

Briefing

# Section 106

Numbers of charities and sets of accounts in 2023/24



 AUDIT SCOTLAND

Prepared by Innovation & Quality for auditors in the local government sector

December 2024

**OSCR**  
Scottish Charity Regulator

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# Introduction

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## Purpose of briefing

1. This briefing from Innovation & Quality provides auditors with information on the numbers of charities falling within [section 106](#) of the Local Government (Scotland) Act 1973 (the 1973 Act) that were administered by councils in 2023/24. These are referred to as section 106 charities.
2. It also provides information on the number of related sets of accounts; these are lower than the number of charities as connected charities are permitted to prepare a single set of accounts.
3. The purpose of this briefing is to encourage a reduction in the number of sets of accounts that require to be audited.

## Context

4. The appointments of auditors made by the Accounts Commission to councils include the audit of any trust funds or Common Good funds that both:
  - fall within section 106; and
  - are registered as charities with the Office of the Scottish Charity Regulator.
5. The charities are generally small and, if they did not fall within section 106, they would require an independent examination rather than a full ISA-compliant audit. The consequent audit is therefore relatively costly and disproportionate. While there has been progress in reducing the number of section 106 charities over the last ten years, a significant number remain.

## Consultation with Innovation & Quality

6. Auditors should consult with Innovation & Quality by completing the [enquiry form](#) and sending by email to [TechnicalQueries@audit-scotland.gov.uk](mailto:TechnicalQueries@audit-scotland.gov.uk).

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# 1. Application of section 106 to charities

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**7.** A registered charity falls within the scope of section 106 where all the trustees are elected council members or council officers. The audit provisions of section 96 of the 1973 Act that apply to councils are extended to charities that fall within section 106.

**8.** The audit of the statement of accounts prepared by registered charities is regulated by The Charities Accounts (Scotland) Regulations 2006 (the charity regulations).

**9.** [Regulation 10](#) of the charity regulations requires an auditor's report to accompany a charity's statement of accounts where, among other reasons, any legislation requires an audit. As the joint application of sections 96 and 106 of the 1973 Act requires an audit of section 106 charities, appointed auditors are required to prepare an Independent Auditor's Report (IAR) for each section 106 charity's statement of accounts.

**10.** The preparation of an IAR necessitates the performance of audit procedures that fully comply with ISAs (UK) for the accounts of every section 106 charity. This is the case even when the amounts involved are below the de minimis level set out in Regulation 10 that would apply in the absence of a legislative requirement. This may involve a disproportionate amount of work being performed and hence increased audit fee for the administering council.

**11.** Audit Scotland has therefore encouraged councils to rationalise the number of section 106 charities they administer. While some councils have made good progress, for others the numbers remain high.

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## 2. Number of charities

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### Number of section 106 charities in 2023/24

**12.** The guidance on planning 2024/25 audits advised that Innovation & Quality would provide information on the numbers of charities that councils administered in 2023/24. This information is provided in the [Appendix](#) to this briefing.

**13.** In summary:

- Eight councils do not administer any section 106 charities. An increase of three from 2022/23.
- Four councils have rationalised to a single charity ([table 1](#)).
- Councils continued to administer a total of 149 charities in 2023/24 (a net reduction of 16 from 2022/23).
- Ten councils administered more than five section 106 charities each in 2023/24 (a reduction of two from 2022/23).

### Auditor actions for 2024/25

**14.** The Scottish Charity Regulator offers guidance to councils seeking to reorganise their section 106 charities and has a regulatory interest in charities that are inactive in terms of not providing public benefit and that may fail to meet the charity test.

**15.** To reduce the number of section 106 charities in 2024/25, auditors should strongly encourage councils with multiple charities to:

- reorganise their charities through merging or winding them up, particularly when they appear to be failing to meet their charitable aims (eg, by not disbursing funds)
- consider appointing an external trustee as this would remove the charity from the scope of section 106 (and hence remove the audit requirement for charities below the de minimis).

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# 3. Connected charities

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## Connected charities provisions

**16.** [Regulation 7](#) of the charity regulations (as [amended](#) in 2010) permits a single set of accounts for charities that meet the definition of being connected. Connected charities are defined at [Regulation 1](#) as charities that have 'common or related purposes, or charities which have common control or unity of administration'.

**17.** The definition of connected charities is met for any section 106 charity administered by the same council. This 'unity of administration' requirement is met even where the trustees differ.

**18.** Where a council administers multiple section 106 charities, the overall number of separate sets of statements of accounts can therefore be reduced by the effective application of the connected charities provisions.

## Use of connected charities provisions in 2023/24

**19.** [Table 2](#) in the appendix lists the 12 councils that made full use of the connected charities provisions in 2023/24. However, there are:

- four councils that made only partial use and therefore produced 17 sets of accounts between them ([table 3](#))
- four councils that made no use of the provisions and produced 10 sets of accounts ([table 4](#)).

## Auditor actions in 2024/25

**20.** Auditors should strongly encourage councils in tables 3 and 4 to make full use of the connected charities provisions in 2024/25.

# Appendix

## Number of section 106 charities 2023/24

**Table 1: Single charity**

| 4 Councils (down from 6 in 2022/23) |
|-------------------------------------|
| East Lothian                        |
| Falkirk                             |
| Renfrewshire*                       |
| Shetland*                           |

**Table 2: Multiple charities in single set of accounts (full use of connected charities provisions)**

| 12 Councils (down from 13 in 2022/23) | Number of charities |
|---------------------------------------|---------------------|
| Fife                                  | 43                  |
| Moray                                 | 8                   |
| North Ayrshire                        | 8                   |
| Aberdeen                              | 7                   |
| Argyll and Bute                       | 7*                  |
| Perth and Kinross                     | 6*                  |
| Scottish Borders                      | 5*                  |
| East Ayrshire Council                 | 3                   |
| South Ayrshire                        | 4                   |
| Angus                                 | 2                   |
| East Dunbartonshire                   | 2**                 |
| West Dunbartonshire                   | 2*                  |
| <b>Total</b>                          | <b>97</b>           |

**Table 3: Multiple charities and multiple sets of accounts  
(partial use of connected charities provisions)**

| <b>4 Councils<br/>(same as in 2022/23)</b> | <b>No of sets of accounts</b>          | <b>No of charities</b>                 |
|--|--|--|
| West Lothian                               | 9                                      | 14                                     |
| Dundee                                     | 4                                      | 7                                      |
| Stirling                                   | 2*                                     | 11*                                    |
| City of Edinburgh                          | 2                                      | 6                                      |
| <b>Total</b>                               | <b>17</b><br>(down from 18 in 2022/23) | <b>38</b><br>(down from 39 in 2022/23) |

**Table 4: Multiple charities and multiple sets of accounts  
(no use of connected charities provisions)**

| <b>4 Councils (same as in 2022/23)</b> | <b>No of sets of accounts and charities</b> |
|--|---|
| South Lanarkshire                      | 3   |
| Aberdeenshire                          | 3   |
| Highland                               | 2   |
| North Lanarkshire                      | 2   |
| <b>Total</b>                           | <b>10</b><br>(down from 16 in 2022/23)      |

Notes:

\*Expected numbers as audited accounts not received by Audit Scotland at date of preparing briefing.

\*\*Expected numbers as unaudited accounts not received by the auditor at date of preparing briefing.



# Section 106

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