Part 1: The Overview

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Section 1 Introduction

1.1 Introduction

Anyone who has given time or money to a charity will have an interest in seeing its resources used properly. A charity's accounts are a means of communicating considerable information about the charity in a relatively concise way. A well prepared and informative set of accounts will give members, funders, donors and anyone else with an interest in the charity a good picture of the activities of the charity and how well it is using its resources.

The purpose of this updated publication is to provide detailed guidance on the accounts provisions in the law and regulations covering charities, including the changes introduced by two recent amendments to regulations. The format and independent scrutiny of charity accounts is regulated by the Charities and Trustee Investment (Scotland) Act 2005 (the 2005 Act), and the Charities Accounts (Scotland) Regulations 2006 (the Regulations). The 2006 Accounts Regulations have been amended by the Charities Accounts (Scotland) Amendment Regulations 2007 and the Charities Accounts (Scotland) Amendment Regulations 2010.

Copies of the 2005 Act and the Regulations and information on how to obtain printed versions are available on the OSCR website at www.oscr.org.uk

1.2 Who is this guidance for?

This guidance has been produced by the Office of the Scottish Charity Regulator (OSCR) and is principally for the attention of the people who prepare and scrutinise charity accounts:

- charity treasurers
- charity trustees (i.e. the group of people who have management and control of the charity and who may be called committee members, directors or trustees, etc.)
- charity staff, e.g. chief executives and finance officers
- independent examiners
- auditors
- professional advisors
- support agency staff.

But it should also be of interest to:

- funding bodies and financial supporters
- umbrella bodies and intermediary organisations providing guidance and training to their members
- others with an interest in charity accounts such as beneficiaries and members.

While the 2005 Act and the Regulations apply to all charities, this guidance has been written principally with smaller charities in mind as they make up the vast majority of Scottish charities and may not have access to the same level of professional advice and support as larger charities.

Some charities will also have to prepare accounts in line with other legislation and regulations, for example charitable companies, registered social landlords or further and higher education institutions. For these organisations this guidance will need to be read alongside the other legislation or regulations that are specific to their organisation.

1.3 Scope of the Regulations

Section 44 of the 2005 Act and the original Regulations came into force for accounting periods starting on or after 1 April 2006. Some minor changes were introduced by the Charities Accounts (Scotland) Amendment Regulations 2007 and more recently, the Charities Accounts (Scotland) Amendment Regulations 2010 which came into force on 1 April 2011. The most significant changes made by the 2010 Amendment Regulations only affect financial years starting on or after 1 April 2011.

Charitable companies will need to prepare accounts that comply with the Regulations as well as the requirements of company law. Some changes have been introduced by the Companies Act 2006 that are relevant to Scottish charitable companies. For accounting periods commencing on or after 1 April 2008, charitable companies will no longer be exempt from the audit requirements applicable to all companies. They can qualify for audit exemption in the same way as any other company. Charitable companies will also be subject to the provisions of the Regulations in respect of external scrutiny of the 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 via the bank and in cash by the charity during its financial year, along with a statement of balances.

» fully accrued

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.

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 2005 Charities 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 constitution says it should prepare fully accrued accounts, or

» the charity trustees have taken a decision to prepare fully accrued accounts, or

» any enactment says that the organisation should prepare fully accrued accounts (e.g. 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.

