OSCR
Scottish Charity Regulator

A Guide to Charity Accounts:
Overview

April 2019
Scottish Charity Regulator

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.

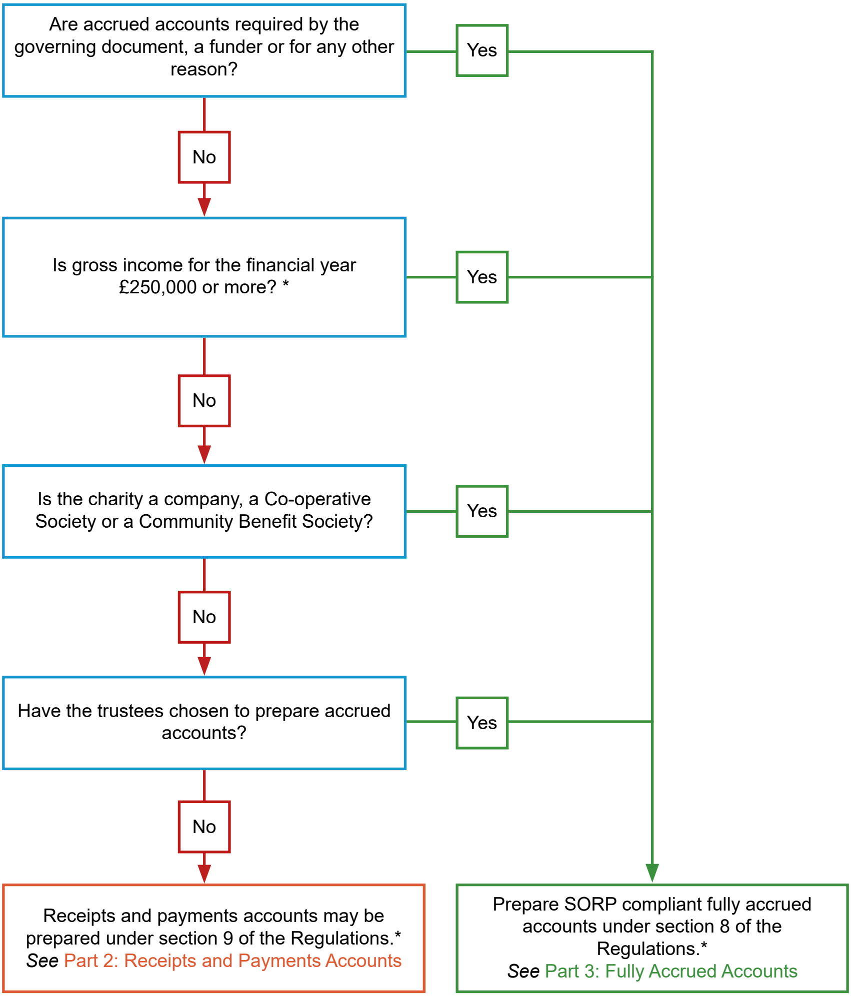
Fully accrued accounts must follow the SORP and, if independently examined, be examined by a qualified independent examiner (see section **3.5 in Part 3: Fully Accrued Accounts**). Charity trustees should fully consider the implications of deciding to prepare fully accrued accounts if they are not otherwise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

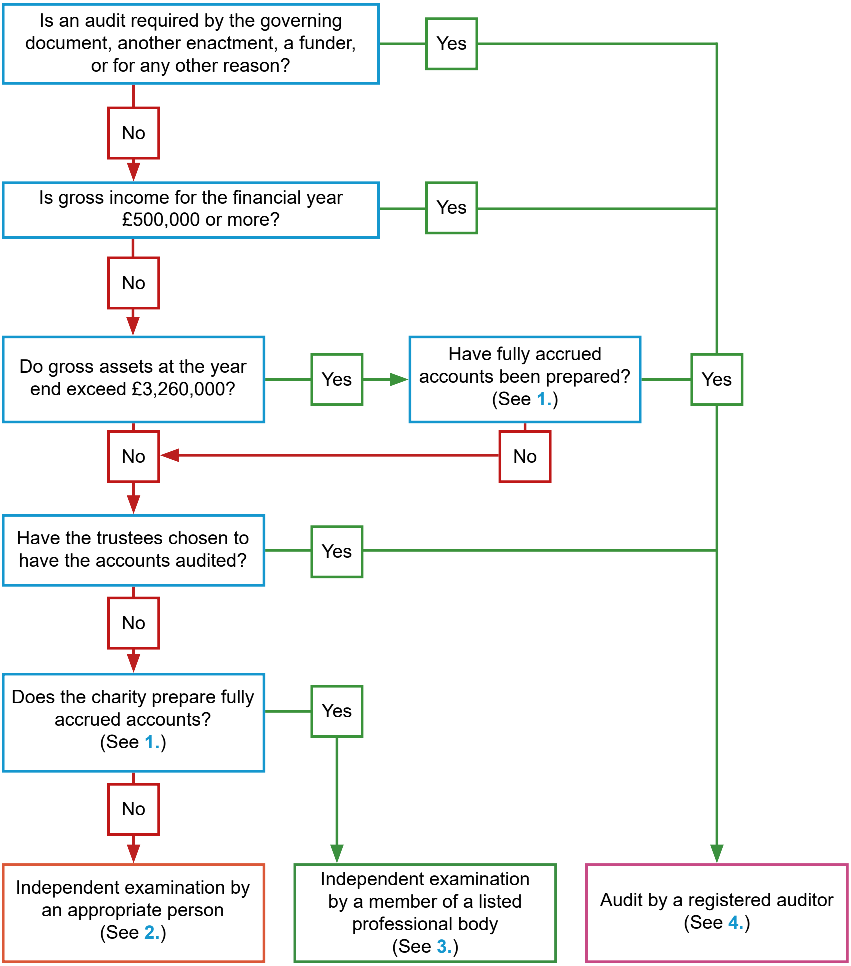
- **Part 2: Receipts and Payments Accounts**

  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.

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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