

The Scout Association

Guidance on the 2005 Accounting and Audit Requirements for Group, Districts and Counties/Areas

1. Background

In 2001 the Association updated its guidance for Counties, Areas, Districts and Groups about how to implement the changes brought about by the Statement of Recommended Practice (SORP) "Accounting by Charities" (revised 2000).

The SORP has once again been revised and the new version "Accounting and Reporting by Charities" (revised 2005) is effective for accounting periods starting on or after 1 April 2005.

Most of the fundamentals established in the previous two SORPs are unchanged including such areas as the definition of restricted and unrestricted funds and the layout of the balance sheet.

The main changes affect the following matters in accrual accounts:

- The layout of the Statement of Financial Activities
- How to account for charitable activities undertaken and support costs
- The contents of the Trustees' Report for the year.

The Association's guidance has been revised to reflect these changes.

In addition to this guidance and related specimen reports and accounts, a document with frequently asked questions (by Group, District and County/Area Group Treasurers) and answers is currently being prepared.

This guidance will be reviewed during 2007 to reflect developments resulting from the Charities Act 2006.

Any feedback on this guidance and related specimen reports and accounts (that should be addressed to the Director of Finance of The Scout Association) is valued. It will be used to improve future versions so that they meet the needs of the users.

External Examination

The Trustees will have to decide whether to arrange for:-

- a full audit by a Registered Auditor;

- an independent examination by a qualified accountant;
- an independent examination by a person whose experience complies with Charity Commission guidance ;

This guidance can be found at: <http://www.charity-commission.gov.uk/supportingcharities/ogs/g015c011.asp>

- a scrutiny by an independent person with relevant practical experience and knowledge.

This is also subject to Rules in POR and these are included in Appendix 1.

At present the Scout Association requires a higher standard of external examination than the minimum laid down by law (see Appendix 1). This policy will be reviewed during 2007 once the detailed implementation timetable for the Charities Act 2006 has been issued.

Type of Accounts

Subject to the Rules in *POR*, the Trustees of each Group, District or County/Area will also have to decide whether they will prepare accounts on the Receipts and Payments or the Accruals basis. The relevant rules are included in Appendix 1.

It is important to understand that the law requires accounts to be produced for a charity as a whole and this will be the entire Group, District or County/Area, not some individual Sections. The accounts must consolidate all the activities carried on in the name of the Group, District or County/Area. Ensuring that this is done is the responsibility of the Group, District or County/Area Treasurer who may have to obtain information from other people who may keep financial records for individual Sections. *POR* requires all bank accounts to be in the name of the Group, District or County/Area and that the Treasurer should be a signatory to the bank/other accounts held (***POR and the Charity Commissioners require that a minimum of two persons must sign all cheques.***) Failure to comply with these requirements could prejudice the position of all trustees as they have a joint responsibility.

a) Receipts and Payments Accounts

Most Districts and Groups opt for the Receipts and Payments basis.

If a Group or District had straightforward activities, e.g. it does not operate a Campsite, a Scout Shop or hold regular Gang Shows, it should use one of the specimen accounts in producing the annual accounts.

If the accounts of the Group or District are more complex, the specimen accounts may need to be amplified. One way of doing this, without rewriting the whole specimen accounts, would be to insert additional narrative in the Trustee's Annual Report and additional sheets in the spreadsheet where these are necessary to include all the information required.

If the Group or District has a subsidiary company or charity or if it has any arrangement under which it shares the running of an activity with another organisation, this must be explained in the accounts. The notes to the accounts should include the terms of the agreement, a summary of the accounts of the joint activity and a note if the auditor or examiner's report has been qualified. It is considered that the specimen accounts formats are suitable for use by joint Scout/Guide Groups.

b) Accruals Accounts

Based on historic experience most Counties/Areas opt for the Accruals Accounts basis. In addition, Districts and Groups with high levels of income or particularly complex operations may opt for the Accruals Accounts basis.

If the Group, District or County/Area has a subsidiary company or charity or if it has any arrangement under which it shares the running of an activity with another organisation, this must be explained in the accounts. An activity would include, e.g. running a building or a campsite. The SORP explains how this should be shown in Accruals accounts. It is considered that the specimen accounts formats are basically suitable for use by joint Scout/Guide Groups.

