

4. Eligibility for independent examination **For all interest groups**

In Scotland, the formal requirements for accounts and external scrutiny are contained within the 2005 Act and the 2006 Regulations. The requirements differ depending on the constitutional form of the charity, the level of the charity's income and also any relevant provisions contained within the charity's governing document.

This section looks at the relevant factors and explains how to understand what the required form of external scrutiny is for a charity.

4.1 Form of accounts

Table 1 below sets out the formal requirements under the 2006 Regulations for the form of accounts to be prepared by Scottish charities.

Table 1: Format of accounts

Gross income	Format of accounts⁽²⁾	
Less than £250,000 ⁽¹⁾	Non-company charities: receipts and payments accounts (See Appendix 2)	Charitable companies: fully accrued accounts (See Appendix 3)
£250,000 and over	Fully accrued accounts (See Appendix 3)	

(1) Less than £100,000 for periods commencing before 1 April 2011.

(2) Preparers of accounts also need to consider any relevant requirements of the charity's governing document in understanding the format of accounts to be prepared – there may be provision requiring accrued accounts to be prepared for example which would overrule the above threshold requirements.

Receipts and payments accounts

Non-company charities with gross income of less than £250,000 (£100,000 for accounting periods starting before 1 April 2011) will normally prepare a simple form of accounts called 'Receipts and Payments Accounts'. These are much easier to compile than fully accrued accounts as they simply provide basic information regarding the money that has come into and been paid out by the charity. Therefore, an individual does not need to be professionally qualified to undertake the role of independent examiner for these accounts.

However, where an audit of receipts and payments accounts is required as a result of a requirement in the governing document, a decision of the charity trustees or any other enactment, a qualified auditor will be required. (See section 3.3)

Trustees of charities that are eligible to prepare receipts and payments accounts may *choose* to prepare fully accrued accounts instead. However, they should be aware that such accounts will require to be examined by a qualified independent examiner, which may have a cost implication for the charity.

Fully accrued accounts

Charitable companies are *always* required to prepare fully accrued accounts. They do not have the option of preparing receipts and payments accounts. This is as a result of company law requiring such bodies to prepare accounts that are ‘true and fair’.

Non-company charities with gross income of £250,000 ((£100,000 for accounting periods starting before 1 April 2011) or above must also prepare fully accrued accounts.

Where fully accrued accounts are prepared, they must be prepared under the methods and principles of the SORP. The external scrutiny of fully accrued accounts must be carried out by an individual who is professionally qualified to understand such accounts as they can be complex in comparison to receipts and payments accounts.

