An introduction to Scottish Charities: Regulation, Reporting and Finances

Introduction

CCPS represents not-for-profit providers of care and support in Scotland. Our 84 members deliver services across Scotland for adults with disabilities, older people, children and families, people impacted by addictions, homelessness and housing insecurity, poor mental health, poverty, and people involved in the justice system. Collectively, they support tens of thousands of people and employ a significant proportion of Scotland's social care workforce.

As not-for-profit organisations,[1] CCPS members operate in a distinct regulatory and financial environment, delivering essential services as a direct expression of their charitable purposes, which must be for public benefit. They are not profit-oriented enterprises with unrestricted capital and reserves. Increasingly, CCPS members are delivering these critical public services while managing rising costs, reduced funding and increased regulatory responsibilities.

The purpose of this briefing paper is to help build greater general understanding amongst partners, funders and stakeholders of the regulatory, reporting and financial responsibilities and realities of CCPS members within the charitable sector in Scotland. It is not intended as legal advice nor a replacement for official direction and information from regulators, including the Scottish Charity Regulator, OSCR.

Regulatory Framework

The Scottish charity sector has a distinct governing framework that sets it apart from the rest of the UK. Although certain regulatory frameworks still apply UK-wide, charities registered in Scotland are governed by the Charities and Trustee Investment (Scotland) Act 2005 (the "2005 Act") and regulated by the Office of the Scottish Charity Regulator ("OSCR"). The 2005 Act is supplemented by the Charities (Regulation and Administration) (Scotland) Act 2023, which introduced new duties,

[1] 83 of CCPS's 84 member organisations are registered charities. The member that is not a registered charity operates as a Community Interest Company, which is a type of limited company that exists to benefit the community rather than private shareholders and can only use its assets for social objectives.

expanded reporting requirements and enhanced OSCR powers, with all changes now fully in force.

Purpose & Governance

An organisation can only use the term charity if it meets the "charity test" and is entered in the Scottish Charity Register, published and maintained by OSCR.[2] The test requires that a) its purposes consist only of one or more of the 16 listed "charitable purposes" in the 2005 Act, b) it undertakes activities only in furtherance of its purposes, and c) it provides "public benefit" in Scotland in achieving those purposes. OSCR looks closely at whether a charity's activities involve any private benefit, or disbenefit to the public, and whether there is any undue restriction on gaining access to the benefit a charity provides.[3]

Charities are governed by charity trustees, who are the people responsible for the "general control and management of the administration of a charity".[4] Trustees have legal duties under the 2005 Act, including acting in the interest of the charity, particularly ensuring that the charity acts in a manner consistent with its charitable purposes and in compliance with the law.[5] Charity trustees must ensure that all financial decisions in relation to their charity are made in line with these statutory duties.

Legal structure

Charities can have various legal forms, each carrying different governance, liability, and reporting implications. The structure can be either "incorporated" or "unincorporated". According to OSCR, the most common forms in Scotland as of September 2025 are Unincorporated Associations (37%), Scottish Charitable Incorporated Organisations (SCIOs, 31%), Companies (16.46%) and Trusts (12.19%).[6]

Incorporated	
Scottish Charitable Incorporated	A unique legal form to Scotland that combines registered charitable status with incorporation.[7] SCIOs are governed by a statutory framework set out in the 2005 Act and the associated SCIO Regulations.[8] Because a SCIO is

[2] Charities and Trustee Investment (Scotland) Act 2005, Chapter 2.
[3] About your charity - SCVO
[4] Charities and Trustee Investment (Scotland) Act 2005, s 106.
[5] Charities and Trustee Investment (Scotland) Act 2005, s 66.
[6] OSCR Sector Overview Report September 2025
[7] Choosing the right structure - SCVO
[8] OSCR | 1. What is a SCIO?