2. Audit and examination

These comments cover both Receipts and Payments and Accruals Accounts.

Subject to the limits set down in POR, the Trustees will have to decide whether they will use a Scrutineer, an Independent Examiner or whether they will request a registered auditor to carry out a full audit. This is fully described in Appendix 1.

A specimen Scrutineer's Report and a specimen Independent Examiner's Report are available in hard copy format, online and as Word files from the Information Centre at info.centre@scout.org.uk

If the Independent Examiner has any difficulty with the wording of the specimen report and the work required, they will need to discuss this matter with the District or Group Treasurer.

So long as neither the gross income nor total expenditure exceeds £10,000, a Scrutineer may be appointed in accordance with the requirements of POR. The specimen Scrutineer's Report must not be changed unless a qualification of the report is considered necessary.

The Scrutineer must be suitably independent from the District or Group on which the report is to be made. For an explanation of suitably independent see:

<http://www.charity-commission.gov.uk/publications/cc63.asp>

POR includes a list of minimum tests that a Scrutineer is required to carry out and also requires an Independent Examiner to ensure these tests are performed as part of their work. *Details are given in Appendix 2.*

If a full audit is chosen or required, the registered auditor will provide a report that they have drafted.

3. The Trustees' Annual Report

These comments cover both Receipts and Payments and Accruals Accounts.

Overview

The trustees are required to produce a report to accompany each set of accounts. The information to be given is outlined in the Specimen Trustees' Annual Report.

One of the key changes in SORP 2005 is the Trustee's Annual report. In the past there has been significant variety in the level and type of information included within this report. SORP 2005 seeks to address this by prescribing standard headings to be included in the trustee's report. These are:

- Reference and administration details
- Structure, governance and management
- Objectives and activities
- Achievements and performance
- Financial review
- Plans for future period and other optional information

The Specimen Trustees' Annual Report uses these headings and it is recommended that these are used by all Scout Group, Districts and Counties/Areas.

The Specimen Trustees' Annual Report also includes specimen policies, paragraphs and notes e.g. reserves policy. Some of these are likely to be common to nearly all Groups, Districts and Counties/Areas. So long as they are consistent with local circumstance they are considered best practice e.g. trustee selection methods. However, where local circumstances and policies differ from these specimens, the specimens will need to be replaced by more accurate policies, paragraphs and notes. (In

some instances e.g. Investment Policy, more than one specimen has been drafted. If one of the specimens is suitable to your local circumstance please delete the other.) Please remember to delete the word specimen from your report!!

Section A – Reference and administration details

Your Registration Number with The Scout Association should always be shown alongside the charity name. If the charity is registered with the Charity Commission, its **charity registration number** must be shown as well. The charity's **principal address** should be given; often this will be the Secretary's address.

The names of the various **Trustees** must be shown and where they have not served throughout the year the **date of their appointment or resignation** should be given. If any trustees are members of sub-committees this should be noted by their names.

Other advisers are people like bankers, scrutineers/ external examiners/auditors, surveyors, solicitors.

Section B – Structure, governance and management

Many of the paragraphs in this section will be common to nearly all Groups, Districts and Counties/Areas.

The statement about risk and internal control is only a requirement for charities with gross income exceeding £250,000 in the year. The two specimens are included as examples of best practice.

Section C – Objectives and activities

The paragraph on objects should be common to all Groups, Districts and Counties/Areas.

Many of the activities undertaken to achieve these objects will also be common although the focus might change from Group to Group, District to District etc and an example of how this may be described is found in Section C of the Specimen Trustees' Annual Report.

The SORP is asking you to provide summary information on your main activities, including fundraising activities, not on every activity undertaken. Similarly, the SORP expects there to be some correlation between the narrative in this section and the analysis of your receipts and payments or income and expenditure i.e. If you include narrative on bag packing at your local supermarket as one of your main fundraising activities it would be logical to include this as one of the analysis headings in the fundraising section of your receipts and payments account.

If the Group, District or County/Area makes grants, the policy that determines how they are chosen should be set out.

Section D – Achievements and Performance

How successful or otherwise were the activities that you have detailed above and why did they succeed or fail i.e. if you had a plan to open a new Beaver Colony and in Section C you have commented on some of the activities in relation to this plan, then in Section D state whether the plan was successful or otherwise and why it succeeded or failed.

