

The New Accounting and Reporting Requirements in England, Wales and Scotland

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1 Introduction

1.1 This Briefing Paper summarises the revised Accounting and Reporting Requirements for charities in England and Wales on the one hand and Scotland on the other.

The principal laws governing these requirements are the Charities Act 2006 (England and Wales), the Charities and Trustee Investment (Scotland) Act 2005 (Scotland) and the Companies Act 2006 (which applies throughout the UK). The actual requirements are also derived from Regulations made under these Acts and, in some cases, the interaction of the Acts themselves.

1.2 In determining the correct rules for a given charity, reference must be made to whether or not the charity is constituted as a company, the level of its gross income, gross assets and whether it comes under the law of England and Wales, or Scotland.

1.3 For simplicity, this paper therefore considers each under the following headings:

- Unincorporated charities (England & Wales)
- Incorporated charities (England & Wales)
- Unincorporated charities (Scotland)
- Incorporated charities (Scotland)

1.4 It is expected that the rules for the new charitable incorporated organisation (and their Scottish equivalent) will follow the new rules for unincorporated charities and so no further comment is made on C.I.O.'s below.

1.5 No account is taken in this Briefing Paper of the requirements for charities that are organised as part of a group of entities. Not all entities in the group need be incorporated to be part of a group. Changes to the rules for groups are currently under consideration in England and Wales.

1.6 The Briefing Paper only considers the requirements of the legislation referred to in Paragraph 1.1 above. Reference should also be made to the requirements of any other law or practice that governs the charity or indeed the requirements of third parties such as grant funders.

1.7 The Charities Act 2006 (England and Wales) accounts preparation and examination thresholds are currently subject to review and public consultation. These may therefore change during the course of 2008.

2 Unincorporated charities (England & Wales)

General notes

2.1 The following rules apply to accounting periods beginning on or after 27 February 2007.

2.2 If a charity may opt to prepare receipts and payments accounts but chooses voluntarily to prepare accruals accounts, those accounts must comply in full with the Charities SORP: Accounting and Reporting by Charities (2005). This is because accruals accounts are prepared with the intention that they show a "true and fair view". SORP is intended to ensure that accounts prepared in compliance with it would normally give a true and fair view.

- 2.3 Where a charity's gross income exceeds £100,000 in a financial year, if the aggregate value of its assets (before deduction of liabilities) (**i.e. gross assets**) at the end of that year exceed £2.8 million, a full professional audit is required regardless of other factors.

Detailed rules

- 2.4 Charities with gross income of less than £10,000:
- No external scrutiny is required.
 - Receipts and payments accounts may be prepared.
- 2.5 Charities with gross income of between £10,000 and £100,000:
- Examination by an Independent Examiner.
 - Receipts and Payments accounts may be prepared.
- 2.6 Charities with gross income of between £100,000 and £250,000 and with "gross assets" **below** £2.8 million:
- Examination by an Independent Examiner.
 - Full accruals accounts required, which give "a true and fair view".
 - Full compliance with "Accounting and Reporting by Charities (2005)" (The Charities SORP).
- 2.7 Charities with gross income of between £250,000 and £500,000 and with "gross assets" **below** £2.8 million:
- Examination by an Independent Examiner that is a member of a recognised professional accountancy body.¹
 - Full accruals accounts required, which give "a true and fair view".
 - Full compliance with "Accounting and Reporting by Charities (2005)" (The Charities SORP).
- 2.8 Charities with gross income of between £100,000 and £500,000 and with "gross assets" **above** £2.8 million:
- Full professional audit by a registered auditor.
 - Full accruals accounts required, which give "a true and fair view".
 - Full compliance with "Accounting and Reporting by Charities (2005)" (The Charities SORP).
- 2.9 Charities with gross income of **more than** £500,000 regardless of level of gross assets:
- A full audit by a registered auditor is required.
 - Full accruals accounts required, which give "a true and fair view".