Organisations (SCIOs)	incorporated, it has separate legal personality. This means a SCIO can hold property, enter leases, contracts and employ staff in its own name. The structure generally provides protection against personal liability for both the trustees and members of a SCIO, provided that they have acted within their legal duties.
Company Limited by Guarantee (CLG)	Companies limited by guarantee are another form of incorporated legal structure available to charities. Like SCIOs, they have a separate legal personality, and can therefore enter into contracts, employ staff and hold property in their own name. They also provide limited liability for members (usually restricted to £1) and the directors, the latter of whom are the charity trustees. CLGs must comply with both company and charity law. The charity trustees act as both directors under company law and as charity trustees under charity law. As CLGs are dual registered with OSCR and Companies House, this brings additional statutory reporting and governance requirements.
Unincorporated	
Unincorporated Associations (UAs)	Unincorporated associations are structures where a group of individuals come together to pursue a common goal and may apply to OSCR for charitable status. UAs do not have a separate legal personality. This means that UAs cannot enter into contracts, hold property or employ staff in their own name. Instead, contracts, leases, employment agreements and property titles must be taken on by one or more of the individual members or office bearers as trustees. Liability rests with the individual personally responsible for the loss sustained, but it is not clear whether liability beyond the value of the UA's funds also rests on the trustees or the UA's membership.
Charitable Trusts (CTs)	Charitable trusts are established to hold and manage assets for defined charitable purposes. CTs do not have separate legal personality, and their governance, powers and duties are set out in a trust deed, which acts as the CT's governing document. Trustees administer CTs in accordance with the deed and the wider requirements of both trust and charity law. CTs do not have a separate membership. Trustees may have personal liability for the CT's actions but there are certain protections for trustees in terms of trust law and common law. Because CTs do not have separate legal personality, they cannot enter into contracts or own property in their own name. Title to land and other assets must therefore be held by the trustees, and contracts must be signed by one or more trustees acting on behalf of the CT.

Accountability and transparency

There are high levels of public transparency and accountability for charitable reporting. Each year, every charity in Scotland is required by law to submit information to OSCR as part of OSCR's annual reporting requirements.[9] This includes:

[9] OSCR | Annual reporting

- An online annual return. This details key information about the charity, such as its trustees, number of employees & volunteers, financial information, charitable purpose(s) and governance arrangements.
- The charity's annual accounts (financial statements).
- An external scrutiny report – which will be either an independent examination or audit of a charity's finances, depending on the size and legal structure of the charity.
- A Trustees' Annual Report. This must include features such as narrative of the charitable purpose, outputs, outcomes and impact from the year.

Accounting and Reporting

There are specific standards and requirements for charitable financial reporting. This includes FRS 102, which is the principal Financial Reporting Standard applicable UK-wide,[10] and the Charities Statement of Recommended Practice (SORP).[11] The SORP sets out how relevant charities[12] are expected to apply FRS 102 to their particular activities and transactions and how they should present and disclose their activities and funds in their annual reporting.[13]

In October 2025 a new SORP was published, which introduces revised trustees' annual report and accounts requirements for reporting periods beginning on or after 1 January 2026.[14] The new SORP introduced strengthened disclosure requirements regarding reserves, related-party transactions and risk reporting. At the time of consultation on the new SORP guidelines, both the Institute of Chartered Accountants of Scotland (ICAS) and the Scottish Council for Voluntary Organisations (SCVO) noted that the proposed changes would have mixed practical and financial impacts on the reporting burdens on the sector, which were overall growing in both volume and complexity.[15] [16]

External financial scrutiny reporting

Charity accounts must be subject to external scrutiny, which then also form part of the annual reporting to OSCR. This may be in the form of audit, undertaken by a

[10] FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland
[11] The Charities Statement of Recommended Practice (SORP) - GOV.UK
[12] The SORP is only relevant to charities who prepare their accounts on an "accruals" basis. Charities must prepare their accounts on an accruals basis if a) they are registered in Scotland have a gross yearly income of more than £250,000, they are a registered company, or b) their governing document requires this.
[13] charities-sorp-2026-1
[14] What's on the horizon for charity reports and accounts? - ICAS
[15] ICAS: More action needed to ease reporting burden on charities | Scottish Financial News
[16] SCVO response: Exposure draft SORP (Statement of Recommended Practice) - SCVO

registered auditor in compliance with auditing standards,[17] or an "independent examination", a form of external scrutiny that "still offers assurance that nothing has been found that needs to be brought to the attention of readers of the accounts".[18]

2025 Regulations changed the income threshold at which charities are required to have an audit, increasing this from £500,00 to £1 million, aligning with the threshold in England and Wales.[19] The Law Society in Scotland observed that the new Regulations have also clarified that both forms of external scrutiny have the same statutory footing and serve the same regulatory function.[20] Both an audit and an independent examination provide assurance that accounts have been properly prepared and give a fair view of a charity's finances.