Section E – Financial Review

The Charity Commission requires every charity to have a Reserves Policy. A specimen policy has been drafted. This will need to be adapted to meet your local circumstance.

If the Group, District or County/Area holds investments, the policy that determines how the investments are chosen should be set out.

Section F – Plans for future period and other optional information

The plans for the future year are the start of the trustees' reporting cycle and have a strong link with the information you will report in Sections C and D in a years time i.e. if in the coming year you plan to open a new Cub Pack you should include such plans in Section F. Next year in your Trustees' Annual Report you should include in Section C and Section D the activities you conducted in relation to this plan and how successful or otherwise you were.

Section G – Declaration

In all cases the report must be **dated and signed** by one or more (preferably two) of the charity Trustees, who must have been authorised to do so by a majority of the Trustees.

4. Receipts & Payments Accounts

The following comments relate to the specimen Receipts and Payments Accounts. They cover both the single fund version and the multi fund version – this is where the charity has Restricted Funds and/or Endowment Funds as well as Unrestricted Funds (also known as general fund). If only unrestricted funds exists, the single fund version should be used and some of the following comments do not apply.

Specimen Receipts and Payments Accounts for both single funds and multi funds accompany this guidance. These specimens are available in hard copy format, online and as Excel files from the Information Centre at info.centre@scout.org.uk for those Treasurers who wish to use the specimen in the preparation of their annual accounts.

The specimens are based on those issued by the Charity Commission. They cover the receipts and

payments, assets and liabilities that occur in most Scout Groups and Districts.

The Charity Commission's own specimens are issued in both an Excel and Word/PDF format and can be obtained from:

<http://www.charity-commission.gov.uk/library/publications/excel/cc16a.xls>

<http://www.charity-commission.gov.uk/library/publications/pdfs/cc16atext.pdf>

They are accompanied by guidance notes that can be obtained from:

<http://www.charity-commission.gov.uk/library/publications/pdfs/cc16bttext.pdf>

Receipts and Payments Accounts

There are up to four columns (in the multi fund version) in which figures can be entered.

Unrestricted (or General) Funds: These are funds that the charity trustees may spend in accordance with its constitution.

There is another type of Fund known as a **Designated Fund**. This type of Fund arises when the trustees decide to set some of the Unrestricted Funds aside for a special purpose. It continues to be part of Unrestricted Funds and so no separate column is provided.

If a Group, District or County/Area has a Designated Fund and wishes to give details in the accounts, this can be done: -

- by description given in the Trustees' Report
- by a note attached to the accounts

Restricted Funds: These are not Endowment Funds but are Funds where the trustees are bound by conditions that have either been imposed by donors, or by the terms of an appeal. Therefore the fund can only be spent in line with the restriction. It is important that these funds are kept separate from both the Unrestricted Funds and the Endowment Funds and therefore a separate column is provided.

Endowment Funds: These are funds that the trustees are unable to currently spend. Often the funds can only be spent once specified conditions have been met and in many instances they have to be held indefinitely. It is important that these funds are kept separate from both the Unrestricted Funds and the Restricted Funds and therefore a separate column is provided.

The **Total** column adds Unrestricted, Restricted and Endowment Funds together.

The **previous year's** figures are only shown in total.

Membership subscriptions that are "paid on", i.e. those collected on behalf of the District, County/Area or Headquarters, should be deducted from membership subscriptions collected and these should be shown net in the Receipts details. This is because these subscriptions paid out are in effect held as agents before being passed on.

Where the specimen has the term 'Detail' e.g. Detail 2, please replace this with a very brief description of the activity you have undertaken. For example, under Fundraising (gross), instead of Detail 2, describe one of your main fundraising activities e.g. bag packing.

SORP 2005 asks charities to develop their own classifications that best describe their principal charitable activities. The Finance Sub-Committee of The Scout Association has discussed suitable headings and recommends that Counties, Areas and Districts use some or all (as appropriate) of the following four headings:

- Youth Programme and Activities
- Adult Support and Training
- Development of Scouting
- Support and Services to the Movement

This SORP requirement does not need to be followed when preparing Receipts and Payments Accounts. However, the Finance Sub-Committee still recommends that where appropriate these headings should be followed for Receipts and Payments Accounts. (The specimen Receipts and Payments Accounts only include 'Youth Programme and Activities' and 'Adult Support and Training' since for most Groups these are the two that historically are appropriate).