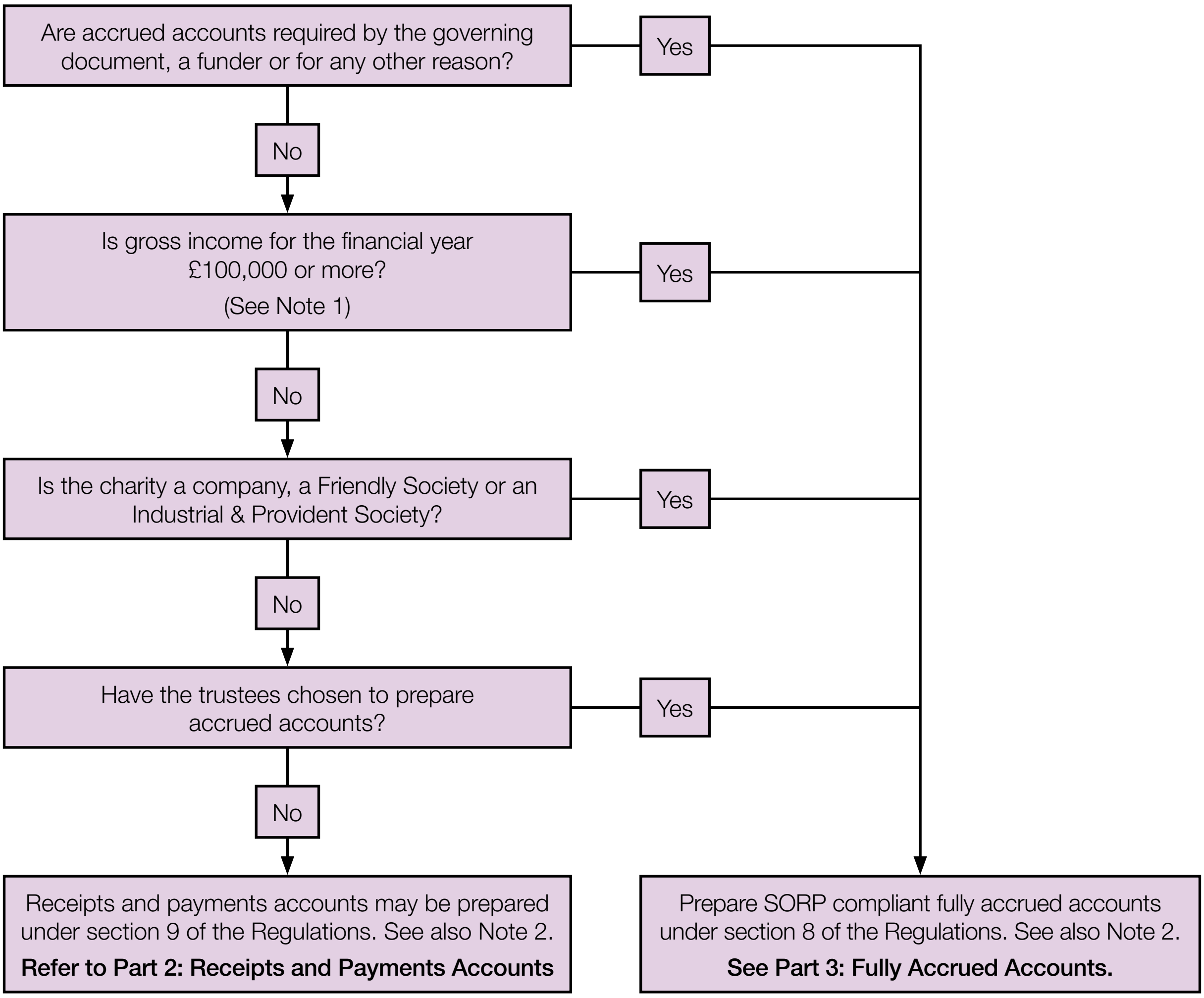
Fully accrued accounts must follow the 2005 Charities SORP and, if independently examined, be examined by a qualified independent examiner (see section 3.5 in Part 3: Fully Accrued Accounts). Charity trustees should fully consider the implications of deciding to prepare fully accrued accounts if they are not otherwise required.

Apart from the statutory requirement, any constitutional 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 Figure 1 overleaf called 'Preparing Accounts' to determine the type of accounts that must be prepared. The changes introduced by the 2010 Amendment Regulations mean that the rules are different depending on the period for which accounts are being prepared. This means that the person preparing the accounts must be clear about the financial year for which accounts are being prepared in order to understand the correct rules.