Further information

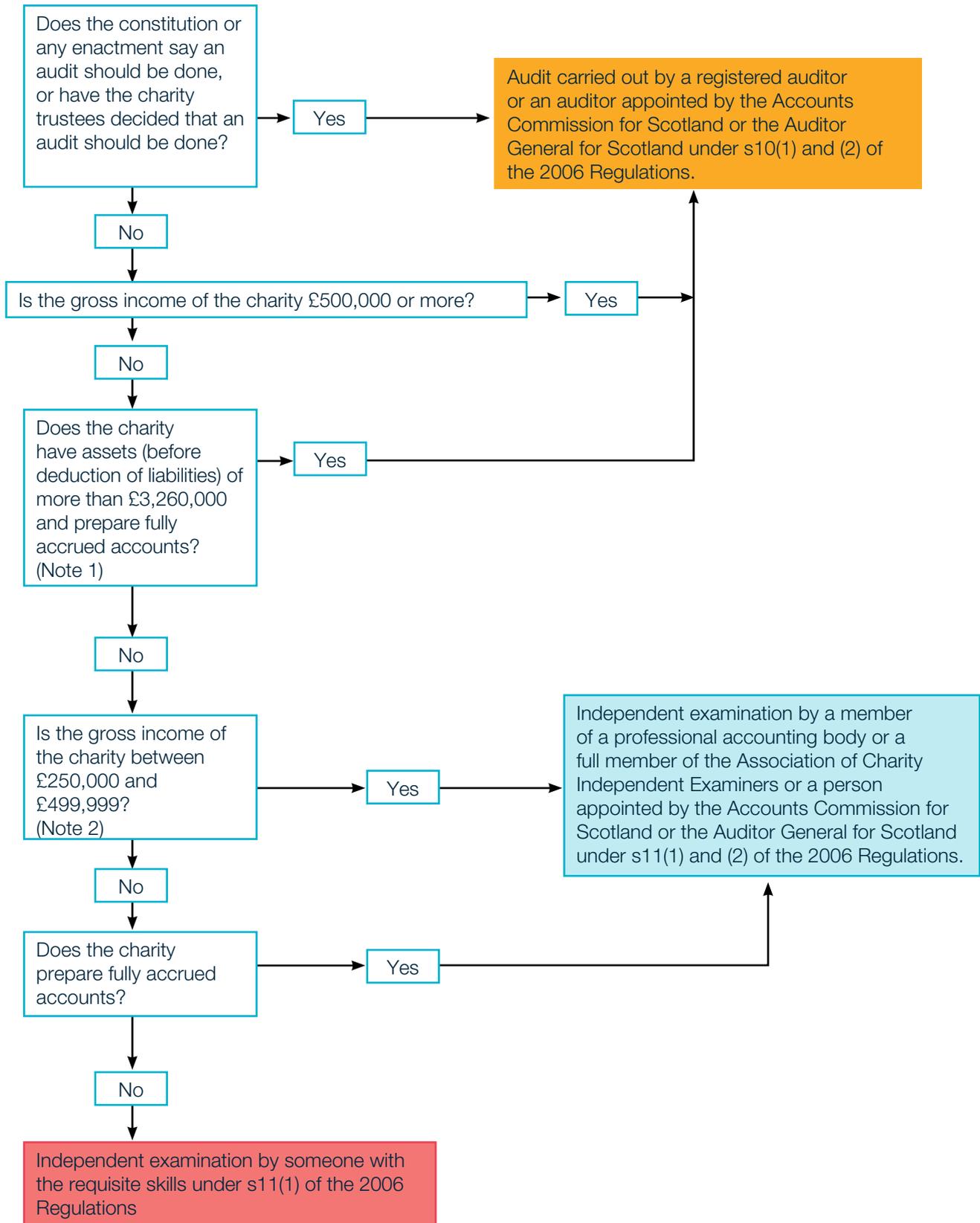
More detailed information on the preparation of accounts and the relevant requirements can be found within OSCR’s Accounts Guidance (Scottish Charity Accounts – an updated guide to the 2006 Regulations) which is available on the OSCR website. There is further information at Appendix 1 (summary of requirements), Appendix 2 (receipts and payments accounts) and Appendix 3 (fully accrued accounts) of this guidance.

4.2 External scrutiny criteria

As a result of different forms of accounts being permitted under the 2006 Regulations, there are corresponding differences in the type of external scrutiny that is required.

Figures 1 and 2 provide a step by step guide to understanding the appropriate form of external scrutiny for Scottish charities. Note that there are different steps depending on whether the charity is a company or not.

