

Supplementary Monitoring Return

Guidance Notes

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1. **Background information**

- 1.1 The Office of the Scottish Charity Regulator (OSCR) is a Non Ministerial Department of the Scottish Administration and the regulator of charities in Scotland.
- 1.2 OSCR's vision is for a flourishing charity sector in which the public have confidence, underpinned by OSCR's effective delivery of its regulatory role.
- 1.3 Our regulatory activities include a graduated regime of proactive monitoring and supervision of Scottish charities. More information about OSCR can be found on our website www.oscr.org.uk.
- 1.4 At present, the Annual Return form including the Supplementary Monitoring Return is only available as a paper form to be mailed to us. We are planning eventually to move to an electronic version, and possibly to online completion, when this is practical for us and for charities.
- 1.5 We may report to you on the content of your return and accounts. We may make further enquiries of trustees in order to clarify information or follow up any aspect that we need to understand better, or that gives us concern.
- 1.6 OSCR has powers granted by the Charities and Trustee Investment (Scotland) Act 2005. These include the power to require an original signed set of the accounts including a charity trustees annual report under section 44 and to request information under section 28.

2. **What we require**

- 2.1 Please submit:
 - i. Your completed Annual Return and Supplementary Monitoring Return form
 - ii. A signed principal copy of your accounts, which relates to the year end detailed in the Annual Return sent to you.
- 2.2 A signed principal set of your accounts means that the accounts contain original signatures of the signing charity trustee(s) and the auditor/independent examiner.
- 2.3 The original accounts submitted should indicate the names of those who signed, and the date of signature.
- 2.4 Your answers to the questions in sections B to F of the form must be about the same accounting period as the accounts figures in section A, which should be completed from the charity's accounts relating to the year end detailed in section 5 of the Annual Return.

2. What we require (continued)

- 2.5 The accounts submitted should be the *Full Accounts* including a Charity Trustees' Annual Report. Summary accounts are **not** acceptable. If the charity produces group accounts, it is these that are required, they must also contain the parent charity information. If the charity is part of the group but is not the parent charity in the group, send the charity's own accounts and complete the form in respect of the charity named on the form only.

3 Section by section: general points

- 3.1 There are notes to help you with some of the sections in the next few pages.
- 3.2 Every word that is in *italics* on the form is explained in the Glossary
- 3.3 There are a number of questions asking about things like connected companies, fundraising agencies and payments to charity trustees, which will not apply to all charities. Therefore a number of charities will be able to answer "no" or "0" to these questions and move quickly on. Take care though to answer **ALL** the questions. The **only** questions that can be skipped by charities to which they do not apply are B3 (**however B4 must be completed**), either the whole of section F or F2-8.

4 A Financial information

- 4.1 **Gross Income under £100,000** - In section A, the analytical information for A1 - A6 and A8 - A14 is **not** required. Please enter total incoming resources in A7 and total resources expended in A15. Where accrued accounts are being prepared the information should include realised gains/losses on disposal of fixed assets, but exclude gains on revaluation of fixed assets, gains /losses on investments, gains/losses on defined benefit pension schemes. Where receipts and payments accounts are prepared please enter total receipts in A7 and total payments in A15. Questions A16 - A25 must be completed by all charities.
- 4.2 **Gross Income over £100,000** - Please complete all relevant elements questions A1 to A15. Questions A16 - A25 must be completed by all charities.