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

Figure 1 – Preparing Accounts



Notes:

1. £250,000 for financial years commencing on or after 1 April 2011.
2. 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 readers 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:

» independent examination

» audit.

Independent examination

An independent examination is a form of external scrutiny of the accounts which is less rigorous than an audit and 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 constitution 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).

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 Auditing Practices Board's ethical standards for auditors and International Standards on Auditing (UK and Ireland).

Many charity constitutions or 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 constitution and:

» retain the term audit because they decide that the accounts should continue to be audited, or

» amend the constitution (where they have the power to do so) to reflect the charity trustees' or members' intentions regarding external scrutiny.

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

In addition, many funding bodies require the charities they fund 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 whether or not external scrutiny by an independent examiner as required under the Regulations would be sufficient.

Further information on the changes that require OSCR's consent, or need to be notified to OSCR, can be found on OSCR's website page 'Making Changes to your Charity' available at www.oscr.org.uk

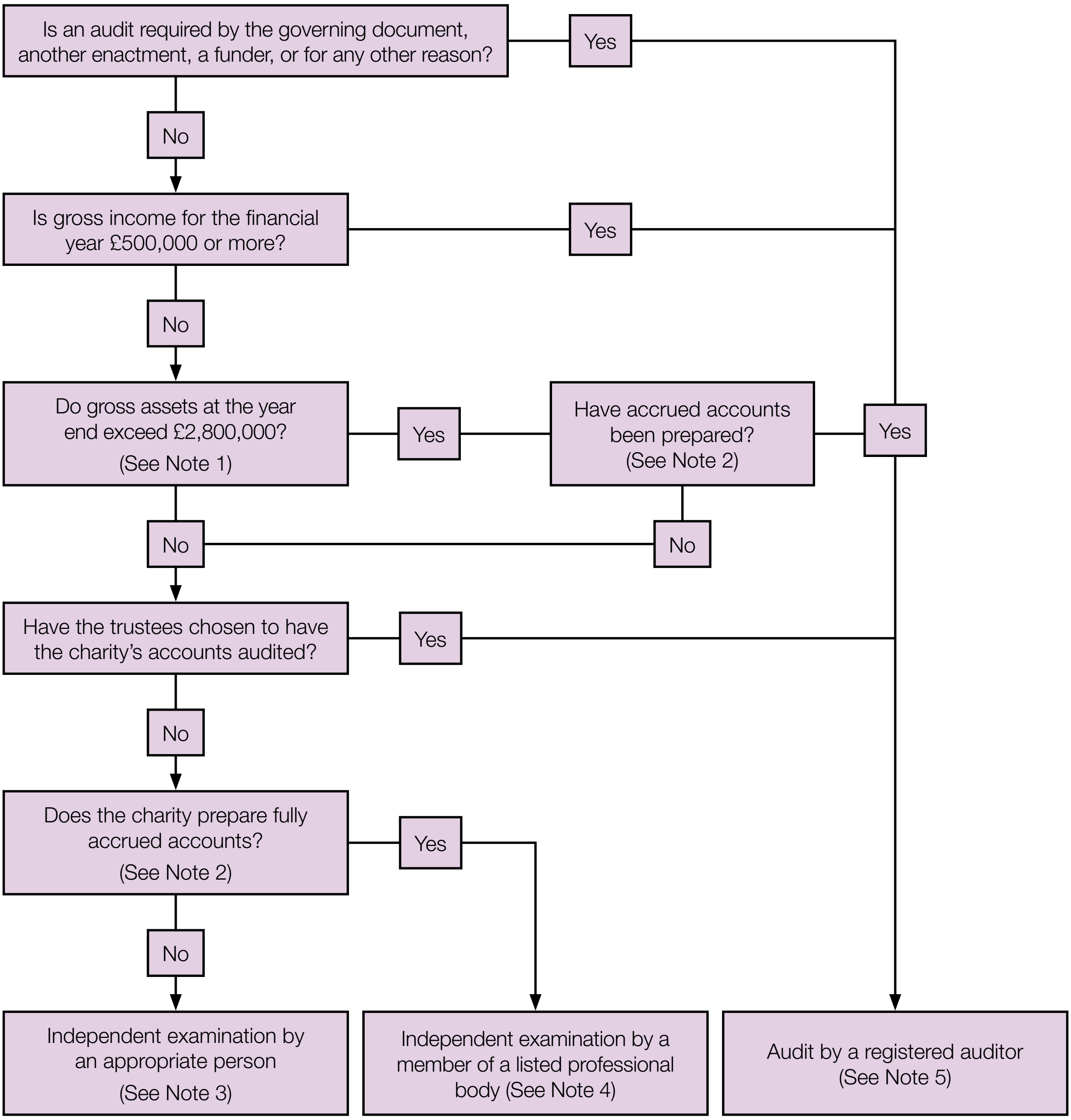
3.2 External scrutiny and type of accounts prepared