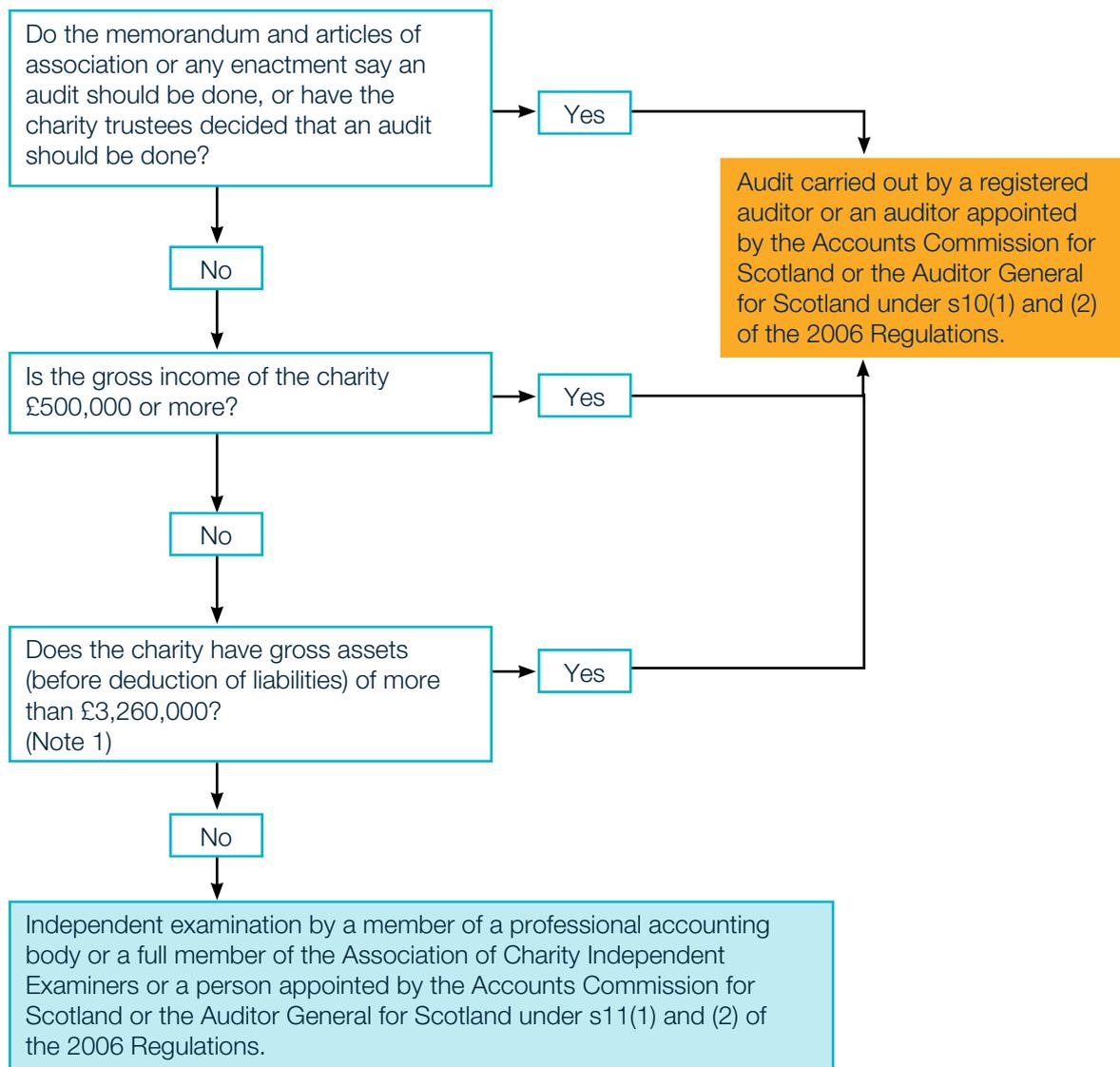
Figure 1: External scrutiny for charities that are not companies



Note 1: assets of more than £2,800,000 for periods starting before 1 April 2011.

Note 2: income between £100,000 and £499,999 for periods starting before 1 April 2011.

Figure 2: External scrutiny for charitable companies – applicable for accounting periods starting on or after 1 April 2008*



*The above flowchart should only be used to understand the external scrutiny requirements for charitable companies preparing accounts for periods starting on or after 1 April 2008. For earlier accounting periods, reference should be made to the requirements under the Companies Act 1985 as outlined in OSCR's Accounts Guidance.

Note 1: £2,800,000 for periods commencing before 1 April 2011.

Figures 1 and 2 show that there are different forms of independent examination depending on the form of accounts being produced by a charity. In the next section we will look at these differences to provide a better understanding of the relevant underlying principles and how this affects the process of the independent examination.

Milestone 2 –

Is it clear whether receipts and payments accounts or fully accrued accounts should be prepared?

- If it is still unclear which type of accounts should be prepared, please refer to our accounting guidance.
- If receipts and payments accounts are to be prepared, you may wish to use our Receipts and Payments Workpack.
- The accounting guidance and Receipts and Payments Workpack can both be downloaded from the OSCR website at www.oscr.org.uk.
- If fully accrued accounts are to be prepared, the SORP is also available to download from www.charitySORP.org.