¹ The bodies that are recognised are set out in the Charities Act 2006 and include UK chartered accountants (ACA/FCA/CA), chartered certified accountants (ACCA/FCCA), accounting technicians (MAAT), management accountants (ACMA/FCMA), Public Finance Accountants and fellows (not associates) of the Association of Charity Independent Examiners (FCIE).

- Full compliance with “Accounting and Reporting by Charities (2005)” (The Charities SORP).

3 Incorporated charities (England & Wales)

General notes

- 3.1 The following rules apply to accounting periods beginning on or after 27th February 2007.
- 3.2 Under Company Law, an incorporated charity must always prepare accruals accounts which show a “true and fair view”. As such, the accounts must comply in full with the Charities SORP: Accounting and Reporting by Charities (2005). SORP is intended to ensure that accounts prepared in compliance with it would normally give a true and fair view.
- 3.3 At present the Audit Exemption rules (and correspondingly those for audit exemption reports under s249 Companies Act 1985) remain on the Statute Book. However, it is expected that later this year, these rules will be repealed in favour of a simpler regime that more closely follows the rules for unincorporated charities.

We have noted the provisions that apply to accounting periods beginning on or after 27th February 2007 separately from those that are expected to apply for accounting periods beginning on or after a date in late March or early April 2008, when the relevant provisions of Companies Act 2006 are brought into force.

- 3.4 A similar asset test applies as for unincorporated charities. However, the company legislation refers to this slightly differently as “The Balance Sheet Total”. However, for these purposes, we use the same term “**Gross Assets**” to apply equally to unincorporated and incorporated charities (i.e. the aggregate value of assets (before deduction of liabilities)).

Detailed rules – accounting periods starting on or after 27 February 2007

- 3.5 Charities with gross income of less than £90,000
- Full audit exemption applies with no external scrutiny required.
- 3.6 Charities with gross income of between £90,000 and £500,000 and with “gross assets” **below** £2.8 million
- A report (“Audit Exemption Report”) is required under s249 Companies Act 1985 by an accountant that is a member of a recognised professional accountancy body. These are broadly the same professional bodies that are mentioned above in relation to the examination of unincorporated charity accounts with income in excess of £250,000, but exclude members of the Association of Charity Independent Examiners.
- 3.7 Charities with gross income of between £90,000 and £500,000 and with “gross assets” **above** £2.8 million
- Because the asset test is exceeded, a full professional audit is required by a registered auditor.
- 3.8 Charities with gross income of **more than** £500,000 regardless of level of gross assets
- A full audit by a registered auditor is required.

Detailed rules – accounting periods beginning on or after 6 April 2008

- 3.9 Small charitable companies (as defined by the Companies Act 2006) will no longer be governed by the Companies Act audit regime. Instead, they will be subject to the Charities Acts independent examination and audit regime.
- 3.10 At the same time, it will no longer be necessary for a charitable company to have an audit exemption report (Reporting Accountant's Report) under s249 Companies Act 1985. Corresponding changes will be made to Charity Law such that the accounting and reporting regime for small companies in England and Wales will fall wholly within the Charities Acts rather than the Companies Acts.
- 3.11 The audit/ independent examination position for charitable companies will then be as detailed in Paragraph 2.4 to 2.9 above in relation to unincorporated charities.

4 Unincorporated charities (Scotland)

General notes

- 4.1 The following rules apply to accounting periods beginning on or after 1 April 2006.
- 4.2 The main accounting requirements are set out in The Charities Accounts (Scotland) Regulations 2006 ("The Accounts Regulations").
- 4.3 There is no limit in Scotland under which a charity does not need an independent examination. All charities therefore require external scrutiny.
- 4.4 If an unincorporated charity has the option of preparing receipts and payments accounts but chooses voluntarily to prepare accruals accounts, those accounts must comply in full with the Charities SORP: Accounting and Reporting by Charities (2005). This is because accruals accounts are prepared with the intention that they show a "true and fair view". SORP is intended to ensure that accounts prepared in compliance with it would normally give a true and fair view.
- 4.5 Where accruals accounts are prepared, the independent examiner must be a qualified accountant within the meaning of Regulation 11 of the Accounts Regulations ².