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

- any reference to audit in the constitution or governing document of the charity
- 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 carry out an audit.

The answers to the questions in Figure 2 overleaf 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.

Figure 2 – External Scrutiny Requirements



Notes:

1. £3,260,000 for financial years commencing on or after 1 April 2011.
2. Company charities must always prepare fully accrued accounts.
3. 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.
4. Refer to Part 3: Fully Accrued Accounts.
5. 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

4.1 Appointing someone to carry out the external scrutiny

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, the higher the level of qualification or experience required of the independent examiner or auditor.

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 normally be considered to have a connection:

» the charity trustees or anyone else who is closely involved in the administration of the charity

» a major donor or major beneficiary of the charity

» a close relative, spouse, partner, business partner or employee of any of the people mentioned above.

4.2 Access to information for independent examiners and auditors

Under section 13 of the 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 past or present charity trustees or employees of the charity.

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

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

Examples of what will be of material significance to OSCR carrying out its functions and what will be relevant are given below. They are provided for illustrative purposes only to assist independent examiners and auditors. They should not be seen as exhaustive.

Areas of material significance to OSCR will be matters central to the integrity of the charity and will include:

- dishonesty or misuse of funds by a charity trustee or senior management such as:
  - evidence of false accounting, theft or misappropriation of assets by a charity trustee or the charity's senior management
  - evidence of any significant theft or misappropriation by any charity employee (other than senior management), volunteer, agent or third party and the matter has not been reported to the police
  - evidence of significant misapplication of charitable funds
  - evidence that a charity trustee is disqualified from acting as such
  - evidence that a charity trustee, employee, or agent knowingly or recklessly provided false or misleading information to OSCR
  - evidence giving rise to doubts as to the honesty or integrity of any charity trustee.
- a serious breach of a legislative requirement such as:
  - a serious breach of the 2005 Act particularly (but not exclusively) with regard to sections 44, 66 and 67 relating to accounts, trustee duties and trustee remuneration
  - activities not in pursuit of charitable purposes
  - auditor or independent examiner not being provided with the records or explanations they require
  - a significant discrepancy between the annual or monitoring return submitted to OSCR and the accounts which is not immediately corrected.

Matters that may not be of material significance but may still be relevant to OSCR carrying out its functions are likely to indicate significant risks to charitable funds and their proper application, and would include:

- serious deficiencies in the management and control of charitable funds such as:
  - evidence that the charity trustees have failed to exercise proper control of the charity's assets, affairs and activities
  - evidence of recklessness by the charity trustees giving rise to a significant risk to charitable funds
  - uncertainty as to who are the charity trustees.
- a significant breach of a legislative requirement such as:
  - a significant breach of law or regulation, not specific to charity legislation, that could prevent the charity from undertaking a significant part of its activities
  - a significant breach of section 81 of the 2005 Act or the Charities and Benevolent Fundraising (Scotland) Regulations 2009.
- dishonesty or misuse of funds that does not involve a charity trustee or senior management such as:
  - evidence of any significant theft or misappropriation by any charity employee (other than senior management), volunteer, agent or third party and the matter has been reported to the police

– knowingly making significantly inaccurate or misleading claims in relation to the charity or its activities in publicity or fundraising materials.