4 A Financial information (continued)

- 4.3 Our intention is to ask for information that is all, or mostly, available in the accounts or as part of the books and records supporting the charity's accounts, although some specific analysis may be required. We do need the figures to be entered in the return form, even though they are also in the accounts that you will submit with the form. This is to make your declarations to us clear and to avoid misunderstanding. It also will enable our staff to put the figures into our database at a manageable cost, and minimise the need for our staff to ask you for clarifications and explanations.
- 4.4 The titles and line descriptions used to obtain the analysis of resources and expenditure are broadly based on those in Accounting and Reporting by Charities: Statement of Recommended Practice (revised 2005) "Charities SORP". You should endeavour, where possible, to provide figures that fit with the categories on the form. If you are preparing **receipts and payments accounts**, your gross income requires to be less than £100,000 and therefore the analysis of resources and expenditure is not required.
- 4.5 Please provide figures by reference to the Statement of Financial Activities.
- 4.6 Care must be taken to enter the totals at A7, A15 and A20 and ensure that they agree with the totals in the accounts. For those completing questions A1 - A6, and A8 - A14, please ensure A7 and A15 are the sum of the figures above them on the form. If a rounding difference appears, simply adjust one of the constituent figures to make the form add correctly.
- 4.7 All amounts that are from the accounts should be entered as they are stated in the accounts for the accounting period. If the period was longer or shorter than a year, do not adjust them to a full year equivalent.
- 4.8 All amounts in whole pounds – no pence, please. Charities which prepare accounts in rounded £'000's should use the figures in the accounts and add "000" to each figure.
- 4.9 Charities which prepare consolidated or group accounts should provide the consolidated figures.
- 4.10 A breakdown of all the charity's funds should be included in the figures, including restricted and endowment funds.
- 4.11 Include the value of assistance in kind and voluntary work only if it is included in your accounts.

4 A Financial information (continued)

4.12 Incoming Resources categories:

A1 – Total donations, fundraising and legacies is essentially the “voluntary income” of the charity. This includes income from a non government grant making trust, including National Lottery funding. All should be accounted for “gross”, i.e. without any expenses deducted. Membership fees should be included here as should gift aid. Occasional fundraising activities of a trading nature such as jumble sales should be included here rather than at A4.

A2 – Interest and investment income, not including disposal proceeds or revaluations. This includes rent received for land or buildings which are not occupied for the fulfilment of the charity’s own charitable objectives but are let for financial reasons. Rental income from beneficiaries, or from charities where the let fulfils a charitable purpose, should not be included here, but at A5.

A3 – Government funding should include all amounts of grant, service contract income etc, received from European, central or local government or their agencies, including public bodies and health services, and government grants that have been distributed by another charity such as the Scottish Arts Council. Include here income from housing benefit, users of care services under “direct payments” arrangements etc, as this money comes from local authorities. Sales from a trading activity such as a sheltered workshop or property lettings should be included in A4 or A5 according to the nature of the trade, even if the customer is a government body.

A4 – Income from trading in order to raise funds is distinct from the carrying on of a trade that is part of a charitable purpose. For example, a disabled theatre group that sells tickets to its performances should be regarded as raising income from a charitable activity (A5), rather than as trading in order to raise funds. However, income from a shop where this is derived from selling donated goods should be included here.

Be sure to separate out any substantial trading income from donations and fundraising income. Note the need to be consistent between the analyses of incoming resources and of resources expended. A charity’s income from trading in order to raise funds will be assumed to be related to its expenditure on trading in order to raise funds.

Normally, if completing from group accounts, any income earned by a connected trading company, of whatever nature, should be included in this category.

4 **A Financial information (continued)**

A5 – Income from a charitable activity is income that is received through carrying out a charitable activity, either trading that is within the charity's objectives (such as sales from a workshop whose purpose is to provide employment training, admission charges received by a heritage charity, or fees charged for school pupils) or income that is ancillary to a charity's activities, such as a college's cafeteria takings. Sponsorship income is more likely to be appropriately included in A1.

A6 – Other incoming resources should include realised gains on the disposal of tangible fixed assets held for the charity's own use. Otherwise there will be few occasions to use this category. Reclaimed tax should be included in the category to which it applied, so gift aid, for example, should be included with donations in A1.

4.13 Resources Expended categories:

A8 – Cost of generating voluntary funds is the cost the charity has expended in raising the money that has been included in A1. Your declaration here should be consistent with the charity's accounts. Do not include here any costs that belong in A9.

A9 - Cost of generating other funds including investment manager's fees. Include the cost of obtaining public sector funding if the charity's accounts show this as a cost of generating funds. However, trading costs should be included in A10 or A11, as appropriate.

A10 – Cost of trading in order to raise funds should be the full cost to the charity or the group of raising the funds that have been entered at A4.

Normally, if completing from group accounts, any expenditure by a connected trading company, of whatever nature, should be included in this category.

