

Charity Accounts and Reporting in Scotland 2006

An Overview of the New Regime

The Charities and Trustee Investment (Scotland) 2005 Act received Royal Assent on 14 July 2005 and is being brought into force gradually. The first major portion of the Act was brought into force in April 2006. It will be supplemented by a number of important sets of regulations, including the regulations to be made concerning charity accounting and reporting.

This Act is unique - the first ever charity law specifically for Scotland, in statutory form, passed by a Scottish Parliament. The Act's scope is wider than just charity law though, it also deals with:

- Charity law for Scotland and the regulation of charities in Scotland. These areas of the Act affect charities established in Scotland and foreign charities, established outside Scotland, that operate in, or have property in Scotland,

And

- Trustees' powers, particularly their investment powers, and trustees' duties. These areas of the Act affect charitable trusts and their trustees and also public and private trusts and their trustees.

This information focuses on the parts of the legislation that establish the new and enhanced accounting and reporting regime for **charities** in Scotland.

The Act establishes the overall framework for that new regime, whereas the regulations will add the more detailed requirements.

The revised requirements apply to accounts for financial years **beginning** on or after 1st April 2006.

There are approximately 18,000 live charities in Scotland. Most of these charities are very small organisations, 66.5% have income of £25,000 or

less, and only 4.5% have income over £500,000. There are 600 English charities operating north of the border, most of those being large organisations that operate throughout Britain or the UK as a whole.

It is important to note the much wider legal and social context in which charities operate. Within our society, enhanced public interest in organisations and their affairs and enhanced scrutiny of the activities and finances of bodies that operate in any public context is the norm. Information is widely available and instantly transferable. Press interest and media comment is widespread and available 24/7. Regulatory and public bodies, and to some extent individuals too, have the ability and perhaps even the willingness to investigate, complain, exercise rights and powers to pursue remedies for alleged wrongdoings by a range of methods and to an extent unimaginable even a generation ago. This is the world in which charities and their advisors operate - and in which they account and report.

Key elements of the new regime

The new accounting and reporting regime has a number of key elements:

- The establishment of the new legal basis for the Office of the Scottish Charity Regulator (OSCR) and its monitoring and supervisory powers over charities in Scotland
- A compulsory charity annual return
- Enhanced annual accounting and reporting obligations for charities on the Scottish Charity Register
- Public filing obligations for charities

The regime is compulsory for all charities in Scotland. However, some "lighter touch" provisions are applicable to smaller charities. In order to achieve compliance with the new requirements, the legislation sets out time limits and provides enforcement powers for OSCR and a penalty regime for charities.

OSCR assumed its full powers on 24 April 2006. It is a corporate body, established by statute. OSCR is independent of Scottish Ministers and answers directly to the Scottish Parliament. Its governance is provided

by a Chair and a non-executive board, with its Chief Executive answerable to that board.

OSCR has been given three objectives:

- Maintaining public confidence in charities
- Ensuring charities are publicly accountable, in return for the benefits of their special status;
- Providing public guardianship of the intentions of founders and donors.

The first objective is viewed as being the most important by OSCR itself. In practice, if not in law, this is really a shared responsibility between OSCR, as regulator, and the charities operating within Scotland and their staff, volunteers and professional advisers. It is clearly in the sector's common interests to encourage public trust and it is the shared responsibilities of all charities to do everything they can to achieve that and to ensure they do nothing to harm it.

It is important to recognise too that OSCR is not responsible for regulating service quality provided by charities, the effectiveness and efficiency of charities in Scotland or the social or economic impact of charities.

OSCR's Functions

The Act gives OSCR the following functions:

- To determine whether or not bodies are charitable
- To keep a public register of charities
- To encourage, facilitate and monitor compliance with the Act
- To identify and investigate misconduct and take remedial or protective action
- To give information or advice and make proposals to Scottish Ministers

The practicalities of the new regime

It was previously believed that there were as many as 30,000 active charities in Scotland, however there are far fewer, probably 18,000 - 20,000. There was very little active monitoring under the old

arrangements after recognition was granted so, this is not surprising. The Inland Revenue's active role was confined to dealing with the tax affairs of bodies it had previously recognised as charities for tax purposes.

