

# **The Church of Scotland**

## **Fully Accrued / SORP Compliant Accounts**

### **Guidance Notes**

**(revised Nov 2015)**

**These Guidance Notes have been updated to take account of the changes made by the revised SORP issued in November 2015. Changes as a result of the new SORP are shown in a shaded box throughout this guidance.**

## **Accrued Accounts Guidance Notes**

### **Style of accounts**

The style of accounts is **mandatory** for all congregations preparing accrued accounts. Originally signed copies of the accounts **in the required format** should be sent to Presbytery, to the General Treasurer at 121 George Street and to the Office of the Scottish Charity Regulator (along with the completed OSCR Annual Return). **The accounts must not be submitted to OSCR until they have been attested by Presbytery and found to be satisfactory. Please note though that the accounts should be sent to the Stewardship and Finance Department at 121 George Street as soon as they have been approved by the Trustees.**

The Charities Accounts (Scotland) Regulations 2006 (as amended) allow for two types of annual accounts to be prepared – *Receipts and Payments Accounts* **or** *Accrued Accounts*. **This Guidance relates to Accrued Accounts.**

A congregation **must** prepare accrued accounts if its annual gross income exceeds £250,000. We **recommend** that a congregation should prepare accrued accounts if it is likely to be involved in major fund raising or other specific activity which will result in its annual gross income exceeding £250,000 in the near future. Annual gross income includes **all** income of a congregation. This will include income of all restricted and designated funds held by the congregation. Income of organisations forming part of the congregation should also be included. Accrued accounts must be prepared even when income has exceeded £250,000 due to a particular non-recurring circumstance (e.g. a legacy received, or funds received from the General Trustees).

The income and expenditure of **all organisations which form part of the church** (i.e. which come under control of the Kirk Session, or are regarded as part of the congregation's activity, or which claim Gift Aid tax using the congregation's charity number) **must** be incorporated in the accounts probably as designated funds (but possibly as restricted funds). Any organisations which are not included in the accounts of the congregation should then be regarded as independent of the congregation and possibly renting halls or rooms from the congregation (either on a paid or unpaid basis). Such organisations will not then be eligible to use the congregation's charity reference number for any of the provisions relating to charities such as Gift Aid and there may also be implications in respect of insurance cover. **Unformed organisations** should **not** be included in the accounts and should **not use the congregation's charity registration number for any reason**. Such organisations will either be registered separately as charities or will be included by the charity registration of the appropriate national body of the organisation concerned. The

Guild and the Sunday School are examples of two particular organisations **which should be included** but there are likely to be others and each local case should be examined individually.

**Separately Registered Charities** which come under the control of the trustees of the congregation (e.g. separate Trust funds, fundraising bodies to support particular projects etc.) **must be consolidated with the main accounts of the congregation.**

### **What are accrued accounts?**

Accrued accounts reflect all the income earned and expenses incurred in the year irrespective of when the cash was received or paid. For example if a legacy has been advised prior to the year end but not received until after the year end then this income should be included. Similarly if a large repair was carried out prior to the year but not paid until after the year end then this should be included.

### **Independent Examination**

The independent examiner cannot be a member, or be closely related to a member of the Kirk Session or Congregational Board (or other comparable body) or a member of any other committee of the congregation which may affect his or her independence.

Where accrued accounts have been prepared then the independent examiner **must** be a member of one of the recognised bodies listed in the Charities Accounts (Scotland) Regulations 2006 (as amended) and the Regulations for Congregational Finance approved by the General Assembly in 2012.

**Important : Where the annual gross income of a congregation exceeds £500,000 in any one year then an audit will be required and specific guidance should be obtained from the Church offices.**

### **Accrued accounts format.**

Accrued accounts **must** comply with the formats, methods and principles set out in the Statement of Recommended Practice: Accounting and Reporting by Charities issued in 2015 (Charity SORP 2015). Copies of the SORP can be downloaded from OSCR's website but following the suggested sample format for congregational accounts will also ensure compliance with the SORP.

## **Budget**

A budget for the following year is not required by the charity accounting legislation and therefore must not form part of the accounts submitted to OSCR. It **is** a requirement of the Church of Scotland Regulations on Congregational Finance that a budget be prepared and this should be presented to the congregation along with the annual accounts and also submitted to Presbytery.