A11 – Cost of charitable activities. If the charity is abiding by the terms of its founding document, its activities other than those undertaken for a fundraising purpose have been agreed as being charitable. This means that any expenditure in carrying out the charity's activities other than those for a fundraising purpose, grants and donations made (see A12) and governance costs (see A13) will normally belong in this category. This includes any costs related to the income that is in category A5.

A12 – Grants and donations made should include all resources expended in the form of grants for charitable purposes. The cost of administering grants should be included in A11.

4 A Financial information (continued)

A13 – Governance costs are the costs of the governance of the charity itself (e.g. audit fees, board meetings, strategic planning), as opposed to the costs of its charitable activities (which should go in A11) or of its fundraising activities (A8).

A14 – Other should include only items that cannot be attributed either wholly or mainly to any of the activities A8 - A13. We do not anticipate any regular use of this category.

4.14 Balance Sheet / Statement of Balances highlights:

This section aims to identify liquidity issues and therefore we do not need a separate note of fixed assets.

Items marked *** do not apply to receipts and payments accounts.

Please note that, apart from A20, this section is not intended to total.

A16 – Cash and Bank balances. Only include the total of positive cash and bank balances. Overdrafts should be included in A19. For example, a charity with an overdraft of £3,000, another bank account with £1,500 in it, and cash in hand of £150, should include £1,650 in A16 and £3,000 in A19.

A17 – Debtors *** includes all money owed to the charity and prepayments.

A18 – Other current assets *** should include for example, stocks and work in progress, but **not fixed assets**.

A19 – Liabilities payable within one year *** includes all money owed by the charity other than long-term liabilities. Includes creditors, overdrafts, the coming year's instalments on longer term loans, accrued commitments and deferred income.

A21 – Unrestricted Funds includes designated funds but excludes restricted and endowment funds.

A22 – Total Funds should be clear from the balance sheet / statement of balances. For accrued accounts it will normally be net current assets (A20) plus fixed assets and long-term investments, less any long-term liabilities. It will also normally be the same as unrestricted funds plus restricted funds plus endowment funds. For receipts and payments accounts it will be the funds represented by cash and bank balances.

All figures that are negative must be clearly marked “-“ in the box to the left of the figure. Please do not use brackets.

4 A Financial information (continued)

4.15 Other details:

A23 – Consolidated (“group”) accounts relates to charities which are a parent body having one or more connected trading companies and consolidate the figures for the charity and the connected companies.

A24 - Please give the number of staff, you employ and as disclosed in the accounts and indicate the method of counting as shown in A25. If your accounts do not give staff numbers, please nevertheless enter the total number as at the period end date. Our preference would be a “whole time equivalent” basis, but you may use a “headcount” basis if that is not practicable.

Please do not include volunteers in the staff figure, even where they receive an expenses allowance or board and lodging. Only include people who are paid a wage or salary.

If you have not got the number in your accounts and are having to do a count for the form, note that you will need to include any pool staff (such as relief workers who are on “as and when needed” contracts). If you are using a whole time equivalent basis, estimate roughly how many full-time people would be needed to provide what they do in a typical week.

Include staff on free secondments only if their salaries are accounted for in your accounts.

5 B Questions about fundraising

The questions relate to the accounting period.

- 5.1 **Question B1** – The meaning of fundraising is given in the glossary section. Please answer “yes” if the charity in any way looks for gifts, donations, pledges, sponsorship, legacies, participation in fundraising events, grants, etc, from either the public, businesses, the lottery funds or other charities.

5 B Questions about fundraising (continued)

5.2 Question B2 – Please answer “yes”, whatever the nature of the agency.

Paid agencies for fundraising include all persons or businesses other than employees of the charity that have earned money by raising funds for the charity. It includes any connected company that does any of these things.

Answer “yes” if there were agencies which:

- carried out donor recruitment
- recruited fee-paying members
- organised events for the purpose of generating funds for the charity
- placed static collection boxes
- filled out application forms for grants
- met grant givers or donors on the charity’s behalf

Answer “no” if the agencies only:

- designed publications
- acted as fulfilment agencies (i.e. people who just pack and mail goods)
- provided advertising for a fundraising purpose
- gave advice to the charity

5.3 Question B3 – This information will help us to interpret the ratios we will extract from the accounts information. Note that the Charities SORP requires that donations are accounted for gross, and that all the money going to agencies is included in fundraising costs.

