

Charity Accounts in Scotland - a brief overview

Accounting

The Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006 require all charities in Scotland to produce accounts. The Regulations provide for the form of accounting for Scottish charities for financial periods starting on or after 1st April 2006.

There are two forms of accounting;

- ◆ Receipts & 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 a charity during its financial year, along with a statement of balances.
- ◆ 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.

The simpler receipts and payments form of accounts is available to charities where;

- ◆ annual income is less than £100,000
- ◆ there is no statutory requirement to produce accrued accounts (such as the Companies Act)
- ◆ there is no requirement in the constitution of the charity to produce accrued accounts
- ◆ the Charity Trustees do not DECIDE to produce accrued accounts

All other charities must produce accrued accounts. For the avoidance of doubt, all charitable companies are required to produce accrued accounts.

All accounts prepared on an accruals basis must be compliant with the Charities SORP (Statement Of Recommended Practice) 2005.

Scrutiny

All charity accounts must be independently scrutinised. There are two forms of independent scrutiny for charities that are not companies;

Audit

Is an examination of an organisations accounts by someone eligible to act as an auditor in terms of Section 25 of the Companies Act. Audit is required by all (non-company) charities where;

- ◆ Annual income exceeds £500,000.
- ◆ The charity's constitution requires accounts to be audited.
- ◆ The Charity Trustees DECIDE the accounts will be audited.
- ◆ The charity's assets (before deduction of liabilities) exceed £2,800,000.

Independent Examination

Is a less onerous (and theoretically less expensive) form of scrutiny for charity accounts. Where charity income is below £100,000 and the trustees have opted to produce accounts on a receipts & payments basis, the examination may be done by any independent person that the trustees "reasonably believe" has the requisite skill to adequately examine the accounts.

Where accounts have been produced on an accruals basis, either because the income of the charity was between £100,000 and £500,000 or where the constitution requires, or the trustees decided to produce accrued accounts; these accounts must be independently examined by a member of a professional accounting body as recognised in Section 11 of the Regulations.

For charitable companies, the situation is somewhat different;

- ♦ Small charitable companies (with an income less than £90,000 and assets less than £2.8 Million) require independent examination by a member of a professional accounting body as recognised in Section 11 of the Regulations.
- ♦ Medium-sized charitable companies with income between £90,000 and £250,000 with assets less than £1.4 million may produce an Accountants report in accordance with the Companies Act.
- ♦ Large charitable companies with income in excess of £250,000 must have audit carried out by a registered auditor.

Points to note

- ♦ ALL external scrutiny must be independent of the trustees, ie not by a person connected or related to a trustee.
- ♦ Trustees must ensure that Independent Examiners and Auditors have free access to all accounting records in the possession of the charity.
- ♦ Independent Examiners and Auditors are REQUIRED to report to the Office of the Scottish Charity Regulator (OSCR) any matter they believe may be of "material significance" to OSCR in the exercise of its functions.
- ♦ Examiners and Auditors MAY bring any other matter to the attention of OSCR.

Further reading and points of reference;

Office of the Scottish Charity Regulator
Quadrant House
9 Riverside Drive
DUNDEE DD1 4NY
Tel 01382 220446
www.oscr.org.uk

OSCR's publication "Scottish Charity Accounts - A guide to the 2006 Regulations" is downloadable from their website. This is an excellent and comprehensive guide to accounting for Scottish charities.

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Also available to download from www.acvo.org.uk