Accountability

An annual return must be submitted within 9 months of the charity's financial year-end. If the return is late, OSCR marks the charity on the register (a "red line") and may take regulatory action. This may include a legal direction to prepare and provide information, appointment of an independent person to prepare accounts, or ultimately removal from the Scottish Charity Register as a last resort.[21] Auditors and Independent Examiners also have an additional legal duty to report listed matters of "material significance" to OSCR, such as concerns of dishonesty, fraud and risks to beneficiaries.[22]

From early 2026, all charities' annual reports and accounts (regardless of size or legal structure) will be published on the Scottish charity register in an unredacted format and the names of each charity's charity trustees will also be published on the register.[23] OSCR notes that one of the primary ways a charity can demonstrate it provides "public benefit" is through the publication of annual accounts and a trustees' annual report.[24]

Additional reporting obligations

Whilst the obligations above apply to all charities, the variety of legal structures and services provided by charities in Scotland frequently comes with additional reporting requirements to various regulators. For example, as noted above, charitable

[17] OSCR | 3. The external scrutiny of charity accounts
[18] OSCR | 3. The external scrutiny of charity accounts
[19] The Charities Accounts (Scotland) Amendment Regulations 2025
[20] The Charities Accounts (Scotland) Amendment Regulations 2025 — what they mean in practice | Law Society of Scotland
[21] OSCR | What happens when you don't submit on time?
[22] Matters of material significance reportable to UK charity regulators - GOV.UK
[23] OSCR | Charities Act 2023
[24] OSCR | OSCR removes another 48 charities from the Scottish Charity Register

companies are required to report to both OSCR and Companies House, and must follow both charity and company law.

Other regulatory responsibilities relate to the provision of specific activities. For example, if a charity is providing social care services in Scotland that are regulated activities, they must comply with the relevant social care regulations and standards, and have specific obligations to the Care Inspectorate, the Scottish Social Services Council, and under the Protecting Vulnerable Groups Scheme managed by Disclosure Scotland.

Finances

Funding

Public sector funding is the largest source of income (estimated at 40%) for charities in Scotland, unlike charities in England, which are primarily funded by the general public.[25] This is particularly the case for social care charities, many of whom are commissioned by Scottish Government, Local Authorities and Integrated Joint Boards to provide essential public services as an expression of a charity's charitable purposes.

Financial management and delegation

Trustees must ensure that all financial decisions in relation to their charity, including decisions relating to reserves, are made in line with statutory duties under the 2005 Act. Some powers or functions over spending may be delegated to senior staff or committees; however, this must be clearly set out in a scheme of delegation document, which sets out what these are and the limits and boundaries of that power, such as power over spending but only up to a certain amount.[26]

Reserves

OSCR defines general reserves as funds held by a charity that are freely available to spend on any of the charity's purposes.[27] These are distinct from other funds that have more clearly defined limits. For example, gifted endowment funds (gifted cash or property that have specific conditions attached), restricted funds (such as grant funding from a public body given for a particular purpose, or money raised by a targeted fundraising appeal) and tangible fixed assets (such as an office building and vehicles).

[25] Scottish charities draw from reserves as inflation bites, research shows
[26] Scheme of delegation - SCVO
[27] OSCR | Charity reserves: Guidance

Charity trustees have a duty to protect their charity's long-term sustainability, manage risk and ensure that it can continue operating. In practice, reserves may help manage short-term contracts, delayed payments, rising costs and unexpected events. For example, they may be critical to meet certain obligations in the event of closure, such as having sufficient funds for statutory redundancy pay.

However, whilst general reserves are more accessible than restricted funds, they are not unlimited. Reserves are often misunderstood as unrestricted cash or surplus funds that could be used to ease a charity's wider funding pressures. Using reserves without a clear plan to rebuild them could affect service delivery and increase financial and regulatory risk. Funding limitations, short-term contracts and increasing costs can also significantly constrain the ability of charities to sustainably manage their reserves, even with strong financial planning.[28]

Reserves should therefore be viewed not as spare funds, but as part of responsible financial stewardship. Under the Scottish regulatory framework, responsible reserves management is considered a core feature and signpost (including to funders and beneficiaries) of financial stability and sound financial management.

OSCR recommends that all Scottish charities have a reserves policy as part of good financial management and to help communicate to external stakeholders how charity trustees are managing the charity's money, why reserves are held and where funding gaps may exist.[29] Rather than a specific minimum or formula for setting reserves, OSCR instead recommends that charities consider various factors relevant to their financial position and activities. This may include for example planning for uncertainty over future grant income, planned commitments or unforeseen emergencies.[30]

Charity trustees are ultimately responsible for developing, managing and reviewing a reserves policy,[31] and any staff with delegated financial functions or powers are accountable to the trustees in relation to any agreed use of reserves.

Designated and Restricted Funds

Building on the distinction between general reserves and funds with specific limitations, it is important to understand how designated and restricted funds operate within a charity's overall financial framework. While reserves represent unrestricted funds held to support financial stability, designated and restricted funds are subject to clearer conditions and cannot be treated as freely available resources.

