

Part 3: Fully Accrued Accounts



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Contents

Section 1	Introduction	49
1.1	Introduction	49
1.2	Should the charity prepare fully accrued accounts?	49
1.3	How should the charity prepare fully accrued accounts?	49
Section 2	Content and principles to be used when preparing fully accrued accounts	51
Section 3	External scrutiny	52
3.1	What type of external scrutiny should be carried out?	52
3.2	External scrutiny of fully accrued accounts for charities that are not companies	52
3.3	External scrutiny of charitable companies	52
3.4	Independent examination	53
3.5	Who can carry out an independent examination of fully accrued accounts?	53
3.6	Content of the independent examiner's report	54
3.7	Audit	54
3.8	Duty to report matters to OSCR	55
Section 4	Reporting to OSCR	55
Section 5	Example accounts	55
Appendix 1	Example independent examiner's report (fully accrued accounts)	56

Section 1 Introduction

1.1 Introduction

This is Part 3 of the guidance on the preparation of fully accrued accounts along with the relevant external scrutiny options, and should be read in conjunction with Part 1 of this publication, The Overview.

Appendix 1 to this Part contains an example independent examiner's report and directs readers to where examples of accrued accounts can be found.

1.2 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 £100,000 or more (this threshold increases to £250,000 for accounting periods starting on or after 1 April 2011)
- » is a company or a Registered Social Landlord or a Higher or Further Education Institution
- » the constitution or 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
- » the trustees have decided that they will prepare fully accrued accounts.

See Figure 1 – Preparing Accounts in Part 1: The Overview (page 9), to check what type of accounts a charity must prepare.

While a charity with a gross income under £100,000 (£250,000 for accounting periods starting on or after 1 April 2011) may be able to prepare accounts on a receipts and payments basis, the charity trustees may decide nevertheless that they wish to have fully accrued accounts prepared 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 Charities SORP and, if independently examined, be examined by a qualified independent examiner (see section 3.5), charity trustees should fully consider the implications of deciding to prepare fully accrued accounts if they are not otherwise required.

1.3 How should the charity prepare fully accrued accounts?

Accounts prepared using the accruals basis should recognise incoming resources 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, certainty that they will be received 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 as soon as 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 the financial state of a charity it should be produced on the fully accrued basis. This means that they should be prepared in accordance with UK Generally Accepted Accounting Principles (GAAP) and the methods and principles of the Charities SORP.

In January 2015 OSCR and the Charity Commission for England and Wales issued two new editions of Accounting and Reporting by Charities: Statement of Recommended Practice. These have been updated to reflect changes in UK GAAP and to allow for a SORP for FRS102 and one for FRSSE. The SORPs aim 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 Regulations specifies that fully accrued accounts must be prepared in accordance with the methods and principles of the Charities SORPs. This reference has been updated to reflect the new editions of the SORP and includes reference to any Charities SORP update bulletins or information sheets.

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 complicated nature of both the Charities 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 Charities SORP.

Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland.

Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard for Smaller Entities.

Copies can be downloaded at www.charitiessorp.org

Hard copies may be purchased from CIPFA. Contact 020 7543 5100 or visit: www.cipfa.org

Section 2 Content and principles to be used when preparing fully accrued accounts

Under the 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 Charities SORP. 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 the financial activities (often referred to as the SOFA)** of the charity that gives a true and fair view of the incoming 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 cash flow statement**, if appropriate
- » **notes to the accounts** that explain the accounting policies adopted and explain or expand on the information contained within the main accounting statement. See the Charities SORP for further 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 Charities 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 Regulations for the preparation of accounts would not be consistent with giving a true and fair view, the trustees should depart from the Regulations to the extent necessary to give a true and fair view.

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

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 Figure 2 in Part 1: The Overview (page 12), to check the type of scrutiny to which a charity must subject its statement of account.

3.2 External scrutiny of fully accrued accounts for charities that are not companies

Charities that are not companies are subject to the following external scrutiny thresholds in the Regulations:

- » non-company charities that have prepared accrued accounts and have a gross income of less than £500,000 and assets before deduction of liabilities of £2,800,000 (£3,260,000 for accounting periods starting on or after 1 April 2011) or less in any financial year can subject their accounts to an independent examination and not an audit unless:
 - the constitution or governing document of the charity requires the accounts to be subject to an audit, or
 - the charity trustees have decided to subject the accounts to an audit, or
 - any enactment requires the accounts to be the subject of an audit.

See sections 3.4 to 3.6 overleaf on independent examination for further details of the independent examination.