OSCR will be an active regulator. With its focus simply on charity regulation it can both concentrate and target its efforts, developing customised and effective monitoring systems and practices. It attaches great importance on wider public accountability for charities and in the availability of public information about them.

OSCR intends to act with proportionality to charity size and risk levels, and with regard to OSCR's own resources, which are not vast. Monitoring of material submitted to it by charities will in part be automated, using "triggers" on OSCR's computer systems.

Failure to meet filing requirements will be noted immediately and may be publicised on the Charity Register. However, OSCR has indicated that it does not intend to action every one off failure however, consistent failures will be pursued. It will take time for a pattern to emerge as to what is "persistent" in this context. Best practice and wisest risk management by charities and their advisers is, of course, to ensure compliance with the new obligations from the outset.

Responsibilities of charity trustees

In addition to the particular responsibilities for public accounting and reporting set out in the Act or in the regulations, trustees must remember that they are subject to a general duty to ensure their charity complies with any direction, notice or duty imposed on it by the Act (see section 66(2)). Any breach of that is treated as misconduct in the administration of the charity and can therefore allow OSCR to take regulatory action.

Charity Annual Returns

All charities must file an annual return with OSCR, regardless of their size or legal type. Charities with income over £25,000 must also complete the monitoring return, giving additional and more detailed information.

The pilot filing exercise carried out by OSCR in 2005 resulted in returns from 17,000 charities, a high return. Analysis of the results has enabled OSCR to publish the first major up to date sector wide survey of charities in Scotland.

Company Annual Returns

A charitable company will remain obliged to file a company annual return with the Registrar of Companies, under the Companies Act requirements. That is a separate corporate obligation, in addition to its charity law obligation to file the new charity annual return with OSCR.

Accounting Records

Charities must keep adequate accounting records to show and explain their transactions. In particular, those records must indicate assets and liabilities. They must show all receipts of funds, their sources and the reasons why those funds have been given to the charity. The records must also show all expenditure, with the reasons for the expenditure, and give details of the payee.

The records must disclose the charity's financial position and its funds, at any time, with reasonable accuracy. They must also be sufficient to enable the charity to prepare its annual accounts to meet the new accounting and reporting requirements of the Act and its regulations.

There is an obligation on the trustees to take all reasonable steps to prevent damage by fire, flood etc or loss for IT reasons.

When a charity ceases to operate its trustees must make arrangements for the safe custody of its day to day accounting records for a **minimum** period of six years. OSCR must be notified where the records are stored.

Charity Annual Accounts and Reports

The Act imposes an obligation on charities listed on the Scottish Charity Register to prepare annual accounts and reports. These must comply with the detailed requirements of the regulations. These accounts must cover the financial year of the charity, according to the accounting reference date selected by its trustees. Charitable companies are, of course, subject to the Companies Act rules on accounting reference periods and alteration of accounting reference dates.

Annual accounts and reports must be filed with OSCR within nine months of the financial year end.

Foreign charities on the Scottish Charity Register will be subject to the obligation to file accounts with OSCR, in addition to their filing obligations with the charity regulator in their home territory (eg Charity Commission for England and Wales).

Form and Basis of Annual Accounts

Annual accounts will have to comply with the Statement of Recommended Practice - Accounting by Charities - "SORP", except where exemptions apply.

Any unincorporated charity with income not exceeding £100,000 can opt to prepare its annual accounts on a receipts and payments basis (rather than on an accruals basis). (The previous limit was £25,000 so this is a major alteration). Unincorporated charities with income over £100,000 must prepare accrued accounts.