In addition, auditors (but not independent examiners) must send to OSCR a copy of any report they have sent to the charity trustees containing circumstances that they feel should be brought to the attention of the charity trustees connected with the auditor ceasing to hold that office.

Section 5 Accounting records

Section 44 of the 2005 Act requires charities to keep proper accounting records. Section 4 of the Regulations specifies 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.

Section 44 of 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 (e.g. 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

6.1 Establishing the 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.

Charities entered in the Register after 1 April 2006 that are not companies or charities established in countries other than Scotland can decide their accounting reference date. This date must not be less than six months or more than 18 months after the date the charity was entered in the Register.

Charitable companies entered in the Register and incorporated on or after 1 April 2006 can choose an accounting reference date not less than six months or more than 18 months after the date the charity was incorporated.

Charities established on or after 1 April 2006 in countries other than Scotland and entered in the Register on or after 1 April 2006 can choose an accounting reference date not less than six months or more than 18 months after the date the charity was established.

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 accounting reference 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.

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.

Further information on the changes that need to be notified to OSCR can be found in the 'Making Changes to Your Charity' page available on OSCR's website at www.oscr.org.uk

6.3 Removal from the Scottish Charity Register

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.

Section 7 Reporting to OSCR

7.1 Reporting to OSCR

To keep the Register up to date and allow OSCR to monitor and regulate charities operating in Scotland, OSCR requires every charity on the Register to provide it with certain information. It does this by issuing annual and monitoring returns. Sections 22, 28 and 29 of the 2005 Act give OSCR the powers to make inquiries about and obtain information from charities.

7.2 Annual and Monitoring Returns

Every year, charities will be issued with an Annual Return. This will already have details of the Register entry information including the accounting reference date of the charity. Within the Annual Return charities need to state their annual gross income.

Charities which have declared a gross income of £25,000 or above in the preceding year will also receive a Supplementary Monitoring Return. This will require additional information about other areas which may include:

» annual accounts

» fundraising activities

» transactions with trustees

» dealings with connected trading companies.

The Monitoring Return for charities with an income of £100,000 or above will ask for slightly more information. This threshold will increase to £250,000 for the Monitoring Return sent to a charity for an accounting period starting on or after 1 April 2011.

Every charity must file the Annual Return, supplementary Monitoring Return (if appropriate) and annual accounts with OSCR within **nine months** of the charity's financial year end. **The accounts must be submitted at the same time as the Annual Return.**

The Annual Return, statement of balances or balance sheet, trustees' annual report and external scrutiny report submitted to OSCR must be signed with original signatures (not photocopies) and dated.

7.3 Processing of the Annual Return, Monitoring Return and accounts

The information collected from the Annual and Monitoring Returns will help OSCR maintain a regulatory system in which the public can have confidence and in which charities can grow and flourish. It will also provide statistics on the sector that will be useful to policy makers and the sector itself.

If any information is missing the forms will be reissued, partially completed with the data provided, and a covering letter will highlight the omissions. If the forms are complete but no accounts received, a letter will be sent requesting timely submission of the accounts.

The OSCR monitoring process involves a review of the accounts to ensure that the following key components are present:

» the Trustees' Annual Report

» report of the independent examiner or auditor

» statement of receipts and payments, or a statement of financial activities

» statement of balances or balance sheet

- signatures and dates on both the accounts and reports
- the Scottish charity number.

Where the accounts do not contain a compliant:

- statement of receipts and payments (receipts and payments accounts) or statement of financial activities (fully accrued accounts)
- statement of balances (receipts and payments accounts) or balance sheet (fully accrued accounts)
- report of an independent examiner or audit, as appropriate

the accounts will be failed.