Agencies’ earnings comprises all the money agencies earned, whether it was described as fees, commission, or anything else, either by payment from the charity or by deduction from donations or other proceeds paid over to the charity. It also includes the value of any payment in kind and the value of any obligation of the agency that was met or offset by the charity.

5 **B Questions about fundraising (continued)**

- 5.4 **Question B4** – We wish to assist where a charity finds fundraising taking place in its name that is not authorised and controlled, especially where professional fundraisers are involved.

In some cases there are charities that positively encourage local initiatives within the guidelines they set – in such cases where these guidelines have been followed the answer to this question should be “no”. Similarly if a church or school has carried out a collection or given you the proceeds of one of its events, and the charity is happy to receive this kind of group donation, the answer again should be “no”.

The situation can be “greyer” where the charity has local support groups that operate semi autonomously and sometimes conduct fundraising of a kind that is out of line with the charity’s ethics or strategy. Generally speaking, if you have this kind of problem with a group you should answer “yes”.

6 **C The charity trustees**

- 6.1 **Questions C1 and C2** are straightforward. The term “Charity Trustee” is defined in the glossary.
- 6.2 **Question C3** – include all charity trustees who received fees and/or salaries, not only for their contribution as trustees, but also for any service provided to the charity or a related body.

7 **D Payments to charity trustees**

This section relates to actual payments made or due to trustees.

- 7.1 **Question D1** – expenses paid to charity trustees in whatever capacity they were acting (include for example travel expenses for carrying out research projects, volunteer driving, representing the charity at conferences, etc.) Do not include general purchases made on behalf of the charity e.g. if the deposit for the hire of a meeting room for the AGM is initially paid for by a trustee and then subsequently reclaimed from the charity.
- 7.2 **Question D2** – an example of this could be if one of the trustees provides legal services to the charity then all such services, billed to the charity should be included here.
- 7.3 **Question D3** – this should be the cost to the charity of all payments to charity trustees under contractual arrangements, including salaries, wages and benefits such as pensions, and housing allowances. Any honoraria should also be included here.

7 D Questions about payments to charity trustees (continued)

- 7.4 **Question D4** – this should include any other costs which cannot be included in the above three headings. Examples of one off type payments may be a loan or relocation expenses.
- 7.5 **Question D5** – if you answer “no” to D5 and have included payments in D2 - D4, please provide a written explanation when submitting your Return.

8 E Transactions with charity trustees

- 8.1 **Question E5** – the total amount paid in respect of occupation includes all rents, service charges, licence fees, insurance premiums, utility bills, rates and Council Tax either paid directly to the trustee or offset against other liabilities or obligations.
- 8.2 **Question E6** – if you answer “yes” to E6, please provide a written explanation when submitting your Return.

9 F Dealings with connected trading companies

- 9.1 If the section is applicable, the questions must be answered whether or not the charity’s accounts are consolidated group accounts.
- 9.2 **Questions F1- F8** relate to loans. Do not give information here about the charity’s investment in shares in the connected company, either concerning the cost or the carrying value in the charity’s balance sheet.
- 9.3 **Question F1** – This is about money the charity has lent to its connected trading company. Money lent by the trading company to the charity should not be included in the answer.
- 9.4 **Question F9** – Again, the answer to this question should not include the charity’s shares or its beneficial interest in the reserves of the connected company. We only want information about amounts owed, such as may arise through delayed payments or intra-group current account transactions.
- 9.5 **Questions F10 – F12** relate to turnover, profit/loss and income information for the connected trading companies only.
- 9.6 With the definitions given in the glossary, the remainder of these questions will, we hope, be self explanatory to the small number of charities that require to complete this section.

Glossary of words

A number of words we have used on the form are written in *italics*, to show that their meaning is explained in this Glossary.

Accounting period The accounting period for the form is the period covered by the charity's annual accounts that are the subject of the Return.

Assets Assets are *property*, goods and money, investments, rights to receive money in future, and logos, names, data and other "intellectual property".

Charity Trustee, Charity Trustees These are the people who have the general control and management of the administration of the charity. The term is to be interpreted to include all such persons, regardless of the title that is normally used by the charity (for example, "directors", "board members" or "committee members" are likely to be charity *trustees* for the purpose of the Return form).

