper accounting records have not been kept
- the accounts do not agree with the records
- there is a material inconsistency between the accounts and the annual report prepared by the charity trustees
- information to which they are entitled has been withheld.

The statement must contain the grounds for forming any of the above opinions.

In preparing the audit report the auditor must carry out such investigations as are necessary to enable an audit opinion be formed.

Where an auditor appointed by charity trustees resigns he or she must send to the charity trustees:

- a statement of any circumstances connected with the auditor ceasing to hold that office that they feel should be brought to the attention of the charity trustees, or

- if the auditor considers there are no circumstances that need to be reported to the charity trustees, a statement that there are none.

The auditor must also send to OSCR a copy of any statement he or she has sent to the charity trustees containing circumstances connected with the auditor ceasing to hold that office that he or she feels should be brought to the attention of the charity trustees.

Further detailed guidance on audit requirements can be found in Practice Note 11 – The Audit of Charities in the United Kingdom, produced by the **Financial Reporting Council**.

3.6 Duty to report matters to OSCR

See section 4.3 of **Part 1: The Overview** for guidance on the independent examiners and auditors duty to report matters to OSCR under the 2005 Act.

More detail relating to this can be found within our guidance **Matters**

of Material Significance reportable to UK charity regulators on our website.

In addition to the reportable matters set out above auditors and independent examiners are may report any other matter which may be of significance to us in exercising our functions. Further information is available in our guidance on our website – **Reporting of relevant matters of interest to UK charity regulators**.

Section 4 Reporting to OSCR

The statement of account and report from the independent examiner or auditor must be submitted to OSCR each year at the same time as the charity's online annual return. See section 7 of **Part 1: The Overview**, for guidance on the requirements for reporting to OSCR.

Section 5: Example accounts

To assist charities preparing trustees' annual reports and accounts in line with the recommendations of the SORP, OSCR has produced a number of example reports and accounts that may help you with designing the layout and format of these documents.

The documents can be found on both the OSCR website at **www.oscr.org.uk** and the SORP microsite at **www.charitysorp.org**

Receipts and Payments accounts	**Fully Accrued accounts**
SCIO Accounts **https://www.oscr.org.uk/media/1800/2015-01-27-example-accounts-scio.pdf**	Scottish limited company group accounts prepared under SORP FRS102 **https://www.oscr.org.uk/media/1929/2015-08-04-1-arts-theatre-trust-scottish-version-group-example.pdf**
Unincorporated Association Accounts **https://www.oscr.org.uk/media/3442/glendale-after-school-club-scottish-charity-no-sc074551.pdf**	Scottish limited company group accounts prepared under SORP FRSSE **https://www.oscr.org.uk/media/1930/2015-08-04-2-frsse-example-of-accounts-arts-theatre.pdf**
Receipts and Payments Workpack **https://www.oscr.org.uk/managing-a-charity/charity-accounting/receipts-and-payments-accounts-work-pack/**	Scottish unincorporated accounts prepared under SORP FRS102 **https://www.oscr.org.uk/media/2091/2015-12-01-the-almond-grant-trust-frs-102-example.pdf**

	Scottish unincorporated accounts prepared under SORP FRSSE **https://www.oscr.org.uk/media/2370/2015-07-15-the-almond-grant-trust-frsse-example-accounts.pdf**
	Example accounts for an independent school **https://www.oscr.org.uk/media/2257/2016-06-02-sample-tar-for-independent-schools.pdf**

Accounting Glossary

2005 Act

The **Charities and Trustee Investment (Scotland) Act 2005**: the primary piece of charity law in Scotland.

Accounting and Reporting by Charities: Statement of Recommended Practice (SORP)

The SORP sets the framework for charity financial reporting in the UK for charitable companies, charities with income of £250,000 and more and all other charities preparing accruals accounts.

Accounting and Reporting by Charities: Statement of Recommended Practice 2015. Copies can be downloaded at: **www.charitiessorp.org**.

Assets

This means everything a charity owns; property, money, equipment, including heritable property (such as land and buildings and rights attached to it).

Audit

An audit is an examination of an organisation's accounts carried out by someone eligible to act as an auditor in terms of section 1212 of the Companies Act 2006. Where the audit is being carried out on accrued accounts it will be carried out following the International Standards on Auditing. The opinion on fully accrued accounts will state whether the accounts give a true and fair view of the financial affairs of the organisation. A true and fair view cannot be given on receipts and payments accounts and the auditors' opinion will state whether the statement of accounts properly presents the receipts and payments and its statement of balances.

