

1 July 2005

AJSB/JM

Charity Bill Accounts Regulation Consultation
Voluntary Issues Unit
Scottish Executive Development Department
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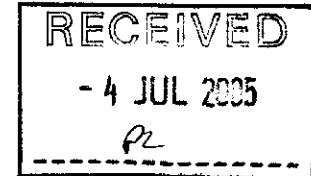
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Dear Sirs

Consultation on the Charity Accounting Regulations.

We refer to the consultation paper Charity Accounting Regulations published on 11 April 2005 and enclose our response together with the Respondent Information Form. We are a firm of Chartered Accountants and Registered Auditors with substantial experience in providing audit and advisory services to the Charities sector. While there are many parts of the paper that we are in agreement with, we do have a number of concerns over some sections of the paper.

In respect of the summarised proposals and specific questions raised in Section 3 of the document:

Thresholds

We note the proposal to increase the threshold from £25,000 to £250,000 setting the same thresholds for both the form of accounts and the audit requirements on the basis that this keeps the regime 'simple and consistent'. We can see no logic in the audit threshold being an appropriate threshold to move from a Receipts and Payments basis to an Accruals basis. Indeed, this could be problematic where charities' income fluctuates around the £250,000 level. If the charity's income increases over £250,000 and the charity requires an audit, there will be an immediate requirement to re-state the previous year's figures on an accruals basis and a likelihood that there will be an automatic qualification within the audit report as a result. Such an occurrence is far less likely if there is a significant gap between the thresholds for the form of accounts and the audit requirement.

We would also disagree that charities with up to £250,000 will 'rarely have transactions of a complexity that would make receipts and payments accounts misleading'. A simple timing difference of grant income/expenditure over the charity's year-end could easily lead to large surpluses or deficits being created that will not reflect the true situation of a charity's financial position.

By creating a distinction between unincorporated charities and incorporated charities in the use of a receipts and payments method, a two-tier accounting system is being produced.

We/...



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We note that Table 1 shows the income distribution of Scottish Charities. We would highlight the fact that under the proposals, over 90% of charities would be exempt from audit and from the Charities SORP. Put another way, 90% of charities' accounts will not show a true and fair view.

We therefore consider that the proposed increase in the threshold is too high and should be restricted to £90,000, being the level that companies are required to use a Reporting Accountant. We do not consider that there is a need for a third category of charity for which independent examination is optional.

UK Charities

We consider the approach taken to UK wide charities to be the right one.

Exemptions

We consider that the approach taken to exemptions is the right approach.

Designated Religious Charities

We agree with the proposal.

Charitable Companies

The reference made here to the Charities Accounts (Scotland) Regulations 1992 appears to be irrelevant and misleading as these Regulations apply to unincorporated charities only.

The proposal that charitable companies will have to have their accounts independently examined if their annual income is below £250,000 would seem to create confusion between the requirement for audit (over £250,000), the requirement for a Reporting Accountant's report (over £90,000) and the requirement for Independent Examination (under £90,000). Individuals who can act as Reporting Accountants are defined within legislation as members of certain accounting bodies. This requirement does not extend to Independent Examiners. This again creates an anomaly between unincorporated and incorporated charities.

We would also argue that the qualification for an 'independent examiner' needs to be stated as, if such a role is extended beyond receipts and payments accounts and on to limited companies, such an individual would require to have knowledge of Companies Act and FRS/SSAP disclosure requirements to be able to produce accounts that meet the relevant requirements.

Subject to the above comments, we agree that the audit threshold for charitable companies remains at £250,000.

Accounting periods

We note the comments in reacting to a charity that fails to meet accounting deadlines. We agree on the proposals on the accounting periods and the timeframe for submitting accounts but find the actions available to OSCR if a charity fails to meet the deadlines to be too vague. We consider that a set penalty regime should operate where charities are late in submitting their accounts.

Accounts in Gaelic

We consider the approach to be correct. We feel that all accounts and reports that are a matter of record should be in English and do not think OSCR should accept the annual report and accounts in Gaelic.