Charitable companies and charities that are in the legal form of **industrial and provident societies** or, in due course, **Scottish charitable incorporated organisations** *must* prepare accrued accounts. It should be noted that the parts of the Act and the additional supplementary regulations governing Scottish charitable incorporated organisations will not be in force for some considerable while yet. SCIO registrations are not expected to begin until Summer 2007.

The new thresholds should result in 15% of charities producing fully accrued accounts.

Compulsory Audit/Audit Exemptions

The regulations allow some charities to produce annual accounts without a compulsory audit (although optional audit is possible if a smaller charity wishes to have its accounts audited). It should be noted that the position is complicated by current company law requirements for charitable companies. In addition, the Company Law Reform Bill currently passing through the UK Parliament will make further changes, specific to charitable companies.

General exemption from compulsory audit - this will be available to Scottish charities with income below £500,000.

Independent examination of accounts (unincorporated charities) - An unincorporated charity with income below the compulsory audit threshold (ie £500,000) will be permitted to have an independent examination of its accounts. Enhanced qualification criteria will apply to those independent examiners who are examining accrued accounts for charities with income between £100,000 and £500,000.

Charitable companies - will be able to use the audit exemption if their incomes are below the £500,000 threshold and their assets do not exceed £2.8 million. However, if their income is between £500,000 and £90,000, the accounts will have to have an independent report from a "reporting accountant", qualified to provide that under the Companies Act requirements. Under £90,000, it will be possible to have an independent examination under the requirements of the Act and the regulations.

Whistleblowing by audits/independent examiners

The Act imposes a duty on charity auditors and independent examiners to report to OSCR matters of concern that they become aware of when performing the audit or independent examination of charity accounts. The obligation arises when something of material significance to the exercise of OSCR's functions is detected in the charity's affairs or activities or in the affairs or activities of an institution or corporate body connected to the charity (eg a trading subsidiary).

Filing time limits for accounts

Where annual accounts and reports must be filed with OSCR, the new time limit will be nine months from the financial year end.

Note however that a charitable company has a separate obligation, under the Companies Act, to file its accounts with the Registrar of Companies within ten months of its financial year end. That is in addition to its charity law obligation under the Act.

Penalties

The legislation imposes a penalty regime, largely based on potential criminal fines against the charity and its trustees.

In addition, charitable companies will remain subject to the Companies Act penalty regime in relation to company law filing requirements. That involves criminal sanctions, largely fines against charitable companies and their directors, plus fixed civil financial penalties for late filing of accounts. There is also the possibility of disqualification of directors - for persistent breaches of Companies Act requirements or, possibly for unfitness to manage companies. Disqualification as a director also renders the individual disqualified from acting as a charity trustee.

Purpose and effect of the new regime

The new regime is designed to provide rules and requirements that are specifically designed to suit Scotland and to reflect the reality of the Scottish charity sector. So, for example, the exemption thresholds have been set significantly higher than any present exemption thresholds because most Scottish charities have very limited financial resources and low income levels. 85% of the 18,000 identifiable active charities on the Scottish Charity Register have an income of less than £100,000.

It is also intended that the enhanced obligations will encourage greater transparency and accountability and will assist trustees to discharge their stewardship responsibilities. The material provided to OSCR will be in the public domain and easily accessible via OSCR's website (www.oscr.org.uk). Undoubtedly, annual accounts and reports prepared to comply with the requirements will provide much greater breadth and depth of information about charities' financial affairs and about their activities and achievements.

Imposing a general and coherent regime, across the whole charity sector, should provide greater consistency and clarity of reporting by charities. That will be beneficial to the regulatory authorities and to funders, donors and other stakeholders (eg beneficiaries) as well as the general public.

Achieving all of this will in part depend on the level of compliance by charities, assisted by their professional advisers. However, OSCR will also be using its monitoring and enforcing abilities to encourage, and if necessary, enforce compliance by organisations. Whilst a "softly, softly" approach is likely in the first year a more vigorous approach is sure to be taken subsequently. It is notable that in England and Wales, charity compliance rates with the comparable public accounting and reporting regime in that jurisdiction are very high. The Charity Commission for

England and Wales must be given some of the credit for the high level of compliance, having used a mixture of education and persuasion alongside more forceful methods, such as its high profile "Accounts Aren't Optional!" campaign, to help achieve it.