Charity Test

This is the test set out under the Charities and Trustee Investment

(Scotland) Act 2005, which determines whether an organisation can be a charity.

The charity test has two main elements:

- an organisation has to show that it has only charitable purposes

and

- that it provides public benefit in achieving those purposes.

This is set out in sections 7 and 8 of the 2005 Act.

Charity Trustee

'Charity trustees' are defined in section 106 of the 2005 Act as people having the general control and management of the administration of a charity. Charity trustees can also sometimes be known as committee members, directors or board members.

Close relative

Close relatives are children, parents, grandchildren, grandparents, brothers or sisters, and any spouse of these.

Consolidation adjustments

Consolidation adjustments are adjustments to remove inter-group transactions and balances between the parent charity and its subsidiaries so that the consolidated accounts accurately reflect the results and financial position of the whole group.

Connected organisation

An organisation is connected to a charity if it is controlled by the charity (either directly or through nominees) or it is a corporate body in which the charity has a substantial interest.

Connected person

The term connected person includes:

- spouses, civil partners and cohabitees of a charity trustee
- child, stepchild, parent, grandchild, grandparent, brother or sister of a charity trustee (and a spouse of any such person)
- an institution controlled by a charity trustee or a person connected with them or two or more trustees/connected persons when taken together
- a body corporate or company in which the charity trustee or a person connected with them has a substantial interest, or
- a Scottish partnership (business) in which the charity trustee or, a person connected with them is a partner.

Constitutional requirement

A provision within the governing document of the charity that, for example, requires an audit to be carried out in relation to the annual accounts or makes a reference to the appointment of an ‘auditor’.

Contingent liabilities

Contingent liabilities are liabilities that may arise from past events but whether they will, or how much they may be, cannot be established until a future event occurs.

Designated fund

A designated fund is that part of the charity’s unrestricted funds that the charity trustees have decided to earmark, or designate, for a particular purpose.

Donated facilities and services

Donated facilities and services are gifts to the charity of facilities, services of volunteers or beneficial loan arrangements.

Enactment

An enactment includes Acts of both the Scottish and Westminster Parliaments and any subordinate legislation. Examples would be the Companies Act 2006, or the Charities and Trustee Investment (Scotland) Act 2005.

Endowment funds

An endowment is a fund consisting of property, including cash which is held for the benefit of the charity. The objective is to provide the charity with an income from the fund.

There are two forms of endowment fund:

- a permanent endowment fund is one that consists of property (which may be heritable or moveable) that has been gifted to the charity with specific conditions attached and where the capital cannot be spent in any circumstances.
- an expendable endowment fund is one that consists of property (which may be heritable or moveable) that has been gifted to the charity with specific conditions attached and which cannot be spent except in those circumstances specified in the terms of the endowment document.

Normally, the governing document of the charity or the directions of the donor of the endowment will specify how the income from the endowment can be used and therefore whether the income should be included in the accounts as restricted or unrestricted.

External scrutiny report

Your charity's accounts must be externally scrutinised. That is, someone who is independent of your charity must review the accounts and produce a report, attached to the accounts, that highlights any issues to the reader.

Financial year

An accounting period of a charity that can be no more than 18 months. The first financial year of a charity cannot be less than six months.

Financial year end date

The financial year end date is the date that your charity's financial year ends and to which accounts are prepared.

Fully accrued accounts

Fully accrued accounts allocate the costs or income of a particular activity according to when the liability is incurred or when there is entitlement or certainty about income. This is not necessarily the date on which money is received or paid out.

Governing document

A governing document (or constitution) is the document (or set of documents) that sets up an organisation and says what its purposes are. It will usually deal with other matters, including who will manage and control the organisation, what its powers are, what it can do with the organisation's money and other assets, and membership of the organisation. For more information, see the **FAQs** on our website. This is defined in section 106 of the 2005 Act.

Gross income

A charity's gross income is the total incoming resources of the charity in all restricted and unrestricted funds but excluding the receipt of any donated asset in a permanent or expendable endowment fund. Any income that has been collected specifically for, and passed onto, a third party (e.g. that part of a membership fee that is passed onto a parent body, or a collection held for another charity) should be excluded. However, the transferred amount should be recorded by way of a note to the accounts.

Independence

Where a person is not involved in, and has no control over, the management and administration of a charity. Any 'connected person' cannot be independent.

Independent examination

Independent examination is a less onerous form of external scrutiny than an audit and is available, under the Regulations, for charities with a gross income under £500,000, where the gross assets are less than £3,260,000. It is not available where the constitution of the charity or another enactment requires the accounts to be audited. An independent examiner reviews the accounting records kept by the charity and compares them with the accounts prepared from those records. The examiner then writes a report which provides the information required by the Regulations and provides an assurance of whether or not anything has been found that needs to be brought to the attention of readers of the accounts.

