

Dr. Christine R. Barker
Freelance Researcher
The Old Manse
Queen Street
Tayport
Fife DD6 9NS
Scotland

Tel. 01382-553701

Email: christine@drbarker.fsbusiness.co.uk

Richard Arnott
Head of Charity Law
Scottish Executive Voluntary Issues Unit
Social Justice Group
Victoria Quay
Edinburgh EH6 6QQ

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Dear Mr Arnott,

Consultation on the Charity Accounting Regulations

Thank you for your letter of 11 April 2005 enclosing a copy of the above consultation paper.

I am enclosing my response to the consultation, together with the completed responsee information form.

I welcome the fact that the new Charities Bill has now been passed by the Scottish Parliament and look forward to seeing the final version of the accounting regulations in due course.

Yours sincerely,

Dr. Christine R. Barker



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Freelance Researcher and Writer

The proposed increase in the threshold for unincorporated charities from £25,000 to £250,000 for producing receipts and payments accounts and from £100,000 to £250,000 for audit purposes is indeed a “major deregulating move” (page 13) and is also a welcome one. It makes sense to set the same threshold both for the form of accounts and for audit requirements. Based on the - admittedly limited - information available about the income of the sector in Scotland the proposed level of £250,000 seems appropriate. This is also the level above which companies currently must have their accounts audited. Stating the thresholds in regulations instead of in primary legislation will allow them to be altered more easily should this prove necessary in the future.

I welcome the fact that there is no proposal to exempt smaller charities from independent examination. It is noted on page 14 that there have been suggestions that charities with an income less than £10,000 should be exempted from the requirement for independent scrutiny of their accounts. I do not agree with this suggestion. I take the view that it is in the interests of the accountability of the sector that there should be an independent examination of all charity accounts and the definition of an independent examiner is such that even very small charities should not find it difficult to appoint a suitable person. I also feel it would unnecessarily complicate matters to introduce an additional category of charities.

UK Charities

The new audit threshold proposed in the Draft Charities Bill for England and Wales is £500,000. This, of course, raises an issue (a) about parity between the two regimes and (b) about charities operating throughout the UK. UK-wide charities operating in Scotland with an income between £250,000 and £500,000 will be required to have their accounts audited to comply with the Scottish legislation. It is proposed that charities registered in England and Wales which register operations in Scotland will choose between registering a separate charity operating in Scotland, for which Scotland-only accounts would be required, or registering the charity with OSCR for its Scottish operations, for which accounts of the UK charity would be required. It is stated on page 15 that “any adjustment of the charity’s accounts to meet these regulations should be minimal as these regulations reflect UK recommended practice”.

We are asked to consider whether the approach taken to UK charities is the right one. While it is clearly desirable that all charities operating in Scotland should be subject to the same audit requirements, UK-wide charities will incur extra costs in having to prepare a different set of accounts for Scotland and in having to have them audited at a lower financial threshold. The closer correspondence between the new accounting regulations and UK recommended practice should minimise these costs, and on balance I think the principal of having the same accountability for all charities operating in Scotland justifies requiring UK-wide charities to comply with the Scottish regulations.

Exemptions

accounting regulations (“an independent person who is reasonably believed by the trustees to have the requisite ability and practical experience to carry out a competent examination of the accounts”) or whether the Company Law requirement for a “reporting accountant” will prevail, and would welcome clarification on this point.

The Charities Bill for England and Wales proposes an increase in the audit limit for charitable companies from £250,000 to £500,000 (Clause 25 of the Draft Charities Bill for England and Wales). The Consultation Paper on the accounting regulations for Scotland states, however, that although Company Law is a reserved matter, the setting of the audit thresholds for charitable companies is devolved (page 16). It is therefore proposed that the audit threshold for Scottish charitable companies will remain at £250,000 in order to ensure that all charities in Scotland are subject to the same thresholds. I agree with this approach.

Accounting Periods

It is proposed to reduce the period for submitting accounts to OSCR from within ten months to within seven months of the period end date. If a charity fails to do submit accounts within this period, OSCR may make the default public, launch an enquiry into the charity and appoint a person to complete the accounts at the charity's expense.

The Consultation Paper does not give any reason for the reduction in the period for submitting accounts to OSCR or for the selection of seven months. I am aware that there have been some accountability problems, particularly in the case of new charities effectively being able to operate for 22 months before being legally obliged to produce accounts. However, the sanctions for failure to comply with the obligation to submit accounts to OSCR within the due period are fairly severe, and surely a reduction in the time-frame for submitting accounts will make it more difficult for small charities without any paid staff to comply. It would also create a further disparity with Company Law since charitable companies have ten months within which to send their accounts to Companies House. I therefore favour retaining the ten month period, particularly as I cannot see that a three month reduction would greatly assist the process of regulating problem charities.

Accounts in Gaelic

It seems sensible that charities should additionally be able to produce accounts in Gaelic for those preferring it. However, in the interests of transparency they should also be available in English, in particular the version submitted to OSCR.

The Charities SORP

The preferred option expressed in the Consultation Paper for ensuring that the accounting regulations are fully consistent with the Charities SORP is to set out clear requirements for Scottish charities, particularly in respect of format and disclosure, but to refer to the methods and principles in the SORP. Regulations for the