TRUSTEES' ANNUAL REPORT

Introduction

The key purpose of the trustees' annual report is to discharge charity trustees' duties of public accountability and stewardship of charitable assets. The minimum requirements for contents of the trustees' annual report are set out in the SORP. It should be noted that in some instances trustees should go beyond those minimum requirements, by including additional information which gives a greater insight into the charity and its affairs generally and into its activities and achievements in particular.

The legal obligation to prepare and file a trustees' annual report

The legal obligation to prepare and file a trustees' annual report is mandatory. It is the responsibility of the trustees, who must ensure it complies with the requirements applicable to the particular charity.

The trustees' annual report should always accompany any full copy of the accounts that the charity distributes or makes available to any person.

Relationship to directors' report (charitable companies)

A charitable company is subject to the usual Companies Act obligation to prepare an annual directors' report (section 234 and schedule 7, Companies Act 1985). That is a report for each financial year which lists basis information for all companies (stating the names of directors serving during any part of the financial year, specifying the principal activities of the company during the year etc). Larger companies have to give further and more detailed information.

Where any of the various Companies Act exemptions have been used in preparing the annual accounts, specified statements about those exemptions must be made by the directors. In addition statements about appropriate information having been disclosed to the auditors are required.

A charitable company will ensure the relevant Companies Act obligations are more, through material placed in their trustees' annual report. It is not necessary (or appropriate) to prepare two different reports for the company law and the charity law requirements. This one report

accompanies the annual accounts when the charitable company files those with both OSCR and Companies House.

Contents of trustees' annual report – general principles

When considering how to prepare a trustees' annual report, it is important to be aware of the general principles that SORP applies to charities' annual accounts and reports:

- They should provide timely and regular information on the charity and its funds;
- They should enable the reader to understand the charity's objectives, structure, activities and achievements;
- They should enable the reader to gain a full and proper appreciation of the charity's financial transactions during the year and the position of its funds at the end of the year.

In addition, SORP requires the trustees to explain in their annual report areas that the accounts themselves do not adequately explain.

Contents of trustees' report – specific matters

The trustees' report for charities subject to audit must address the specific matters described below. However, these are minimum requirements. The trustees may include additional information and material - for example a chairperson's review of the year, or an environmental impact statement.

Smaller charities are permitted to omit some of this material, thus producing a simplified trustees' report.

However, the specific matters that must be included are:

1. Reference material and administrative details about the charity, its trustees and its professional advisers.

This section must specify the registered name of the charity and any operational name(s); the charity registration number in Scotland (and any other charity registration number eg English charity registration number) and, if applicable, company number; address of principal office and, if applicable, registered address (charitable companies); names of trustees who served at any time during the year; name of Chief Executive Officer

or other senior staff to whom the trustees delegate day to day management of the charity; names and addresses of relevant advisers (including bank, solicitors, accountants, auditors or reporting accountant/independent examiner; investment advisers).

2. **Structure, governance and management**

This must demonstrate the charity's legal basis and organisational structure and demonstrate how its decision making processes operate.

Governing document and legal nature - the legal nature of the charity must be indicated (unincorporated trust, unincorporated members' association, company limited by guarantee etc). Also, the nature of its governing document (trust deed, constitution, rules, memorandum and articles of association etc).

Trustees - the methods used for recruiting and appointing trustees must be indicated. Policies and procedures for inducting and training trustees should also be indicated.

Relationships - relationships within a wider network should be explained (eg links to an umbrella body/group), particularly where these impact on the charity's operating policies. Also, relationships with "related parties" (such as trading subsidiaries, trustees, people or bodies linked to trustees, employees/agents/officers who have authority over major activities or resources of the charity) must be indicated, as well as collaborative relationships with third parties in pursuit of the charitable purposes.

