TURCAN CONNELL

Briefing Note

Charity Accounts Rules

All Scottish charities are obliged to prepare a set of financial accounts each year and to lodge those accounts with the Office of the Scottish Charity Regulator (OSCR). Regulations govern the format in which accounts should be presented, the level of external scrutiny which is required, and other duties in relation to the preparation of accounts.

The rules on charity accounts are contained in the Charities and Trustee Investment (Scotland) Act 2005, with additional regulations set out in the Charities Accounts (Scotland) Regulations 2006, which were amended in 2007 and 2010. In addition, charities preparing fully accrued accounts are obliged to follow a Statement of Recommended Practice (SORP) produced jointly by OSCR and the Charity Commission for England and Wales (see below for more information on the Charity SORPs).

Format of accounts

There are two standard accounting formats which apply to charities: fully accrued accounts, which is a more detailed format, and the much simpler receipts and payments accounts. Which type of accounts must be prepared depends on a number of factors. In summary, if a charity is established as a company or registered society, then it has to prepare fully accrued accounts. For other charities, the simpler receipts and payments format may be used unless one of the following applies:-

- The charity's constitution requires the preparation of fully accrued accounts;
- The charity trustees have actively chosen to prepare fully accrued accounts;
- The charity has gross income in the year in question of £250,000 or more.

External scrutiny

As well as preparing accounts in the correct format, charity trustees must arrange for a degree of external scrutiny to be applied to their accounts. This can take the form of an audit or of a simpler independent examination.

An audit is a rigorous form of scrutiny which is intended to give a reasonable assurance that the accounts are free from material misstatements caused by fraud, error or other irregularity. Independent examination on the other hand is less rigorous and is intended to give readers an assurance that nothing needs to be drawn to their attention by the examiner. Because the scope of an independent examination is narrower, it is also generally cheaper to arrange. However, not every charity will be eligible for independent examination.

A full audit will be required if one of the following applies:-

- The charity is obliged by its constitution or by some other legal obligation to have its accounts audited;
- The charity has gross income in the year in question of £500,000 or more;
- The charity's gross assets at the year end exceed £3.26 million;
- The charity trustees have chosen to have a full audit, regardless of the rules.

Where a charity has prepared fully accrued accounts but is eligible for independent examination instead of audit, the independent examiner must be a member of a listed professional body.

Larger charitable companies may have to have an audit which also complies with the provisions of the Companies Act 2006, which can involve a greater degree of scrutiny.

The Income threshold for audit purposes for English and Welsh charities has increased to £1,000,000 in 2015. This higher limit does not apply in Scotland.

Public access to accounts

Any member of the public may ask a charity for a copy of its latest statement of account. If the request is reasonable, a charity must provide a copy to the person requesting it, in such form as the person may reasonable request. A charity may charge a fee for the provision of copy accounts, but the fee charged should not exceed the cost of supplying the copy accounts.

Charitable companies' accounts are already in the public domain through Companies House, but this does not prevent those companies from complying with requests from members of the public.

There are proposals from OSCR to move towards the publication of charity accounts online as part of the Scottish Charity Register on the OSCR website.

Statement of Recommended Practice (SORP)

The Statements of Recommended Practice (SORPs) for charity accounts which currently applies is the 2015 edition (SORP 2015).

The previous SORP was published in 2005 and, while it is normally revised every five years, there was been a 10 year gap before the publication of SORP 2015. This note covers the SORP that follows the principles of Financial Reporting Standard 102 (FRS 102) which now applies across the UK and Ireland.

The SORP's requirements have been simplified since the 2005 edition in order to make clear those elements which are compulsory and those which are optional.

- MUST is used to indicate parts of the SORP which are mandatory. A failure to abide by these principles will render accounts liable to a qualification in the audit opinion;
- SHOULD is used to indicate those areas which are considered best practice, but failure to abide by them will not be treated as departing from SORP principles; and
- MAY is used to indicate principles which are entirely optional, or where there is a choice about how particular figures or notes may be presented.

A number of other changes in SORP terminology were made in order to simplify the presentation of income and expenditure and balance sheet pages of charity accounts.

The provisions in SORP 2015 in relation to recognition of income provides that income has to be recognised in charity accounts when it is more likely than not that the income will be received (that is the receipt of the income is "probate"). However, income need not be recognised if the charity is not satisfied that there is a proper entitlement to the income or if the income cannot be measured monetarily.

The SORP contains additional information on when legacy income has to be accrued in charity accounts, but the overall principles are little changed from 2005 and most charities will only need to accrue when the executors on the testator's estate have obtained Confirmation (or Probate for English estates).

The value of donated goods ought to be recognised at the time of the receipt of the donated goods, at their fair value, but the SORP explains that donated goods which are intended for re-sale or distribution can instead be recognised at the time that they are sold or distributed where it is impractical to assess their fair value.

The SORP sets out the amount of information which has to be included in narrative sections of the charity trustees' report, particularly in relation to achievements and performance, reserves policy and risk management. The section on risk management also requires charities to disclose the principal risks and uncertainties facing the charity, and a summary of plans and strategies which are in place for managing those risks. If there are uncertainties about a charity's ability to continue as a going concern, then this must also be explained in the trustees' report.

Summary

It is important that charity trustees understand the requirements of the accounts rules and the SORP 2015 and ensure that their charity complies with the rules in terms of accounting format, external scrutiny and making copies of accounts available to the general public. The new SORPs are intended to help to make charity accounts as transparent as possible and the responsibility properly to account for and report on a charity's activities rests ultimately with the charity trustees.

For further advice on charity accounts rules, contact charities@turcanconnell.com.