- » non-company charities that:
 - have an income of £500,000 or above, or
 - have an income of less than £500,000, but have prepared fully accrued accounts

and have assets (before deduction of liabilities) greater than £2,800,000 (£3,260,000 for accounting periods starting on or after 1 April 2011), or

- have an income of less than £500,000 but their constitution or any enactment says they should, or the charity trustees decide they should,

must have an audit by a registered auditor or the Auditor General for Scotland or an auditor appointed by the Accounts Commission for Scotland.

See section 3.7 for further details on the requirements for audit.

3.3 External scrutiny of charitable companies

Unless the Memorandum and Articles of Association indicate otherwise, charities that are also companies are subject to the following external scrutiny thresholds under charity law:

- » where the gross income is less than £500,000 and the gross assets are no more than £2,800,000 (£3,260,000 for accounting periods starting on or after 1 April 2011), an independent examination under the Regulations is required (see sections 3.4 to 3.6 overleaf)
- » where the gross income is £500,000 or more or where the gross assets are more than £2,800,000 (£3,260,000 for accounting periods starting on or after 1 April 2011), an audit is required under the Regulations
- » 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 Regulations and the Companies Act 2006.

Where an audit is required, this must be carried out by a registered auditor (see section 3.7).

Charitable companies which are either a parent company or a subsidiary are not entitled to the above exemptions from audit unless the group of which it is a component qualifies as a small group in terms of company law. This would alleviate any requirement for audit under company law but not under the Regulations.

For the audit requirements under the Companies Act contact Companies House or a professional accountant.

3.4 Independent examination

Independent examination is a less onerous form of external scrutiny than an audit and is available, under the Regulations, for charities preparing fully accrued accounts where:

- » gross income is under £500,000, and
- » gross assets are less than £2,800,000 (£3,260,000 for financial periods 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. This threshold has been set at a level where the more detailed audit scrutiny is not deemed essential as the scrutiny of an independent examination for accrued accounts is deemed rigorous enough for this size of charity.

An independent examiner reviews the accounting records kept by the charity and compares them with the accounts prepared from those records. The examiner then prepares a report which provides the information required by the Regulations and provides an assurance whether or not anything has been found that needs to be brought to the attention of readers of the accounts (see section 3.6 overleaf).

3.5 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 one of the following:

- » 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
 - The Institute of Chartered Accountants in 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 (page 13), for guidance on deciding who to appoint as an independent examiner.

3.6 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 is attached at Appendix 1 (page 56) to this Part of the guidance.

3.7 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 an audit firm or partnership
- » 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 8 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 difference 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 report 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 Auditing Practices Board. Contact www.frc.org.uk

3.8 Duty to report matters to OSCR

See section 4.3 of Part 1: The Overview (page 13), for guidance on the independent examiners and auditors duty to report matters to OSCR under section 46 of the 2005 Act.

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 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 reports and accounts in line with the recommendations of the Charities 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.charitycorp.org

Appendix 1: Example independent examiner's report (fully accrued accounts)

Independent Examiner's Report to the Trustees of "ABC" Trust

I report on the accounts of the charity for the year ended xx xxxx 20xx which are set out on pages xx to xx.

Respective responsibilities of trustees and examiner

The charity's trustees are responsible for the preparation of the accounts in accordance with the terms of the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006 (as amended). The charity trustees consider that the audit requirement of Regulation 10(1) (a) to (c) of the Accounts Regulations does not apply. It is my responsibility to examine the accounts as required under section 44(1) (c) of the Act and to state whether particular matters have come to my attention.

Basis of independent examiner's statement

My examination is carried out in accordance with Regulation 11 of the Charities Accounts (Scotland) Regulations 2006 (as amended). An examination includes a review of the accounting records kept by the charity and a comparison of the accounts presented with those records. It also includes consideration of any unusual items or disclosures in the accounts, and seeks explanations from the trustees concerning any such matters. The procedures undertaken do not provide all the evidence that would be required in an audit, and consequently I do not express an audit opinion on the view given by the accounts.

Independent examiner's statement

In the course of my examination, no matter has come to my attention [other than disclosed below*]

1. which gives me reasonable cause to believe that in any material respect the requirements:
 - to keep accounting records in accordance with Section 44(1) (a) of the 2005 Act and Regulation 4 of the 2006 Accounts Regulations, and
 - to prepare accounts which accord with the accounting records and comply with Regulation 8 of the 2006 Accounts Regulations have not been met, or
2. to which, in my opinion, attention should be drawn in order to enable a proper understanding of the accounts to be reached.

Name:

Relevant Professional qualification/professional body:

Address:

Date:

* Please delete the words in brackets if they do not apply. If the words do apply, set out those matters which have come to your attention.