Risk - comments about risk management must indicate that the major risks to which the charity are exposed have been identified by the trustees and that systems or procedures are in place to manage those risks.

3. **Objectives and activities**

The report needs to provide an understanding of the charity's aims and objectives plus the strategies it has adopted and the activities it has undertaken to pursue those. Where relevant, comment should also be included on longer term strategies and objectives and how the annual objectives relate to those.

In doing this, the report must summarise the charity's charitable objects (as set out in the governing document). It should also demonstrate how the charity's activities seek to "make a difference" (ie the intended effect and impact of activities).

Details of significant activities that contribute to the stated objectives should be given. This would include information about main programmes, projects and services provided.

If the making of grants is a significant activity, details of the **grant making policy** should be given. Likewise, if there are **material, social or programme related investment activities**, then the policies for making such investments must be explained.

Charities that make significant use of **volunteers** should give information about that, whether the volunteers carry out the charitable activities or raise funds. The intention is that the role and contribution of volunteers in that charity can be understood.

4. **Achievements and performance**

This section must provide an understanding of the achievements and performance of the charity and its subsidiaries during the year. Performance should be related to the objectives the trustees have set. It is considered helpful to identify indicators, milestones and benchmarks which have been used to measure performance against objectives.

The review of achievements and performances should address these in relation to the **charitable activities** and **material fundraising activities**. In relation to fundraising, material expenditure and the effect of that expenditure on the fundraising return in the current reporting period must be indicated. Comments must also be made about anticipated income in future periods.

If there are **material investments**, the investment objectives set and the performance achieved against those objectives must be indicated.

Factors outside the charity's control that are relevant to the achievement of the stated objectives need to be commented upon. That could include relationships with funders or with beneficiaries or service users or comments on the charity's position in the wider community.

5. Financial review

A review of the financial position of the charity and any subsidiaries must be given in the report. Principal financial management policies in the year in question must also be indicated.

This section of the report has to address:

- The charity's **financial reserves policy**. This should state the level of financial reserves held and why they are held. Where material sums within the reserves have been earmarked for particular purposes, details of that must be given, with an indication of when the sums are likely to be spent in the future.
- **Material deficits** on funds must be identified with an indication of the reasons for those deficits and comments on the steps being taken to eliminate the deficits.
- Principal funding sources need to be indicated. In addition, the report must show how expenditure during the year has supported the charity's key objectives.
- If material investments are held, the **investment policy and objectives** must be indicated. This should include the extent to which social, environmental or ethical considerations are taken into account within the policy.

6. Future plans

The future plans, including aims and key objectives for future periods, should be explained. Any activities planned to achieve those should be indicated.

7. Funds held as custodian trustee

If the charity or its trustees act as custodian trustees, the assets held in that capacity must be described and details given of the charity on behalf of which they are held. Arrangements for safe custody and segregation of those assets must be described.

Using the trustees' report positively

The new trustees' report requirements do impose a significantly higher obligation on many charities in Scotland. However, it is important that trustees and professional advisers of charities view these as an opportunity rather than a threat. For the first time ever, Scottish charities have a clear, independent standard to guide them in this aspect of their public accountability. That has been set within a coherent legal

framework, itself designed for the needs and circumstances relevant to Scotland. All of that offer reassurance to supporters, donors, funders, beneficiaries and the general public that charities in Scotland are delivering the charitable benefits to the public for which they have been established.

Provided charities comply, willingly and promptly and without significant numbers of defaulters, the charity sector's overall reputation will not simply be protected - it should be enhanced.

Individual charities should also view the trustees' report as being an ideal opportunity to "sell their message". The material set out in that report can:

- Explain clearly what the organisation does and why that matters to the community.
- Demonstrate the charity's effectiveness and its achievements.
- Reassure regulators, including OSCR, and donors and funders that charitable funds are being applied properly and are delivering real benefits.
- Reinforce relationships with partner organisations and existing donors, funders, members and other supporters and open up new opportunities for future relationships.
- Be made part of the charity's overall good governance practices and procedures.