The line "**transfers between funds**" will only be used if the trustees have decided it is proper to make a transfer. This could happen, e.g. if the restriction on a restricted fund ends and the fund becomes available for general purposes.

The amount(s) of **Cash funds this year end** should agree with the Sub Total(s) of Cash funds shown on the Statement of Assets & Liabilities.

Statement of Assets & Liabilities

The values of monetary assets and liabilities have to be shown but some **non-monetary assets** may just be described. In this case, as well as a description of the assets, information about their age, original cost and current value should be given. It will be helpful to indicate the value of all assets and the Trustees' view of the estimated market or insured value may be a helpful guide.

Contingent liabilities and future obligations should be described. These would include any disputed legal claims against the charity and future rent payments, which are not yet due. An example of

this might be "Rent payable in the future £500 pa for remainder of lease – 5 years".

Notes to the Accounts

It is often not necessary to provide notes with Receipts and Payments Accounts and no space is included for these. However, they should be provided if they increase the reader's understanding of the accounts. If there are related party transactions, Trustee's remuneration or significant non-monetary resources, these should always be explained.

Approving the Accounts

The accounts should be **approved by the trustees and signed on their behalf**; each should receive a copy even if they cannot attend the meeting where the accounts are approved.

5. Accruals Accounts

The following comments relate to the specimen Accruals Accounts. They cover the multi fund situation – this is where the charity has Restricted Funds and/or Endowment Funds as well as a Unrestricted Funds (also known as general fund). If only unrestricted funds exists, the multi fund version will need adapting and some of the following comments do not apply.

Specimen Accruals Accounts that are based on those issued by the Charity Commission accompany this guidance. These specimens are available online and as an Excel file from the Information Centre at info.centre@scout.org.uk for those Treasurers who wish to use the specimen in the preparation of their annual accounts.

The specimen Accruals Accounts do not attempt to cover all situations which could arise but they should be regarded as a suitable standard in most cases. The full SORP should be consulted if more complicated issues arise. Where the specimen contains notes that are not applicable e.g. Note 7 if you do not employ staff, these notes should be deleted and the others renumbered accordingly.

The Charity Commission's own specimens are issued in both an Excel and Word/PDF format and can be obtained from:

<http://www.charity-commission.gov.uk/library/publications/excel/cc17a.xls>

<http://www.charity-commission.gov.uk/library/publications/pdfs/cc17atext.pdf>

They are accompanied by guidance notes that can be obtained from:

<http://www.charity-commission.gov.uk/library/publications/pdfs/cc17btext.pdf>

Statement of financial activities

The Statement of Financial Activities (SOFA) is primarily a summary of the detail given in Notes 3 & 4. The SOFA is a charity's equivalent of a traditional income and expenditure account although there are a few differences. All investment assets have to be revalued each year and the revaluation change is shown in the SOFA.

The line 'gross transfers between funds' will only be used if the trustees have decided it is proper to make a transfer. This could happen, e.g. if the restriction on a restricted fund ends and the fund becomes available for unrestricted purposes.

There are up to four columns in which figures can be entered.

Unrestricted (or General) Funds: These are funds that the charity trustees may spend in accordance with its constitution.

There is another type of Fund known as a **Designated Fund**. This type of Fund arises when the trustees decide to set some of the Unrestricted Funds aside for a special purpose. It continues to be part of Unrestricted Funds and so no separate column is provided.

If a Group, District or County/Area has a Designated Fund and wishes to give details in the accounts, this can be done: -

- by description given in the Trustees' Report
- by a note attached to the accounts

Restricted Funds: These are not Endowment Funds but are Funds where the trustees are bound by conditions that have either been imposed by donors, or by the terms of an appeal. Therefore the fund can only be spent in line with the restriction. It is important that these funds are kept separate from both the Unrestricted Funds and the Endowment Funds and therefore a separate column is provided.

Endowment Funds: These are funds that the trustees are unable to currently spend. Often the funds can only be spent once specified conditions have been met and in many instances they have to be held indefinitely. It is important that these funds are kept separate from both the Unrestricted Funds and the Restricted Funds and therefore a separate column is provided.