## **Specific Guidance on Sample Accounts**

The sample accounts should be used as a guide and the format followed as closely as possible. It is, of course, impossible to provide a sample which will cover every possible situation and in some cases some amendments to the sample will be appropriate. Advice is available from the Church offices ([amcdowall@churchofscotland.org.uk](mailto:amcdowall@churchofscotland.org.uk)).

## **Front cover**

The full name of the congregation, as registered with OSCR, should be stated along with the Scottish charity registration number and the Church of Scotland congregational reference number. The Scottish charity registration number is that which appears on the Register of Charities maintained by the Office of the Scottish Charity Regulator (OSCR) and will begin with the letters SC. Some congregations may also have a reference number previously issued for Gift Aid claims (beginning with the letters CR) and this is **not** the number which should be used here.

## **Trustees' Annual Report**

The order in which information appears in the Trustees' Report has changed in order to reflect the 2015 SORP

The SORP places great emphasis on the Trustees' Report. The information requested is to provide the reader of the report with a good understanding of the activities and achievements of the charity. The report included in the sample accounts is only an example and indicates a number of sections which should be specific to each congregation. It is likely that a number of different office bearers within the congregation will write different sections of the report.

The amount of detail given will vary for each congregation but should reflect the level of activity within a congregation. The headings used in the sample report are mandatory and all sections should be included.

OSCR have stated that when they have questions on accounts submitted to them then they will first look for clarification in the Trustees' Report before writing to the congregation for further information. This means that as much information as possible about any special circumstances during the year which have affected the income, expenditure or year end balances should be given in the Trustees' report. The most appropriate sections in which to give this information would be in the sections headed "Achievements and Performance" and "Financial Review".

Under Achievements and Performance, while this remains an opportunity to highlight "success stories" from the life of the congregation the new SORP requires a balanced view to be given which will also include those things which might not have gone as well as expected.

A Statement on Risk Management must now be included which must state the principal risks and uncertainties facing the congregation together with a summary of the trustees' plans and strategies to manage those risks. This might, for example, identify falling income as a possible risk and outline the congregation's intention to implement a Stewardship programme. Other potential risks might be lack of office-bearers, or the average age of congregation.

The Reserves Policy should state the reasons for the level of reserves which are held by the congregation. The purpose of the Reserves Policy is to identify situations where reserves are being held for no apparent reason or to highlight situations where a charity has insufficient reserves for it to continue to operate. Care should be taken to ensure that the level of reserves allowed by the Reserves Policy is not less than the level of reserves actually held.

Where the Trustees consider it unnecessary to hold reserves this must be stated and the reasons for this view must be given.

An Investment Policy is only required where the level of investments held is material. Where material investments are held then the policy should state the investment objectives and the performance of investments against those objectives.

The Trustees' Report also requires the congregation to state which "Governing Document" the congregation operates under.

If your congregation operates with a Kirk Session but no other body for temporal affairs apart from any committees of the Kirk Session itself then the congregation is operating under the **Unitary Constitution** (or, in some cases **quoad omnia constitution**). In this case the members of the Kirk Session will be the charity trustees.

Where a Congregational Board is in place then the congregation is operating under the **Model Deed of Constitution** and all members of the Kirk Session **and** all members of the Congregational Board will be the charity trustees.

These are the two main constitutions which congregations will operate under but there will also be a number of congregations which will operate under a further two possibilities.

Some congregations will have a Deacon's Court as well as a Kirk Session and in this case all members of the Deacons' Court as well as all members of the Kirk Session will be the charity trustees.

In those congregations where a Board of Management is responsible for the temporal affairs then all members of the Kirk Session and all members of the Board of Management will be the charity trustees

## **Reference and administrative information**

This page lists all of the information which must be given in all cases. Once again the name of the congregation must be stated along with the Charity registration number and the congregation reference number. A contact address must also be given. This may be that of the treasurer or session clerk but this will also be available to the public on OSCR's website so it may be more appropriate to use the address of the church. If the church address is used then it is important that arrangements for the collection of mail are in place.