In addition, where a charity has previously received three letters from OSCR in consecutive years, highlighting deficiencies with the accounts and a problem is identified in OSCR's accounts review, the accounts will be failed.

Where a set of accounts has been failed, the charity must then re-submit a set of revised accounts within 60 days or within nine months of its financial year end, whichever is later.

Once all the information required is complete, the Annual Return entry on the Charity Register will be updated with a date to reflect that the information has been checked.

The information provided on the Monitoring Return will be assessed against a number of triggers. Where a trigger is activated, OSCR monitoring staff will undertake a more detailed review of the accounts in order to, wherever possible, resolve the issue. If, following the accounts review, the matter remains unanswered or additional points have been identified, a request for further information will be issued. Any unresolved matters remaining at the end of this process will be assessed and may be directed to the Compliance and Investigations team for follow up.

OSCR has an Inquiry and Intervention Policy which sets out clearly how inquiries arising out of internal and external referrals and external complaints are undertaken.

Further information on OSCR's monitoring process and Inquiry and Intervention Policy can be obtained from OSCR's website at www.oscr.org.uk

7.4 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 Regulations.

7.5 Removal from the Register – protection of charitable assets

Charities can be removed from the Register either at their own request or by OSCR. Section 19 of 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 for which they were acquired. 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 Regulations.

OSCR has published separate guidance on the monitoring of charitable assets under section 19 of the 2005 Act which is available on OSCR's website at www.oscr.org.uk

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 at least £500,000 after deducting consolidation adjustments in any financial year must prepare consolidated accounts using the methods and principles of the 2005 Charities SORP. These must be submitted annually to OSCR.

The parent and subsidiary charities must still produce their own accounts as required by the Regulations. These must be submitted annually to OSCR.

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 subsidiary charities.

The information contained in the consolidated trustees' annual report must follow the Regulations for the type of consolidated accounts produced (i.e receipts and payments or accruals).

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, e.g. 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, e.g. 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.

For further information on whether or not a charity registered in England and Wales should also register with OSCR see the OSCR publication 'Seeking charitable status for cross border charities' available from the OSCR website at www.oscr.org.uk. There is also guidance on the website that explains how cross border charities are regulated by OSCR.

Section 11 Sources of information, guidance and support

11.1 Sources of information and advice

Office of the Scottish Charity Regulator (OSCR)
OSCR is the Regulator for charities in Scotland and provides information and guidance on charity law and regulation in Scotland. Contact: OSCR, Quadrant House, 9 Riverside Drive, Dundee DD1 4NY or 01382 220446 or visit www.oscr.org.uk

The Charity Commission for England and Wales
The Charity Commission is the Regulator for charities in England and Wales and provides information and advice on matters affecting charities in England and Wales. Contact: Charity Commission Direct on 0845 300 0218 or www.charity-commission.gov.uk

Companies House
The Registrar of Companies in Scotland offers a wide range of services and guidance booklets. Contact: Companies House, 4th floor, Edinburgh Quay 2, Fountainbridge, Edinburgh EH3 9FF or 0870 33 33 636 or www.companieshouse.org.uk

Scottish Council of Voluntary Organisations (SCVO)
SCVO is the national body representing the voluntary sector and provides advice, information, support and assistance to charities. Contact: SCVO, Mansfield Traquair Centre, 15 Mansfield Place, Edinburgh EH3 6BB or the information service on 0800 169 0022 or www.scvo.org.uk

Third Sector Interface
Your local CVS or Volunteer Centre which offer support to voluntary organisations. Contact: 01324 692025 or visit www.voluntaryactionscotland.org.uk

11.2 Publications

Accounting and Reporting by Charities: Statement of Recommended Practice 2005 (second edition – May 2008)
Copies can be downloaded from the OSCR website at www.oscr.org.uk or the Charity Commission website at www.charity-commission.gov.uk. Hard copies may be purchased from CCH on 0870 777 2906