The **Total** column adds Unrestricted, Restricted and Endowment Funds together.

The **previous year's** figures are only shown in total.

Note 3 – Analysis of incoming resources

Membership subscriptions that are "paid on", i.e. those collected on behalf of the District, County/Area or Headquarters, should be deducted from membership subscriptions collected and these should be shown net in the voluntary income analysis. This is because these subscriptions paid out are in effect held as agents before being passed on.

Note 4 – Analysis of resources expended

SORP 2005 asks charities to develop their own classifications that best describe their principal charitable activities. The Finance Sub-Committee of The Scout Association has discussed suitable headings and recommends that Districts and Counties/Areas use some or all (as appropriate) of the following four headings:

- Youth Programme and Activities
- Adult Support and Training
- Development of Scouting
- Support and Services to the Movement

Balance sheet

The adoption of the accruals basis of accounting means double entry accounting records will be required to provide details of assets and liabilities and these will be entered in the balance sheet. The balance sheet is also a summary of the detail given in Notes 9 – 15.

Investment assets must be shown at market value.

Fixed assets used for charitable purposes will normally be shown at cost, unless in the view of the Trustees there has been a permanent fall in their value. If the market value has risen significantly, the value should be revised and details provided in Note 9.

Where fixed assets have been donated in the year an amount equal to a reasonable estimate of their gross value to the Group, District or County/Area should be shown as a donation (incoming resources – Note 3) and as the cost of the assets.

All fixed assets apart from freehold land should normally be depreciated over a period not exceeding 50 years. (i.e. A minibus costing £15,000 is depreciated at £3,000pa so that the cost is fully depreciated after 5 years.) If this is not done the SORP should be consulted for detailed guidance. Details of the rates and basis of depreciation should be given in Note 9.

The balances on the different types of funds must be shown and must agree with the respective totals for each fund in the SOFA.

Space is provided on the balance sheet to indicate the trustees' approval of the accounts as required by the regulations.

Notes to the accounts

Depending on the complexity of the accounts, when the accruals basis is adopted a considerable number of notes will have to be included in the accounts. Specimens for many of the typical notes that will be required are included in the Specimen Accruals Accounts. These cover:

- Accounting policies
- Analysis of incoming resources
- Analysis of resources expended
- Support costs
- Details of trustees' reimbursed expenses
- Details of fees to auditors/examiners
- Details of employee remuneration, numbers and pension cost
- Details of grant-making activities
- Fixed asset notes including a division between assets
- Details of investments held
- Analysis of debtors
- Analysis of short term investments
- Analysis of cash at bank and in hand
- Analysis of creditors
- Analysis of restricted and endowment funds and reconciliation of movement on fund balances
- Details of transactions with related parties

Approving the Accounts

The accounts should be **approved by the trustees and signed on their behalf**; each should receive a copy even if they cannot attend the meeting where the accounts are approved.

CONCLUSION

This is a brief description of the revised requirements for charity accounting. If you require further help you can approach the District or County/Area Treasurer. In cases of difficulty the County/Area Treasurer can approach Headquarters who will be pleased to advise on specific points.

As well The Charity Commission specimen accounts mentioned above, The Charity Commission issues a number of helpful publications. These can be obtained in hard copy from the Charity Commission or can be viewed or downloaded from their web site at <http://www.charity-commission.gov.uk>. The Charity Commission also has a help line but The Scout Association would prefer that any approaches to the Charity Commission should be co-ordinated by Headquarters.

Appendix 1

(This appendix will be reviewed during 2007 to reflect developments resulting from the Charities Act 2006.)

Scout Groups, Districts or Counties/Areas

A. ELIGIBILITY FOR APPOINTMENT AS AUDITOR, INDEPENDENT EXAMINER OR SCRUTINEER

1. Where neither gross income nor total expenditure exceed £10,000

The Trustees may appoint a Scrutineer, i.e. an independent person who is reasonably believed by the Trustees to have the requisite knowledge and practical experience to carry out the work programme for Scrutineers. The terms of engagement should be specified in writing, referring to the Work Programme in Appendix 2. Alternatively they may, if they wish, appoint an Independent Examiner or a Registered Auditor. Except for Counties/Areas, who may not at any time appoint a Scrutineer.