Designated funds are unrestricted funds that charity trustees have chosen to set aside for a particular future purpose. This might include planned investment in

[28] SCVO: Scottish Voluntary Organisations' Financial Reserves 2025, at 6.
[29] OSCR | 2. Why you should have a reserves policy
[30] OSCR | 3. How should charity trustees set a reserves level?
[31] OSCR | 3. How should charity trustees set a reserves level?

property, digital systems, service development, or other strategic priorities. Although the trustees retain the ability to revise a designation, doing so must be consistent with responsible financial planning and clearly explained in the charity's accounts. Because designated funds often reflect future commitments or planned projects, they should not automatically be viewed as spare or immediately available resources.

Restricted funds are different in nature. By contrast, they must be used only for the specific purpose set by a donor, funder or the terms of a fundraising appeal. These funds cannot be applied to general running costs or wider organisational activities of a charity unless the restriction explicitly allows it.

Restricted funds may arise from multi-year grants, capital funding or income received towards projects that are still in progress, meaning they do not necessarily represent cash that can be redirected to other priorities. Using restricted funds outside their stated purpose may result in repayment obligations, breach of grant conditions, regulatory findings or audit qualification.

In practice, both designated and restricted funds can be misunderstood by external stakeholders as being available to address broader financial pressures. However, both designated and restricted funds serve defined roles within a charity's financial management and are subject to conditions, whether set internally by trustees or externally by funders, that limit how and when they can properly be used.

Restricted or designated fund balances, therefore, do not indicate surplus liquidity or financial strength, as they cannot readily be repurposed to meet wider financial pressures.

"Going concern"

Going concern is "the capability of the charity to pay its bills and meet its liabilities as they fall due".[32] Under the 2026 SORP, charities must prepare their accounts on a "going concern" basis. It is also commonly a contractual requirement for charities tendering for or delivering commissioned public services to evidence going concern status. This requires charity trustees to assess, using all available information about the foreseeable future (at least 12 months, but frequently 18 months or longer), whether the charity can continue to operate.[33] This assessment must consider internal financial forecasts as well as any observations made by the auditor or independent examiner.

Trustees must explain the assumptions underpinning their assessment, the steps they are taking to mitigate risks, and the reasons why the charity continues to adopt the

[32] Technical factsheet: Going concern and the alternative basis of accounts preparation for charities reporting under UK-Ireland Generally Accepted Accounting Practice (GAAP) | ACCA Global
[33] 2026 Charities Statement of Recommended Practice (October 2025), at 48.

going concern basis. Where there are material uncertainties that could cast significant doubt on the charity's ability to continue as a going concern, these must be disclosed in the annual accounts. This information is then made publicly available through the reports filed with OSCR.

Disclosure of such risks does not, in itself, trigger regulatory action by OSCR. However, OSCR conducts both random and risk-based reviews of charities, and the information submitted through online annual returns and accounts forms part of OSCR's wider risk assessment process. Concerns raised externally about a charity may also prompt OSCR to examine these disclosures more closely.[34]

If a charity prepares its accounts on a going concern basis and the external audit disagrees with this assessment, the auditor can put a qualification in the accounts. This would have serious implications, such as preventing a charity continuing or entering public contracts.

Conclusion

Scottish charities operate within a robust and increasingly transparent regulatory framework. Recent legislative changes, brought in via the 2023 Act, have further strengthened public transparency for charities, increasing the visibility of trustees and the accessibility of financial information.

Annual reporting to OSCR is central to maintaining accountability and public trust, and the strengthened requirements under the new SORP also mean that charities must demonstrate greater transparency around finances, reserves, risk and related matters. These reporting duties reinforce the wider expectation that trustees will actively manage financial risks, plan prudently and take responsible decisions that protect the charity's ability to operate in the future.

Financially, Scottish charities are not profit-generating enterprises with unrestricted capital and reserves. They depend heavily on public sector funding, often delivered through short-term commissioned contracts, while managing rising costs and increasing regulatory expectations. Reserves, designated funds and restricted funds each serve specific purposes in supporting a charity's financial resilience and long-term viability and cannot be treated as unrestricted resources to ease wider financial strain.

In this context, the duty to protect the charity's long-term sustainability is not only a matter of good governance, but a statutory obligation that underpins every aspect of trustees' decision making. Scottish charities must demonstrate public benefit, manage

[34] OSCR | 7. Reporting to OSCR

funds responsibly and maintain public trust, often while delivering essential services under significant financial and regulatory pressure.

Acknowledgments

This work has been made possible through funding from the Scottish Government. CCPS would like to thank Lindsays who provided a legal review and the CCPS members who provided input into this briefing.

This briefing was authored by CCPS Policy Officer, Annaliese Johnston.