Charities vary, and different constitutions place differing responsibilities on particular groups, such as "office bearers", "the Council", "the executive", "the Board", "the trustees", "the elders", etc, and it is up to the charity trustees themselves to clarify for their charity who performs the role of charity trustees in terms of the charity's own constitution and the law.

Connected Detailed guidance is contained in the Act and the Charity SORP.

Broadly the following are *connected* with a charity *trustee*:

- The charity *trustee's* husband, wife or partner, or anyone living in the same household
- The charity *trustee's* children, parents, grandchildren, grandparents, brothers and sisters and anyone living with any of these as their husband or wife
- The trustees of any private trust of which the beneficiaries or potential beneficiaries include the charity *trustee* or anyone mentioned above
- Business partners of the charity trustee or of anyone mentioned above
- Organisations (not including those wholly owned by charities) in which the trustee and anyone mentioned above, taken together, has ownership of at least one fifth of the shares or of the voting rights

<i>Connected company</i>	<p>A connected company is a company of which the charity owns at least one fifth of the shares or voting rights or where the charity can otherwise ensure that the affairs of the company are conducted in accordance with its wishes. All companies that are “subsidiaries” come within the definition of a connected company.</p> <p>If a charity is being run by the employees of X Ltd, or if X Ltd is the major donor or sponsor, that does not in itself make X Ltd a connected company for our purposes.</p>
<i>Connected trading company</i>	A connected trading company means any connected company which is not itself a charity.
<i>Fundraising</i>	This means activities for raising (or generating) funds for use by the charity in meeting its charitable objects. This includes making approaches to companies and grant-making trusts as well as to the public. For the purpose of this form, it does not include negotiating funding from local and central government, and it does not include fundraising for other causes carried out as an activity by beneficiaries (such as children in a charity’s school raising money for overseas aid).
<i>Full Accounts</i>	For receipts and payments these are accounts which fully comply with The Charity Accounts (Scotland) Regulations 2006. For accrued accounts these are accounts which fully comply with the regulations and Accounting and Reporting by Charities: Statement of Recommended Practice (revised 2005) “Charities SORP”.
<i>Governing document</i>	This is the charity’s constitution, which will have been submitted to H M Revenue & Customs or OSCR, when they granted recognition as a charity or when they last approved a change. It sets out the charity’s purposes and the powers of its trustees, also the means of election and conduct of meetings, as well as conditions to meet if the charity is wound up. If the charity is a company, the governing document is the “Memorandum and Articles of Association”. If an industrial and provident society, it is the “Rules”. Other charities will have a “trust deed” or simply a “constitution”.

<i>Governance costs</i>	These will include such costs as audit fees, fees for legal advice for trustees, and costs associated with meeting constitutional and statutory requirements such as trustees' meetings and preparing accounts. Central or office costs which are incurred in carrying out or supporting charitable activities should be classified within "cost of charitable activities", rather than as "governance".
<i>Net current assets</i>	The balance sheet total of short-term investments, stocks, debtors and cash, minus amounts owed that are payable within one year. This does not include Fixed Assets, examples of which are given under Property.
<i>Paid</i> (in sections D and E)	The Return form should be completed on the same basis as the charity's accounts have been prepared. Therefore the amount given as "paid" by a charity with accruals basis accounts should be the "payable" figure adjusted for opening and closing accruals that is included in the accounts.
<i>Property</i>	Property includes heritable land and buildings, rights to leases, fittings, plant, equipment (including IT equipment) and motor vehicles.
<i>Related body</i>	Related bodies include <i>connected companies</i> and also other charities that are grouped with the charity through common trusteeship, appointment rights or other arrangements.
<i>Secured</i>	A loan is secured if it is protected by a formal registered legal document that gives the lender rights to the borrower's property if the borrower fails to repay it.
<i>Unrestricted funds</i>	The total funds at the period end date that are expendable at the discretion of the <i>trustees</i> in furtherance of any of the charity's objects. It includes designated funds, but it does not include funds that the charity can only use for particular aspects of its activities (i.e. restricted funds), or permanent endowment funds.

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