THE CHARITIES SORP – INTRODUCTION AND BASIS

Introduction

The regulations use the charities SORP as the principal accounting standard for charities in Scotland. This is the "Statement of Recommended Practice - Accounting by Charities" in its 2005 version. Despite the word "recommended" the SORP rules will effectively be obligatory, except where:

- SORP itself allows relaxations (for example the lesser obligations for smaller charities, reporting on a receipts and payments basis) or,
- Other legal requirements add to or derogate from it (for example company law requirements that affect charitable companies) or,
- A particular charity is subject to further regulatory regimes where a different SORP applies (for example higher and further educational institutions or registered social landlords).

The basis of SORP

SORP is based on current Financial Reporting Standards, issued by the Accounting Standards Board. Sector specific SORPs are prepared and issued (and subsequently reviewed) by approved bodies, with the ASB's authority. The Charities SORP is developed and regularly reviewed by the advisory Charities SORP committee, made up of charity finance directors, academics, auditors and advisers as well as representatives of the various UK charity regulators. Each new edition is then issued by the Charity Commission for England and Wales, as the body approved by the ADB to issue a SORP for charities in the various jurisdictions of the UK, including Scotland.

SORP recommends particular accounting treatments of various subject matter (investments, including valuations, gains and losses; expenditure and costs; incoming resources and resources expended; staff costs; related party transactions etc). It also gives guidance on the application of accounting standards. For larger charities preparing accrual accounts, it is necessary to follow SORP in order to give the required "true and fair view". Departure from the SORP's requirements may only occur in exceptional circumstances. Such departures must be indicated in a charity's annual accounts and the reasons for those must be explained and justified.

SORP – DETAILS, EXEMPTIONS AND SPECIAL CASES

Accruals Basis for Accounts Preparation

Definition

The accruals basis is the conventional method of preparing accounts for all but the smallest of organisations. It involves recognising transactions in the accounts according to when the essence of the transactions take place rather than when the payment was made.

What's involved

The accruals basis accounts include a balance sheet typically comprising fixed assets, current assets, liabilities and reserves/funds. There is also a statement about incoming resources and resources expended in the year. This will take the form of a statement of financial activities and notes to the accounts to comply with the Charities SORP.

Incorporated Charities

Incorporated charities are governed by the Companies Act 1985 which states that all accounts have to be prepared on an accruals basis. Accordingly every incorporated charity has to follow the accruals basis.

Unincorporated English Charities

Unincorporated English charities with gross income or expenditure of more than £100,000 have to prepare their accounts on an accruals basis to show a true and fair view.

Unincorporated Scottish Charities

The current position is that unincorporated Scottish charities with gross income greater than £25,000 have to prepare accounts on an accruals basis and to show a true and fair view.

Receipts and Payments Accounts

Definition

Certain charities can choose a simpler option when preparing accounts. Rather than producing a balance sheet and income and expenditure account which require accounting on an accruals basis they may produce instead a statement of balances in the receipts and payments account.

Whats involved

The receipts and payments account details all of the income actually received during the period together with all of the expenditure incurred in the period. The accounts make no allowance for any monies which may be due or outstanding at the balance sheet date. The information to be included in the receipts and payments account is broadly similar to that required in an income and expenditure account.

Incorporated Charities

Incorporated charities governed by the Companies Act are unable to produce a receipts and payments account because the Companies Act stipulates that only accruals accounts are acceptable for incorporated entities.

Unincorporated English Charities

Unincorporated English charities with income and expenditure under £100,000 may produce receipts and payments accounts. It is noted that there is no asset threshold on this.

Unincorporated Scottish Charities

The current position is that unincorporated Scottish charities with income under £25,000 may produce a receipts and payments account with charities over this limit having to prepare accounts on an accruals basis.

Who can be an independent examiner?

