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**SCOTT-MONCRIEFF**

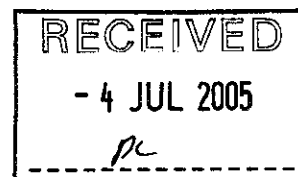
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Our Ref: GD/FB

1 July 2005

Dear Ms Warne

**Charity accounting regulations consultation paper**

Thank you for the opportunity to respond to this consultation document. We will deal with each of the issues in your consultation report.

**Thresholds**

We note what you say about the merits of simplicity with respect to thresholds and agree with the need to make the thresholds consistent between different legal entities to "level the playing field". However, we are not persuaded that £250,000 is an appropriate level of income. The move from £25,000 to £250,000 is significant with limited research to support the assertion that there will rarely be transactions of complexity that would make receipts and payments accounts up to this level misleading. We recommend further research is undertaken before a limit is set. Another source of useful data on the Charity Sector in Scotland is the Caritas Data publication "Top 1,000 Charities in Scotland". The 2005 edition of this indicates that the 500<sup>th</sup> charity ranked by income has income of £390,000. We are concerned that very few charities in Scotland by number would be obliged to prepare accounts that give a true and fair view which may have a negative impact on the public confidence.

We note also that there is an intention to include an asset test for dormant accounts but not for active charities. We suggest that there should be consistency and that an asset test should be applied. We recommend that quoted investments should be valued by reference to the stock market and that other assets should be included at cost, depreciated as appropriate.

We note that the threshold for true and fair view accounts and an audit is set on the basis of income. However, due to the Statement of Recommended Practice for charity accounts, income can fluctuate significantly depending on the timing of receipt and use. We recommend that the threshold is based on income and expenditure.

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The Scottish Executive

1 July 2005

### ***UK charities***

We recommend that any UK wide charity operating with significant activities in Scotland should be registered with OSCR. However, due to the difficulties in identifying and independently verifying the activities relating only to Scotland, we recommend that the UK wide results would be reported. We recommend that this requirement applies not just to English and Welsh charities but also to charities in Northern Ireland.

### ***Exemptions***

We agree with the exemptions proposed for charities subject to other statements of recommended practice.

### ***Designated religious charities***

We agree with the proposals that these charities are now required to maintain accounting records and maintain annual accounts consistently with other charities.

### ***Charitable companies***

As stated above, we agree that the thresholds for unincorporated charities should be the same as those for charitable companies. However, as stated above, we are not persuaded that the level of £250,000 is appropriate.

### ***Accounting periods***

We note that the recommendation to reduce the filing deadline from 10 months to 7 months is consistent with forthcoming changes in company law. However, charities are different in nature from most equivalent private trading companies. The Board of Directors were normally be non executive and may only meet quarterly. The current deadline allows for only 2 meetings after the year end before accounts must be approved and lodged. We recommend a flexible approach to this deadline in an initial transition period of perhaps 2 years to allow charities to reschedule Board timetables appropriately.

### ***Accounts in Gaelic***

We recommend that all accounts and reports should be in English.

### ***Charity SORP***

We note that the SORP currently goes beyond simply interpreting accounting and financial reporting standards for charities and now includes matters of good practice as decided by the Charity Commission for England and Wales. We consider that compliance with the SORP insofar as it interprets accounting and financial reporting standards should be mandatory for all Scottish charities preparing accounts that are required to give a true and fair view. However, we would favour separate guidelines on the annual report produced specifically for Scotland thereby exempting Scottish charities from complying with the trustees annual report section of the SORP.

We note your proposal to set out separate requirements for Scottish charities but referring to methods and principles on the SORP. However, we believe that there is a risk that in referring to the methods and principles in the SORP, the regulations may confuse rather than clarify accounting treatments.

### ***Duty to keep the accounting records***

We note the proposal that if a charity ceases to operate the trustees must make arrangements for the safe storage of the records for 6 years after cessation and inform OSCR where they are. We don't believe this to be a practical recommendation. For anything but the smallest charity, storage costs

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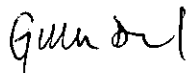
would be likely to be incurred which would then mean the charity wasn't dormant and couldn't cease. We recommend that the Companies House procedure for striking off a company be followed. The Registrar publishes the intention to strike off, HM Revenue and Customs confirm that their liabilities have been satisfied and then if no objections are received the company is struck off after 3 months. Once the charity has ceased to exist, we recommend that the accounting records need no longer be maintained.

***Requirements for accounts prepared on the receipts and payments basis***

We note that the proposals to include estimated material debtors/creditors and an estimate of the value of assets. We believe there is a risk of subjectivity in these items that it may not be appropriate for an independent examiner to comment on. We recommend that these items are not required to be included. This will then reduce potential confusion for smaller charities and increase the objectivity of the receipts and payments basis accounts. We agree with the requirement to identify separately restricted funds.

Once again, thank you for the opportunity to comment on these draft regulations. If you have any questions, please do not hesitate to contact Gillian Donald at this office.

**Yours faithfully**  
**Scott-Moncrieff**



**Partner**

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