2. Where gross income is more than £10,000 but does not exceed £25,000

The Trustees will normally appoint an Independent Examiner who is an independent person they reasonably believe to have the requisite ability and practical experience to carry out a competent examination of the accounts. The Charity Commission suggest a person such as a bank or building society manager or retired accountant.

They may not appoint a Scrutineer but they may, if they wish, appoint a Registered Auditor.

3. Where gross income is more than £25,000 but does not exceed £100,000

The Trustees will normally appoint an Independent Examiner who must have a recognised accounting qualification that the Trustees believe is appropriate in the circumstances. (In cases of doubt in relation to the qualification the Trustees should seek guidance from the District/County/Area Treasurer). They may not appoint a Scrutineer or Independent Examiner who does not hold a recognised accounting qualification but they may, if they wish, appoint a Registered Auditor.

4. Where the gross income exceeds £100,000 but the gross income or total expenditure does not exceed £250,000 in the year or the two preceding years

The requirements are as in 3 above but the qualification must be membership of :-

- The Institute of Chartered Accountants in England and Wales;
- The Institute of Chartered Accountants of Scotland;
- The Institute of Chartered Accountants in Ireland;
- The Chartered Association of Certified Accountants;
- The Chartered Institute of Management Accountants;
- The Chartered Institute of Public Finance and Accountancy;
- The Association of Authorised Public Accountants;
- Other recognised accounting body.

5. Where the gross income or total expenditure exceeds £250,000 in the year or either of the two preceding years

The Trustees must appoint a Registered Auditor to carry out an audit.

The annual limits in 1 to 3 above and the lower limit in 4 above refer to the year under review.

The appointee cannot hold any other position in the County, Area, Group or District, as appropriate.

B. TYPES OF ACCOUNTS

1. Gross income in the year for Groups, Districts and Counties/Areas (excluding membership fees paid to Headquarters), does not exceed £100,000

Either Receipts and Payments Accounts together with a Statement of Assets and Liabilities may be adopted or, if the Trustees wish, they may produce Accruals Accounts.

If the Receipts and Payments basis is chosen the accounts must comply with [CC16 - Receipts and Payments Accounts Pack](#) which is guidance based on the Statement of Recommended Practice (SORP).

If Accruals Accounts are chosen they must comply with the full requirements of the SORP and with [CC17 - Accruals Accounts Pack](#) which is guidance based on the SORP.

2. Gross income in the year for Groups, Districts and Counties/Areas (excluding membership fees paid to Headquarters) exceeding £100,000

Accruals Accounts must be produced. They must comply with the full requirements of the SORP and with [CC17 - Accruals Accounts Pack](#) which is guidance based on the SORP.

The limits above are 'tighter' than those in the SORP and SORP guidance and these rules may be seen as slightly more onerous than the Charity Commission guidelines. They have been set to ensure Scouting remains a robust and honest organisation.

Appendix 2

WORK PROGRAMME FOR A SCRUTINEER OR ADDITIONAL WORK FOR AN INDEPENDENT EXAMINER

Check cash book(s) balance at the start of the year agrees with previous accounts.

Vouch a selection of payments including reimbursement of expenses.

Vouch a selection of receipts.

Test entries with bank statements.

Obtain confirmation of year-end balances from banks, building societies and other deposit takers.

Obtain a copy of bank reconciliation(s), check and agree with certificate from Bank (which the Treasurer should arrange to be sent direct to you at the year end).

Test additions in cash book(s) and other accounting records.

Check figures entered on accounts from cash book(s)/day books via summaries or ledgers if necessary.

Ensure all activities (including all Sections) have been accounted for and included in the above tests. If not, ensure notes to the accounts disclose this or state it in the scrutineer's/external examiner's report to the Trustees.

Obtain written confirmation of cash balances held by officers (i.e. any floats etc).

Inspect vehicle log books.

Obtain confirmation that deeds, share certificates etc. are held securely by the holders, such as The Scout Association Trust Corporation, bankers, solicitors, etc.

Review liabilities for reasonableness and test documentation.

Review assets for reasonableness.

Confirm that a stock count has been made of major items of equipment, badge stocks, etc.

Read relevant Minutes.

Confirm no income or receipts were subject to special restrictions which need to be shown in the accounts.