Charity Accounts – A Practical Guide to the Charities SORP
By Andrew Pianca & Greyham Dawes, 4th edition. From Jordans Publishing Ltd. ISBN 978 1 84661 154 4. Contact: www.jordanpublishing.co.uk

Charity Finance Yearbook 2011
From Charity Finance Magazine. ISBN 0 9521604 0 7. Contact: www.civilsociety.co.uk

Practical Guide to Financial Management for Charities and Voluntary Organisations
By Kate Sayer, 3rd edition, 2007, Directory of Social Change. ISBN 978 1 903991. Contact: www.dsc.org.uk or 08450 77 77 07

Practice Note 11 – The Audit of Charities in the United Kingdom
produced by the Auditing Practices Board. Contact www.frc.org.uk/apb/

The Charity Treasurer's Handbook
By Gareth Morgan, 3rd edition. 2010, Directory of Social Change. ISBN 978 1 903991 50 2. Contact: www.dsc.org.uk or 08450 77 77 07

11.3 Professional bodies and statutory auditors

Professional body	Contact
The Institute of Chartered Accountants of Scotland	www.icas.org.uk
The Institute of Chartered Accountants in England and Wales	www.icaew.co.uk
The Institute of Chartered Accountants in Ireland	www.icai.ie
The Association of Chartered Certified Accountants	www.accaglobal.com
The Association of Authorised Public Accountants	www.accaglobal.com/aapa/aapa
The Association of Accounting Technicians	www.aat.org.uk
The Association of International Accountants	www.aia.org.uk
The Chartered Institute of Management Accountants	www.cimaglobal.com
The Institute of Chartered Secretaries and Administrators	www.icsa.org.uk
The Chartered Institute of Public Finance and Accountancy	www.cipfa.org.uk
The Association of Charity Independent Examiners	www.acie.org.uk
The Accounts Commission for Scotland	www.audit-scotland.gov.uk
The Auditor General for Scotland	www.audit-scotland.gov.uk

Section 12 Glossary of terms

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

In May 2008, OSCR and the Charity Commission for England and Wales issued the second edition of Accounting and Reporting by Charities: Statement of Recommended Practice (the 2005 Charities SORP) with the aim of improving the quality of financial reporting by charities. The second edition reflects changes in charity law and company law since the document was originally published in 2005.

Assets

Assets are property, goods, money, investments, rights to receive money in the future and logos, names, data and other intellectual property belonging to the charity.

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.

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

A connected person is a person connected to a charity trustee by virtue of being:

» a close relative

» a spouse, civil partner or person with whom the charity trustee is living in an equivalent relationship

» any institution, corporate body or Scottish partnership where the charity trustee, or person connected to the trustee, has a controlling or substantial interest.

Constitution

A constitution is:

» In relation to a charity or other body established under the Companies Act, means its memorandum and articles of association.

» In relation to a charity or other body which is a body of trustees, means the trust deed.

» In relation to a SCIO means the document laid out in section 50 of the 2005 Act.

» In relation to a charity or other body established by enactment, means the enactment which establishes and states its purpose.

» In relation to charity or other body, established by a Royal charter or warrant, means the Royal charter or warrant.

» In the case of any other charity or body, means the instrument which establishes it and states its purposes.

The constitution may be in the form of one document, or several documents.

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 scrutineer
A person that carries out an independent examination or audit.

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.

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
See constitution.

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.

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 £2,800,000 (£3,260,000 for financial years starting on or after 1 April 2011). 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.

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.

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 unrestricted funds held by a charity and are freely available to spend on any of the charity's purposes. This would exclude endowment and restricted funds and 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 (e.g. 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 (e.g. interest) will be subject to the same restriction as the original fund unless the terms of the original restriction say otherwise.

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 (e.g. 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, e.g. major repair works. These sums are designated for that purpose and should be accounted for as part of the charity's unrestricted funds.