

Briefing Paper: Independent examination of accounts for charities

WHY?

Remember - it's other people's money that you hold. It's therefore essential that this is properly accounted for and that the public is reassured. The Scottish Government has produced accounting regulations that set out how charity accounts must be prepared and checked.

HOW?

You **must** prepare your charity's accounts in one of two ways, depending on the size of its income, its legal form or how its constitution is worded.

- **Receipts & Payments** (see <http://www.oscr.org.uk/charities/managing-your-charity/charity-accounting/receipts-and-payments-accounts>)

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 the charity during its financial year, along with a statement of balances.

This applies to charities with a gross annual income under £250,000 that are not companies, however, if:

- your charity's constitution says it should prepare accrued accounts
- your charity's trustees have taken a decision to prepare accrued accounts, or
- any enactment says that you should prepare accrued accounts,

Then you must prepare accrued accounts even if your charity's gross income would otherwise allow accounts to be produced on a receipts & payments basis.

- **Accruals** (see <http://www.oscr.org.uk/charities/managing-your-charity/charity-accounting>).

Accounts prepared using the accruals basis 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.

Choosing the right form of external scrutiny

Your charity's accounts **must be externally scrutinised**. That is, someone who is **independent of your charity** must review the accounts and produce a report, attached to the accounts, that highlights any issues to the reader.

The type of external scrutiny you choose **depends on your charity's governing document, gross income and net assets and whether or not your charity is also a company**.

There are two recognised forms of external scrutiny:

❖ Independent examination

An independent examination looks at a charity's accounting records and annual accounts and considers whether the accounts are a fair reflection of the underlying records. It provides a degree of comfort to the reader that the figures in the accounts and the Trustees' Annual Report present an accurate picture of the financial activity of the charity for the accounting period.

❖ Audit

Under the accounting regulations, if the term 'audit' is used in your charity's constitution or governing document, you must have your accounts audited by either:

- A registered auditor
- The Auditor General for Scotland
- An auditor appointed by the Accounts Commission for Scotland (responsible principally for public bodies).

Audits are more commonly required for larger charities, although smaller charities may also have to have an audit if this is stated in the governing document or through a decision made by the charity trustees.

Accountants and VAO offer the service of audit and independent examination, dependant on the legal structure, the constitution requirements and/or the level of income of your charity. (If your constitution does not state a requirement for "audit", if your Board does not require an "audit", or if you are NOT a registered company as well as a charity and if your income is below £250,000, you can choose to have your accounts Independently Examined by someone unconnected with your charity who has the requisite skills).

N.B. If you appoint VAO as the Independent Examiner, then please allow at least 6 weeks BEFORE the AGM to allow us to process the documents and schedule in the work. The paperwork we would need to see is listed below:

- Copy of the constitution
- Copy of last year's receipts and payments account and statement of balances.
- Invoices and receipts
- Cash book/accounts records
- Cheque book and pay-in book
- Bank statements
- This year's balance sheet
- Any other appropriate documents eg. Grant award notification
- The OSCR Annual Monitoring Form and Trustee's Annual Report
- A list of the current Charity Trustees and their roles and how long they have served during the year and a description of the year's charity activities.

All taken from OSCR's website at: <http://www.oscr.org.uk>

More questions?

Contact VAO, your local third sector umbrella support body, trained in Charity Law, for advice and assistance

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