The names of all of the Charity Trustees should be listed. Charity Trustees are defined as "the persons having the general control and management of the administration of the charity". Within the Church of Scotland this will normally mean all members of the Kirk Session (including the minister) and Congregational Board. This will include the minister as a member of the Kirk Session. Other ministerial staff (e.g. assistant ministers, auxiliary ministers, ordained local ministers and deacons) are unlikely to be trustees **unless they are voting** members of the Kirk Session or Congregational Board. If an interim

moderator has been appointed (either due to vacancy or illness of the minister) then the interim moderator will be a Trustee for the period of the appointment.

All Trustees who served at any time during the year **and up to the date of approval of the accounts should be given**. For example if the accounts for the year ended 31 December 2015 are approved by the trustees on 31 March 2016 then all Trustees who served at any time between 1 January 2015 and 31 March 2016 should be listed. If a trustee ceased to be a Trustee during this period then the date of cessation should be included and similarly if a trustee was appointed at any time during this period then the date of appointment should be given.

Under the previous SORP charities with more than 50 trustees were only required to list 50 names. This concession has been withdrawn in the new SORP and the names of all trustees must now be included.

The names of the Principal Office Bearers should be given. This is likely to be the Minister, Session Clerk, Clerk to the Board and Treasurer.

The full name and address of the independent examiner should be given.

The name and address of the **main** bank used by the congregation. If more than one bank is used then only the main bank need be given.

Where a congregation is utilising the services of investment managers then the name and address of the appointed firm must be given.

### **Independent Examiner's Report**

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

The full name and address of the Independent Examiner must be given.

The Independent Examiner's Report **must not** be dated **before** the date on which the accounts are approved by the Trustees.

### **Comparative Figures**

In all cases where comparative figures are given these should be identical to the figures contained in the previous year's accounts or, where not identical, the reasons for any differences should be stated.

## Statement of Financial Activities (SOFA)

The SORP makes the distinction between three types of funds:

- *Unrestricted Funds* can be used for any purpose which is in accordance with the aims of the charity. Unrestricted funds may often include *Designated Funds* which have been set aside for a specific purpose **by the charity**, and the charity has the option to reverse the designation and use them for any purpose.
- *Restricted Funds* have been given for specific purposes and **the donor** has stipulated how they must be used. Such funds can not be used for any other purpose.
- *Endowment Funds* are those where the charity can utilise the income from such funds but cannot realise and use the capital.

The three types of funds must be accounted for separately in the SOFA and elsewhere in the accounts. In the sample accounts there is a column for each type of fund in the SOFA and the notes to the accounts then provide further details of each of the funds contained within each category.

The SOFA should split *Incoming Resources* and *Resources Expended* into various categories as detailed in the sample accounts. The same categories are used in the OSCR Supplementary Monitoring Return, therefore production of the SOFA in this format will facilitate completion of the Return.

The descriptions of categories of income and expenditure have been simplified in the new SORP. These new descriptions are mandatory and the previous terms should not be used.

It is anticipated that for most congregations the vast majority of income will fall in to the Donations and Legacies category with most of the remainder falling into the Charitable Activities category. Examples of income which may fall in to each category are shown in the analysis appearing in notes 1 to 4 of the accounts. It should be noted that income which may previously have been thought of as being from trading activities will in fact more appropriately be included as income from charitable activities. This is because events such as coffee mornings, fayres, concerts etc while possibly having an element of fundraising or trading are part of the charitable activity of the church through their bringing people together, providing support and outreach to the local community.

Where a donation has been made in kind rather than in straight financial terms (e.g. an item being purchased or an expense paid directly by a donor on behalf of the congregation then the value of the donation must be included as income with a corresponding amount being shown as expenditure.

Similarly most expenditure is likely to be included in the Charitable Activities category. An example of another type of expenditure is Investment Managers' Fees (Raising funds Each category of expenditure is analysed in the notes to the accounts (note 6 of the example).

The term Governance Costs should no longer be included as a separate category and in most cases any such costs should be included within the Charitable Activities heading.

As the SORP requires investments to be shown at market value any congregation with investments will require to show the unrealised investment gains or losses in the SOFA.

The 2015 SORP requires comparatives for all columns of the SOFA. In other words, the comparatives must show the split between the various categories of funds for the previous year as well as the current year. This can be done in one of two ways. The additional information could be shown by adding additional columns to the face of the SOFA which would probably also mean presenting the SOFA in a landscape format. Alternatively the additional information could be shown as a note. In the sample accounts this requirement has been met by means of a narrative addition to Notes 1-5 in respect of income and Note 6 in respect of expenditure.

