

A hand holding a pen is drawing a lightbulb on a textured surface. The lightbulb is drawn with a black outline and contains a yellow glow. The background is a light blue textured surface with a cracked pattern. A dark blue rectangular box is overlaid on the left side of the image, containing the title text.

Charities in Scotland: Trustees' Responsibilities

Specialist areas

Factsheet

Charities in Scotland: Trustees' Responsibilities

It is often considered an honour to act as a trustee for a charity and an opportunity to give something back to the community. However, becoming a trustee involves commitment and responsibility which should not be underestimated. Here we reveal the main responsibilities and accounting requirements.

If you would like to discuss how we can assist you, please contact us on 01494 675321 or by email at info@rousepartners.co.uk

Background

The charities sector in Scotland is generally overseen by the Office of the Scottish Charity Regulator (OSCR) also known as the 'Scottish Charity Regulator'. OSCR is a Non-Ministerial Government department which is the independent regulator and registrar for Scottish charities.

OSCR plays an important role in the charity sector and is in place to give the public confidence in the integrity of charities and to help charity trustees to understand and comply with their legal duties.

A key part of OSCR's work is to provide advice to trustees. A great deal of useful advice can be found on the OSCR [website](#), where there is a section dedicated to [Charity trustees' duties](#).

Types of charity

The main legislation which charities in Scotland operate is the Charities and Trustees Investment Act (Scotland) 2005 (the 2005 Act). Charities can be created in a number of ways but are usually either:

- ▶ incorporated under the Companies Act 2006 or earlier (limited company charities)
- ▶ incorporated under the 2005 Act through The Scottish Charitable Incorporated Organisations Regulations 2011 ('the General Regulations') (Scottish charitable incorporated organisations, SCIOs), or
- ▶ created by a declaration of trust (unincorporated charities).

Each of these charities need to register and file their accounts with OSCR and limited companies are additionally registered with Companies House.

The type of the charity will determine the full extent of a trustee's responsibilities.

Who is a Trustee?

The 2005 Act defines trustees as 'persons having the general control and management of the administration of a charity'. This definition would typically include:

- ▶ for unincorporated charities and SCIOs, members of the executive or management committee
- ▶ for limited company charities, the directors or members of the management committee.

Charities need at all times to fulfil the charitable purpose for which they were created and it is the duty of all the trustees to ensure this.

Trustee restrictions and liabilities

In addition to the responsibilities of being a trustee, there are also a number of restrictions which may apply. These are aimed at preventing a conflict of interest arising between a trustee's personal interests and their duties as a trustee. These provide that generally:

- ▶ trustees cannot benefit personally from the charity, although reasonable out of pocket expenses may be reimbursed
- ▶ trustees should not be paid for their role as trustee.

There are limited exceptions to these principles which are set out in the 2005 Act. Where trustees do not act prudently, lawfully or in accordance with their governing document they may find themselves personally responsible for any loss they cause to the charity.

Trustees' responsibilities

The OSCR guidance Charity Trustee Duties explains what it means to be a trustee and how to become one. Trustees have full responsibility for the charity and a general duty to act in the interests of the charity. This means they should:

- ▶ operate in a way which is consistent with the charity's charitable purposes
- ▶ follow the law and the rules in the charity's governing document
- ▶ act with care and diligence

- ▶ manage any conflict of interest between the charity and any person or organisation that may appoint the charity's trustees.

Trustees have a duty to make sure that their charity's funds are only applied in the furtherance of its' charitable objects. They need to be able to demonstrate that this is the case, so they should keep records which are capable of doing this.

Charity trustees must put the interests of the charity before their own needs or those of any relatives or business interests. Where a decision must be taken where one option would be in the interests of a trustee and another in that of the charity a trustee should make sure the other trustees know of the conflict and should not take part in the discussion or decision.

The OSCR guidance Charity Trustee Duties also provides information on some specific duties contained in the 2005 Act. The guidance sets out trustees' duties to:

- ▶ provide all the information needed to keep the Scottish Charity Register up to date
- ▶ comply with the charity's governing document and the 2005 Act when making changes to the way the charity operates
- ▶ keep proper accounting records and prepare an annual statement of account and annual report which are externally scrutinised
- ▶ take control of how the charity raises funds
- ▶ provide information to the public.

These duties are shared by every individual in charge of the charity. No individual charity trustee (for example the Chair or Treasurer) has more responsibility than any other trustee.

Accounting requirements

The 2005 Act requires that charities:

- ▶ keep full and accurate accounting records (and funds requirements are of particular importance here)
- ▶ prepare charity accounts and an annual report on its activities

- ▶ ensure an audit or independent examination is carried out
- ▶ submit an annual return, annual report and accounts to OSCR (and, for limited company charities, to Companies House).

The extent to which these requirements have to be met generally depends upon the type of charity and how much income is generated.

Funds requirements

An important aspect of accounting for charities is the understanding of the different 'funds' that a charity can have.

Essentially funds represent the income of the charity and there may be restrictions on how certain types of funds raised can be used. For example, a donation may be received only on the understanding that it is to be used for a specified purpose.

It is then the trustees' responsibility to ensure that such 'restricted' funds are used only as intended.

Fundraising

The effective management and control of fundraising is also an important trustee responsibility. The Scottish Fundraising Standards Panel oversee fundraising standards and deal with fundraising complaints for Scottish registered charities in line with the Code of Fundraising Practice.

The annual report

The annual report is often a fairly comprehensive document, as legislation sets out the minimum amount of information that has to be included. The report generally includes:

- ▶ a trustees' report (which can double as a directors' report and a strategic report, if required for charitable companies)
- ▶ a statement of financial activities for the year
- ▶ an income and expenditure account for the year (for some charitable companies)
- ▶ a balance sheet
- ▶ a statement of cash flows
- ▶ notes to the accounts (including accounting policies).

Audit requirements

Whether or not a charity requires an audit will depend mainly upon how much income is received or generated and their year end:

- ▶ all charities where income exceeds £500,000 require an audit
- ▶ all other charities require an independent examination. Where 'accruals' accounts are prepared the independent examiner must be suitably qualified.

There are other criteria to consider, particularly regarding total assets, and we would be pleased to discuss these in more detail with you.

Reporting requirements

There is a comprehensive framework in place that determines how a charity's accounts should be prepared.

Unincorporated charities with income below £250,000 may prepare receipts and payments accounts, unless their governing document says otherwise.

All other charities must prepare accounts that show a 'true and fair' view and are referred to as 'accruals' accounts. To show a 'true and fair' view the accounts generally need to follow the requirements of the Charities Statement of Recommended Practice (SORP). The SORP can be viewed at www.charitySORP.org and charities are able to build a bespoke version of the SORP dealing with their own circumstances.

How we can help

A trustee's responsibilities are many and varied. If you would like to discuss these in more detail or would like help in maintaining your charity's accounting records or preparing its annual report please contact us.

We are also able to advise on whether or not an audit or independent examination will be required and are able to carry this out.

Trusted advice, *imaginative solutions.*

It's the old adage that all accountants are the same, but ask yourself this; what kind of service would most add value to your personal or business position? In our opinion, the quality of advice and service is what separates a good accountant from a great one. This is where Rouse Partners can make a difference for you.

Our award-winning team make it their business to get to know you and your specific needs. Whether your goal is to grow your business, increase your personal wealth or improve your work-life balance, by understanding your challenges, we will address them together.

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At the heart of our way of working is a determination to think differently, to challenge the 'status quo' and to ask 'what if?'. Whether you are facing a complex tax, accounting or management situation, we are ready to find a solution.

Contact us today to discuss how we can support your personal or business tax needs:

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