Scottish Episcopal Church

Fully Accrued / SORP compliant accounts – Guidance Notes

All accounts for charities require to prepared in accordance with the Charities Accounts (Scotland) Regulations 2006. General guidance on the Regulations and information on the format and external scrutiny requirements for Scottish Charity Accounts can be found on the Charity Accounting page of the OSCR website (here). OSCR has produced a useful guide to the Regulations which has been updated to reflect changes made in 2011. It is available from the OSCR website (here).

What are the main changes?

The main change is that the gross income threshold for preparing receipts and payments accounts has increased from £100,000 to £250,000. The level of assets which a charity can hold before and audit is required has also increased from £2,800,000 to £3,260,000. There are also some changes to the definitions in the Charities Accounts (Scotland) Regulations. Most of the significant changes will affect accounting periods on or after 1 April 2011. For Charges this means that the first accounts which can take advantage of the increased the thresholds will be those for the year ending 31 March 2012 onwards. The accounts with a year- end prior to this date must be prepared in accordance with the existing regulations and where the receipts and payments accounts can only be prepared where the total income is less than £100,000.

Are accrued accounts therefore required?

A charity ***must*** prepare Accrued Accounts if:

- It annual gross income exceeds £250,000
- Its constitution requires accrued accounts to be produced (or accounts which provide a “true and fair view”)

Any charity not required to produce accrued accounts can choose to prepare them if it wishes to do so. (It should however be borne in mind that that they are a bit more difficult to produce and that they require to be independently examined / audited by a suitably qualified individual.)

What’s the difference between *Receipts and Payments* accounts and *Accrued Accounts*?

Receipts and Payments accounts simply record all the cash transactions in the year and can be produced relatively straightforwardly by analysing the various types of cash received and payments made. *Accrued Accounts* however reflect all the income earned and expenses incurred in the year – irrespective of when the cash was received or paid. For example if accounts were being prepared to 30 September an electricity bill relating to the period to 15 September paid in October would be ignored in *Receipts and Payments* accounts but would be included in *Accrued*

Accounts. Similarly if a specific cash legacy has been advised prior to the year end but not received until after the year end the accounting treatment would differ under the two forms of accounts – it would be ignored in the *Receipts and Payments* accounts but included in the *Accrued Accounts*. Because they are reflecting non cash transactions *Accrued Accounts* will include debtors and creditors in the balance sheet.

The format of accounts required and the level of additional disclosure (notes to the accounts etc) also differ between the two forms of accounts. Generally, more is required for *Accrued Accounts*.

Independent examination or Audit?

A charity's accounts ***must*** be Audited if

- Its annual gross income exceeds £500,000, *or*
- It has gross assets of more than £3,260,000, *or*
- Its constitution requires an Audit

Otherwise an Independent Examination will suffice. An Independent Examiner examining *Accrued Accounts* must be a member of a recognised body, (see Appendix 1).

What's the format of *Accrued Accounts*?

Accrued Accounts must comply with the formats, methods and principles set out in the Statement of Recommended Practice for Charities 2005 (the SORP). (Available here.);

The SORP describes in some detail the requirements for *Accrued Accounts*. The SORP is designed to cover all charities and therefore some aspects of it are unlikely to apply to churches producing "SORP Compliant" accounts – it is however important that those preparing and Examining / Auditing *Accrued Accounts* are familiar with the SORP and are able to interpret its requirements and apply them to the church's specific circumstances. For many churches this will require a greater reliance on the advice and guidance of their Independent Examiner / Auditor.

The Sample Accounts for St Mary's, Anytown have been produced as an example of *Accrued Accounts*. Whilst, inevitably, they do not reflect all the possible complexities and range of activities found within the churches of the Scottish Episcopal Church they will hopefully prove to be a source of useful guidance, both in relation to the basic format of the accounts and the additional narrative information required by the SORP. The sample accounts are available from the SEC website.

Some points to note from the St Mary's, Anytown Sample Accounts

Front cover

The Scottish Charity Number should appear in the top right-hand corner of the front cover.

Reference and administrative information (page 2)

Charity Trustees are defined as "the persons having the general control and management of the administration of a charity". Within the SEC this will usually mean the Vestry are the Charity Trustees.

St Mary's gross income is less than £500,000 and is therefore able to have its accounts Independently Examined rather than Audited. Note that the Independent Examiner must be an individual rather than a firm.