Independent examiner

An independent person whom the charity trustees reasonably believe to have the requisite ability and practical experience to carry out a competent examination of the accounts or, where accruals accounts are prepared, a professionally qualified person recognised by charity law.

Legal Form

Charities can take a number of legal forms. The legal form is the structure or entity, which then becomes a charity.

For example:

- Unincorporated associations
- Companies
- Scottish Charitable Incorporated Organisations (SCIO)
- Trusts
- Community Benefit Society
- Statutory corporation established by an Act of Parliament or Royal Charter
- Educational endowment

The **Legal Forms Factsheet** on our website has more information on the most common legal forms for Scottish charities.

Liability/Liabilities

A liability is an obligation to transfer to another body at some future time, some economic benefit, which is usually but not always, a sum of money.

Materiality

There is no formal definition of what is 'material' but the concept may be more meaningfully explained by way of an example.

Consider the sum of £100.

- If the total income of the charity is £500, then £100 is material. However, if total income is £100,000 then £100 is probably not material.
- If the £100 in question indicates criminal activity, then it is probably always material. If it is included or omitted from the accounts due to a genuine mistake, it is not so likely to be material.
- Where it is more difficult to assess materiality from income, say £2,000 income where the £100 represents 5% of the income, the examiner should consider the nature of the mistake and the nature and context of the charity itself. For example, a loss of £100 in a charity working with young people on low incomes which offers advice on personal budgeting would probably be material. This is because the reputation of the charity could be damaged if the loss were made public. However, if the charity was a small arts charity putting on a couple of performances or exhibitions a year, the potential damage to its reputation may make the £100 error not material.
- Examiners need to be mindful of the cumulative impact of errors. One error of £100 may not be material, but three or four similar errors may indicate issues that require to be resolved.

Material investments

When we talk about a charity having material investments this means that the value of these investments is so significant that the overall picture of the charity's finances or activities would be distorted if they were not taken into account. It is the responsibility of the person preparing the charity's accounts to decide whether an item is material or not.

Online Annual Return

The online form charities complete each year to provide us with information about the charity (in particular for the Scottish Charity Register, and including information about the charity's finances).

This can be completed in OSCR online.

Receipts and payments accounts

Receipts and payments accounts are a simple form of accounting that consist of a summary of all monies received and paid via the bank and in cash by the charity during its financial year, along with a statement of balances.

Registered auditor

A registered auditor is someone eligible to act as an auditor in terms of section 1212 of the Companies Act 2006.

Reserves

General reserves are funds held by a charity that are freely available to spend on any of the charity's purposes. This would exclude endowment and restricted funds and tangible fixed assets.

Restricted funds

Restricted funds are funds that can only be used for the particular purposes specified by the donor. For example, if a local authority provides a grant to a local charity to refurbish the community hall, the grant is a restricted fund that can only be used for the purpose for which it was given, in this case refurbishing the hall. Another example would be if a charity carries out an appeal for a particular purpose (for example to purchase a minibus). The money raised by the appeal would be a restricted fund and should only be used for the purpose of the appeal. Income from assets held in a restricted fund (for example interest) will be subject to the same restriction as the original fund unless the terms of the original restriction say otherwise.

SCIO

The Scottish Charitable Incorporated Organisation is a legal form unique to Scottish charities and is able to enter into contracts, employ staff, incur debts, own property, sue and be sued.

For more information see the **SCIO guidance** on our website.

SORP

See ‘Accounting and Reporting by Charities’

True and fair

Accounts that are prepared on a fully accrued basis in accordance with UK Generally Accepted Accounting Practice are considered to provide a ‘true and fair’ view as they include all assets and liabilities of the organisation at the period end date.

Trustees Annual Report

The Trustees Annual Report is a part of the annual Accounts and contains information about the charity and its activities and achievements in that year.

For more information, see **Trustees' Annual Reports: Good practice and guidance** on our website.

Unrestricted funds

Unrestricted funds are funds that the charity trustees are able to use for any of the charity’s purposes. Donations that are not given for a specific purpose would be an unrestricted fund (for example membership fees). Income from these funds is also unrestricted and can be used for any of the charity’s purposes at the discretion of the charity trustees. Charity trustees may decide to earmark part of a charity’s unrestricted funds for a particular purpose, for example major repair works. These sums are designated for that purpose and should be accounted for as part of the charity’s unrestricted funds.

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