The/...



The Charities SORP

We do not think the regulations take the right approach to adopting the SORP. We have been unable to identify any significant areas where the Charities SORP is contrary to Scottish regulatory needs and consider that those accounts which are on the accruals basis should follow the recommendations of the SORP. Detailed requirements for Receipts and Payments accounts should be specified within the regulations.

The Draft Regulatory Impact Assessment

We have reviewed the RIA but feel it does not give an accurate summary of the position because it is based on incomplete and inadequate information. The RIA does not have information on 73% of the sector and we consider that this is inadequate information on which to base conclusions. In particular, the assessment fails to take into account these audits that are required by funding providers. As an example, one local authority requires an audit to be carried out where SIP funding of over £25,000 is provided. The proposals will have no effect on these charities and to base the statistics on income levels is therefore irrelevant.

Other issues

Section 4

We find the layout of this section confusing with statements made that appear to refer to all charities but seem contrary to the requirements for charities producing accounts on a Receipts and Payments basis.

Duty to keep accounting records

“Charity trustees must ensure that accounting records are kept which are sufficient to show and explain the charity’s transactions, including ... records of the assets and liabilities of the charity.” (page 19)

For charities which are producing accounts on a Receipts and Payments basis, this is an extra level of accounting, more appropriate to an accruals basis.

Smaller charities

“The trustees may elect to produce on one or both (if applicable) of the following simpler formats...” (page 21)

Two formats are listed on page 21. We cannot believe that the intention of the proposal is that a charity can produce two different formats and assume that the wording should have been ‘one or other’ rather than ‘one or both’.

Reporting to OSCR

“The accounts must comprise the whole assets, liabilities and transactions of the charitable body”. (page 22)

For charities which are producing accounts on a Receipts and Payments basis, the accounts will not comprise this information.

Trustees’ Annual Report Contents

“The Trustees Annual Report must include ...

- xiii. the names of the auditor/independent examiner” (page 23)**

The/...



The paper seems to gloss over the role of the Reporting Accountant (in this and other places) for charitable companies which we assume still exists for incorporated charities with income between £90,000 and £250,000.

Requirements for accounts prepared on a Receipts and Payments basis

“If there are material debtors or creditors, these must be estimated and disclosed in notes. If the charity owns assets, these must be described in the notes with an estimate of their value.” (page 31)

Having simplified the accounting requirements for smaller charities to enable them to produce accounts on a Receipts and Payments basis, it appears that there is a recognition (contrary to views expressed earlier in the paper) that such accounts can be misleading. By including the above requirements, it appears that the Regulations are wanting things both ways, albeit that it is prepared to accept items on an estimated basis.

We do not agree with this requirement and specifically, we cannot accept that items should be included within notes to the accounts on an estimated basis.

Requirements for audit

We note that the Regulations state that the requirements for audit are where total incoming resources exceed £250,000, or where the charity’s founding document or other statutory provision requires an audit.(page 32). This paragraph ignores the aspect of audits required by 3rd party funding bodies, a situation that is common in practice.

“The regulations will require charitable companies to have their accounts independently examined if their annual income is below £250,000.” (page 32)

This appears to dispense with the role of the Reporting Accountant. As stated above, this proposal would seem to create confusion between the requirement for a Reporting Accountant’s report (over £90,000) and the requirement for Independent Examination (under £90,000). Individuals who can act as Reporting Accountants are defined within legislation as members of certain accounting bodies. This requirement does not extend to Independent Examiners. This again creates an anomaly between unincorporated and incorporated charities.

We would also argue that the qualification for an ‘independent examiner’ needs to be defined as, if such a role is extended beyond receipts and payments accounts and on to limited companies, such an individual would require to have knowledge of Companies Act and FRS/SSAP/SORP disclosure requirements to be able to produce accounts that meet the relevant requirements.

Conclusion

We consider that these items need to be addressed in the finalisation of the Report and look forward to the production of final Regulations that takes on board the views expressed.

Yours faithfully