Report of the Vestry (Trustees' Report) (page 3- 6)

The SORP places great emphasis on the Trustees' Report. The information required is to provide the reader of the report with a good understanding of the charity, its structure, recent achievements and financial performance and plans for the future. (This years "Plans for Future Periods" should of course provide the basis for next years "Achievements and Performance.)

Independent Examiner's Report (page 7)

The style used is that suggested by OSCR. If the Examiner is unable to give a "clean" report any matters that have come to his / her attention that prevent a "clean" report should be detailed.

Statement of Financial Activities (SOFA) (page 8)

According to the SORP:

> The Statement of Financial Activities is a single accounting statement with the objective of showing *all* incoming resources and resources expended by the charity in the year on *all* its funds.
>
> It is designed to show how the charity has used its resources in furtherance of its objects for the provision of benefit to its beneficiaries. It shows whether there has been a net inflow or outflow of resources, including capital gains and losses on assets, and provides a reconciliation of all movements in the charity's funds.

The SORP makes the distinction between three types of funds:

Unrestricted Funds	Can be used for any purpose in furthering aims of charity. Will often include *Designated Funds* which have been set aside for a specific purpose by the charity (but the charity has discretion to reverse decision to set them aside for a particular purpose and use them for any purpose).
Restricted Funds	Funds given for specific purposes. In giving such funds their donors have stipulated how they must be used. The charity is unable to use them for any other purpose.
Endowment Funds	The charity is entitled to the income from such funds but not to realise and use the capital.

The three types of funds must be separately accounted for in the SOFA (and elsewhere in the accounts.) There is no requirement to account for each fund separately within the SOFA – a charity can chose to aggregate all of each type of fund into separate columns within the SOFA. (For example a charity with six restricted funds might choose not to have a separate a column in the SOFA for each fund but to have one column for all restricted funds.) An analysis of the movement on each fund is however required in the notes to the accounts (see note 10 in St Mary's accounts).

St Mary's has no Endowment Funds and has chosen to show each of its two Unrestricted Funds (General Fund and Fabric Fund) and its two Restricted Funds (Restoration Fund and Stipend Fund) separately within the SOFA.

The SORP provides a template for the SOFA including the various categories of *Incoming Resources* and *Resources Expended.* (Table 3 from the SORP is reproduced at Appendix 2.)

(The same headings are also reflected in the OSCR Supplementary Monitoring Return – production of a SOFA will facilitate completion of the Return)

St Mary's reflects what is likely to be a fairly typical church with most of its incoming resources falling in the Voluntary Income category.

What is likely to present more difficulties is the required analysis of Resources Expended. For most churches the Resources Expended will fall into two categories – Charitable Activities and Governance Costs. The SORP allows for one other category (Costs of generating funds) but this is likely to be less relevant for most churches.

According to the SORP:

> Resources expended on charitable activities comprise all the resources applied by the charity in undertaking its work to meet its charitable objectives as opposed to the cost of raising the funds to finance these activities and governance costs. Charitable activities are all the resources expended by the

charity in the delivery of goods and services, including its programme and project work that is directed at the achievement of its charitable aims and objectives. Such costs include the direct costs of the charitable activities together with those support costs incurred that enable these activities to be undertaken.

Charities may carry out their activities through a combination of direct service provision and grant funding to third parties to undertake work that contributes to the charity's objectives or programme of work. In such cases, the total cost of the activity involves both costs incurred directly by the charity and funding provided to third parties through grant making activities.

This is quite different to the traditional approach of many church accounts in which various types of expenditure (such as clergy stipends, fabric costs, cleaning, utility costs grants to other charities etc) are listed. Whilst the objective of the SORP is clear (set out your charity objectives and activities in the Trustees' Report and provide details in the SOFA regarding how much was spent in achieving the objectives and undertaking the activities) applying the approach will present difficulties for many churches. (Particularly if, quite understandably, the Objectives are quite widely and loosely described.)

The St Mary's accounts provide costs for a number of different activities – which will reflect apportionment of costs over these activities. There are some costs (particularly Quota) which will continue to be treated as specific items of expenditure.

Governance costs for most churches will relate to the costs of Independent Examination / Audit.

Given that the SORP requires investments to be shown at market value any church with investments will need to show unrealised investment gains / losses in the SOFA.

Balance Sheet (page 9)

Investments shown at Market Value as required by SORP

The funds balance should be split between the three categories of funds and should reflect the approach adopted in the SOFA. (In the case of St Mary's the balances on all the four individual funds are shown – reflecting the figures at the foot of the SOFA.)