## **Balance Sheet**

Investments must be shown at market value. The difference between opening and closing market value will appear in the SOFA in the line "Net Gains/losses on Investments".

Debtors are amounts owing **to** the congregation at the year end.

Creditors are amounts owed **by** the congregation at the year end.

Debtors and creditors which are due more than one year after the Balance Sheet date should be shown separately. The sample accounts show details for creditors but not for debtors due in more than one year as it is considered that such instances will be rare.

Funds must be split between the three categories of funds and the totals should agree with the figures at the foot of the SOFA.

### **Accounting policies note**

This should describe the policies adopted in preparing the accounts and assist the reader in understanding the accounts. The sample accounts detail policies which should apply in most situations. Any which do not apply should be removed.

### **Staff costs note**

This should include amounts and numbers for all staff employed during the year. The minister should **not** be included as he/she is not employed by the congregation. An analysis of categories of staff should also be included.

The number of staff must be stated on a headcount basis. The full time equivalent may also be given where that is considered helpful but this must be in addition to and not instead of the headcount number

### **Trustee remuneration and expenses note**

Details should be given of all amounts paid to any trustee (including the minister). Where the payment is in respect of work done or services provided then the name of the trustee and the amount paid should be included. The minister's stipend should **not** be included as this is not paid directly by the congregation. Any Voluntary Additional Payment to the minister should be included.

If no payments to trustees have been paid then the note should state this.

Where trustees have received reimbursement of expenses then the note should state the number of trustees receiving reimbursement and the total amount reimbursed. Payments to the minister for travelling expenses and council tax paid in respect of the manse should be included here.

Where payments have been made or expenses reimbursed to a connected person of a trustee then this should also be included here.

Where no such payments have been made then the note should state this fact.

(Remember that ministers' travel should be classed as a payment to a trustee)

The new SORP also requires disclosure of the aggregate amount donated to the charity by all Trustees. While most of this information will be available from Gift Aid records and freewill offering records it is likely that a fairly pragmatic approach will have to be taken in respect of cash donations.

Where a trustee or a person connected with a trustee was entitled to receive remuneration or expenses but waived the right to the remuneration or expenses then the details must be given

## **Tangible Fixed Assets**

Where title of assets is vested in the General Trustees then these should **not** be included. Locally owned buildings should only be included where the cost is known or a reasonable estimate of value can be made. Particularly for manses this can be done by reference to local property selling prices (by reference to estate agents for example).

## **Investments**

Details of investments held should be given, as outlined in the sample accounts. Investments held with the Church of Scotland Investors Trust (in the growth or income funds) should also be included here. Monies held on the Investors Trust Deposit Fund should not be included here but should be included in the Bank and Cash section of the Balance Sheet. **Funds held by the General Trustees in the Consolidated Fabric Fund should not be included in the congregation's Balance Sheet**

## **Debtors and Creditors**

An analysis of year end debtors and creditors should be included.

## **Loans**

Where loans have been received at beneficial interest rates then such loans must be stated at "fair value". For the vast majority of affected congregations this provision will relate to loans received from the General Trustees and congregations will be advised directly by the General Trustees of the values to be used.

## **Analysis of net assets between funds**

This can be given either in a separate note or on the face of the Balance Sheet

## **Volunteers**

It is recognised that most charities and possibly even more so the Church rely heavily on the contribution made by volunteers. The SORP recognises that it would be impractical to put a value on the contribution of volunteers but the notes to the accounts must include a description of the role played by volunteers and provide an indication of the nature of their contribution.

### **Further Guidance**

Further Guidance is available from the Stewardship and Finance Department at the Church of Scotland (tel: 0131 225 5722):

Archie McDowall  
(Head of Congregational Support) [amcdowall@churchofscotland.org.uk](mailto:amcdowall@churchofscotland.org.uk))

Lisa Erskine  
(Finance Manager – Congregational Finance) [lerskine@churchofscotland.org.uk](mailto:lerskine@churchofscotland.org.uk)

Example accounts and other guidance can also be obtained from the OSCR website:

[www.oscr.org.uk/charities/managing-your-charity/charity-accounting](http://www.oscr.org.uk/charities/managing-your-charity/charity-accounting)