Scottish Charity Regulator

A Guide to Charity Accounts:
Fully Accrued Accounts

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Scottish Charity Regulator

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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