Accounting policies note (note 1, page 10)

Should adequately describe the policies adopted in preparing the accounts and assist the reader in understanding the accounts. The policy for "Apportionment of support costs" relates to the need to allocate certain costs to the various charitable activities provided for in the SOFA.

St Mary's has chosen not to capitalise expenditure on fixed assets other than that on heritable properties and building improvements. Increasingly there is an expectation that other expenditure on fixed assets (such as musical equipment, audio visual equipment and office equipment) should also be capitalised. If such a policy were to be adopted a minimum level of expenditure (for example £750) should be set to ensure that expenditure on small items is not capitalised. If expenditure of this nature were capitalised it would also be appropriate to adopt a depreciation policy.

Funds note (note 2, page 11)

A description of each of the church's funds should be provided.

Clergy and Staff costs (note 3, page 11)

Information is required regarding pension contributions. The note provided for St Mary's could be used for any church with clergy who are members of the SEC Pension Fund.

Resources expended on charitable activities (note 5 page 12)

Provides more information regarding the build up of costs that are shown for each of the charitable activities in the SOFA – including the allocation of support costs.

Grants (note 6, page 13)

The SORP requires details of grants awarded. The approach taken by St Mary's should be adequate for most churches in that it splits grants awarded between individuals and organisations and provides brief details of the nature of the grants awarded.

Note too that details of special collections on behalf of other charities during the year are also provided – and that these sums are not included in the accounts.

Fixed Assets (note 7, page 14)

In many cases the original costs of church buildings is not known. The St Mary's note is a suggested way of describing the position. It is possible that some Independent Examiners and Auditors will request that a valuation is obtained for the Rectory – particularly if it is not part of the church building or built in the church grounds. Information regarding insurance values is provided for information – although not strictly required.

Debtors (note 8, page 14) and Creditors (note 9. page 15)

It is good practice to provide an analysis of year end debtors and creditors.

Reconciliation of movement of funds (note 10, page 15)

A note should be provided that shows the movements on each of the funds in the year. This note can also be used to describe the nature of any transfers between funds in the year.

Analysis of net assets between funds (note 11, page 16)

Given that the balance sheet only provided totals for the various assets / liabilities it is necessary to provide a note which analyses them between the various categories of funds.

Accounting for investment income from the SEC Unit Trust Pool

Distributions from the SEC Unit Trust Pool are payable as at 30 June and 31 December each year – but are paid in arrears in August and February. SEC churches should have financial year ends between 30 June and 30 September. Any church producing *Accrued Accounts* with a year end of 30 June or 31 July that receives distributions from the SEC Unit Trust Pool should therefore include the income from the June distribution – the distribution due being a debtor at the year end. (St Mary's year end is 30 September and therefore this is not an issue for it.)

Appendix 1

Who can carry out an independent examination?

For charities which produce 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 or Accountancy
- a full member of the Association of Charity Independent Examiners
- the Auditor General for Scotland

Revised April 2012 (original version dated 2007)

General Synod of the Scottish Episcopal Church
Scottish Charity No SC015962

Appendix 2

Extract from SORP showing full SOFA "template"

Table 3 Statement of Financial Activities

		Unrestricted Funds £	Restricted Funds £	Endowment Funds £	Total Funds £	Prior Year Total Funds £	Further Details
A	**Incoming resources**						
A1	Incoming resources from generated funds						
A1a	Voluntary income						121–136
A1b	Activities for generating funds						137–139
A1c	Investment income						140–142
A2	Incoming resources from charitable activities						143–146
A3	Other incoming resources						147
	Total incoming resources						
B	**Resources expended**						
B1	Costs of generating funds						178–179
B1a	Costs of generating voluntary income						180–184
B1b	Fundraising trading: cost of goods sold and other costs						185–186
B1c	Investment management costs						187
B2	Charitable activities						188–209
B3	Governance costs						210–212
B4	Other resources expended						213
	Total resources expended						
	Net incoming/outgoing resources before transfers						
	Transfers						
C	Gross transfers between funds						214–216
	Net incoming resources before other recognised gains and losses						
D	**Other recognised gains/losses**						
D1	Gains on revaluation of fixed assets for charity's own use						217–218
D2	Gains/losses on investment assets						219
D3	Actuarial gains/losses on defined benefit pension schemes						220
	Net movement in funds						
E	**Reconciliation of Funds**						
	Total funds brought forward						
	Total funds carried forward						

15