The current position is that the independent examiner should be an independent person who the trustees reasonably believe has the ability and practical experience to carry out a competent examination of the accounts. Most independent examiners are individuals but many charities use firms of accountants to carry out this task.

For Scottish unincorporated charities:

- The independent examiner's report should state whether the charity is entitled, through Section 7 sub section 1 of the Charities Accounts (Scotland) Regulations 1992 not to have an audit.
- To the best of their knowledge and belief the Balance Sheet and income and expenditure account (or the receipts and payments accounts, statement of balances for very small charities) have been properly prepared from the records and are in agreement therewith.

- Whether the accounting statements comply with the 1992 Regulations.
- Will the accounting statements comply with the Charity's founding (constitution)

The independent examiner should carry out sufficient investigations to enable them to report on all the matters set out above and also to confirm that the annual report is consistent with the accounts, proper accounting records have been kept and all the information and explanations that they judge necessary, where for the purposes of the examination were obtained.

If any of the above have not been complied with then this should be commented on in the independent examiner's report. OSCR recommended wording and layout for a report by an independent examiner is as follows:

Anytown Playgroup
Scottish Charity No

Report by the Independent Examiner

I have examined the Trustees' report, the association's accounting records and the Income and Expenditure Account and Balance Sheet that are attached as part of this document. To the best of my knowledge and belief, and in accordance with the information and explanations given to me:

- a. The association is eligible under section 7(1) of the Charities Accounts (Scotland) Regulations 1992 to choose to have an independent examination, instead of an audit. I therefore do not express an opinion on the view given by the accounts.
- b. The Income and Expenditure Account and Balance Sheet have been properly prepared from the records of the association and are in agreement with them.
- c. The Income and Expenditure Account and Balance Sheet comply with the Charities Accounts (Scotland) Regulations 1992 and with the association's constitution.

Signed.....

James Smith FCCA

Date : 30th March 2006

A charity with a gross income in a financial of less than £500,000 , which is required to prepare a statement of account and which is not required to have its statement of account audited must have its statement of account for that year examined by and independent examiner who is reasonably believed by the charity trustees to have the requisite ability and practical experience to carry out a competent examination of the accounts.

If the charity prepares a statement of account as such, the independent examiner must also be a member of:

- The Institute of Chartered Accountants in England and Wales
- The Institute of Chartered Accountants in Scotland
- The Institute of Chartered Accountants in Ireland
- An Association of Chartered Certified Accountants
- An Association of Authorised Public Accountants
- An Association of Accounting Technicians
- An 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 or,
- The Auditor General for Scotland.

Who can be an auditor?

To be eligible for appointment as an auditor, a potential auditor must be a member of a recognised supervisory body and eligible for the appointment under the rules of that body. This basically means the auditors are regulated by the appropriate institute, have standards that they must follow, have fit and proper status, professional integrity, independence, up to date technical standards and procedures for maintaining competence.

Generally an auditor must be appointed or reappointed each financial year. In an unincorporated charity this is done by the charity trustees of

the charity but in a *charitable company* the annual reappointment must be made by resolution of the members. That resolution must be passed at the meeting at which the immediately preceding years accounts are laid before the members (see section 385, Companies Act 1985)

An auditor may not be removed unless they become ineligible or incompetent (through no longer being independent of the charity or through no longer being a registered auditor). Any auditors removed may submit a statement to the trustees setting out their observations on the circumstances of removal. This statement must be included in the annual report of the charity. It is noted that when an audit is being put to tender this is dealt with by way of resignation or not being reappointed rather than removal. If the founding document of constitution of the charity does not determine who should appoint or remove auditors the power to do so lies only with the charity's trustees.

An auditor may resign by giving notice to the charity trustees. This notice letter may contain a statement of circumstances of the resignation - if it does this must be produced in the charity's annual report. If it doesn't then the fact that it doesn't must be stated in the annual report.

The charity's auditors have right of access at all times to the records of the charity and are entitled to require such information and explanations as they think necessary from both current and former trustees.