Detailed rules

- 4.6 Charities with gross income of under £100,000:
- Examination by an Independent Examiner.
 - Can produce simplified accounts on a receipts and payments basis comprising a receipts and payments account, a statement of balances, notes to the accounts and an annual report.
- 4.7 Charities with gross income of between £100,000 and £500,000 and gross assets are **less than £2.8 million**:
- Full accruals accounts required, which give "a true and fair view".
 - Full compliance with "Accounting and Reporting by Charities (2005)" (The Charities SORP).
 - Examination by an Independent Examiner.

- 4.8 Charities with gross income of between £100,000 and £500,000 and gross assets are **more than** £2.8 million:
- Full accruals accounts required, which give “a true and fair view”.
 - Full compliance with the Charities SORP.
 - A full audit by a registered auditor is required.
- 4.9 Charities with gross income of more than £500,000 regardless of level of gross assets:
- Full accruals accounts required, which give “a true and fair view”.
 - Full compliance with the Charities SORP.
 - A full audit by a registered auditor is required.

5 Incorporated charities (Scotland)

General notes

- 5.1 The following rules apply to accounting periods beginning on or after 27 February 2007 unless otherwise stated. New provisions for charitable companies will come into force at the beginning of April 2008, which are set out below.
- 5.2 The main accounting requirements are set out in The Charities Accounts (Scotland) Regulations 2006 (“The Accounts Regulations”) but reference also needs to be made to Charities and Trustee Investment (Scotland) Act 2005 (“CTISA”) and Companies Act 2006.
- 5.3 There is no limit in Scotland under which a charity does not need an independent examination. All charitable companies therefore require external scrutiny. The independent examiner must be a qualified accountant within the meaning of Regulation 11 of the Accounts Regulations²
- 5.4 All charitable companies must prepare fully accrued accounts in full compliance with the Charities SORP: Accounting and Reporting by Charities (2005).

Detailed rules – accounting periods starting on or after 27 February 2007

- 5.5 Gross income of up to £90,000 and gross assets of **less than** £2.8 million:
- Exempt from a professional audit under Company law.
 - Independent examination required under s44 CTISA.
 - The Examiner must be a qualified accountant within the meaning of Regulation 11 of the Accounts Regulations².
- 5.6 Gross income between £90,000 to £500,000 and gross assets of **less than** £2.8 million:

² The bodies that are recognised are set out in Regulation 11 include UK chartered accountants (CA/ACA/FCA), chartered certified accountants (ACCA,FCCA), accounting technicians (MAAT), management accountants (ACMA/FCMA), Public Finance Accountants and fellows (not associates) of the Association of Charity Independent Examiners (FCIE).

- A report by an Independent Reporting Accountant (known as an “audit exemption report”) is required.
- In these circumstances, Regulation 12 of the Accounts Regulations states that provided the Accountant’s Report is submitted to OSCR with the annual report and accounts, the company will not require a professional audit or an Independent Examination.
- The Reporting Accountant must be a qualified member of one of the accountancy bodies listed in the Companies Act 1985. These are broadly the same professional bodies that are mentioned in Regulation 11 (see footnote), but exclude members of the Association of Charity Independent Examiners.

5.7 Gross income of over £500,000 **or** gross assets of over £2.8 million:

- A charitable company that exceeds either of the above two thresholds is required to have a full professional audit of their accounts by a registered auditor.

Detailed rules – accounting periods beginning on or after 6 April 2008

- 5.8 Small Scottish charitable companies (as defined by the Companies Act 2006) will no longer be governed by the Companies Act audit regime. Instead, they will be subject to the Charities Acts independent examination and audit regime.
- 5.9 At the same time, it will no longer be necessary for a charitable company to have an audit exemption report (Reporting Accountant’s Report) under s249 Companies Act 1985. From that date, Scottish charitable companies that qualify as small companies will only need to consider an independent examination or audit under CTISA and the Accounts Regulations.