

Charity Accounting Regulations Consultation Paper

Introduction

This response represents the views of the Scottish Charity Finance Directors Group (SCFDG) and has been seen and approved by those members who were part of a working group which met in Glasgow on 6th June 2005 to discuss the Consultation Paper. The members of the SCFDG welcome the opportunity to provide this response.

A brief description of the SCFDG and members of the working group is shown at Annex A.

Thresholds

Members of the group were content that charities with an annual income of over £250,000 should produce a statement of account including a statement of financial activities, a balance sheet, notes to the accounts and an annual report.

For those charities with an annual income of under £250,000, and whose respective constitutions did not require their accounts to be audited, the sub-committee agreed that accounts should be approved by an independent examiner. However, we were concerned about the competency of an independent examiner and suggested that the Office of Scottish Charity Regulator (OSCR) should produce a small booklet or guidelines document stating the responsibilities of an independent examiner. Trustees of small charities under the annual income threshold of £250,000 would, therefore, be clear on the duties and responsibilities of their approved independent examiner.

The working group felt that an additional category should be introduced to include charities that have a lower income, say less than £250,000, but hold substantial assets. Similarly, we believe that a lower level of exemption should be introduced for charities whose annual gross income is below £10,000. Charities in this third category should be required to complete a more simplified annual return to OSCR.

SCIO's should have the same reporting requirements as charities.

Finally, threshold levels should be determined on a rolling average basis over a period of three years. This would allow for consistency in reporting and would also mean that a charity would not move between thresholds unnecessarily.

UK Charities

We support the Consultation Paper's approach on audit thresholds taken on charities operating UK-wide. We also agreed that the correct exemptions had been selected and that OSCR held the necessary discretionary power to grant specific variations from the regulations where there were conflicting requirements placed by a statutory authority.

Designated Religious Charities

It was the groups' view that designated religious charities (DRC) should follow the same accounting regulations as other charities in Scotland.

Charitable Companies

We agree that the audit threshold for charitable companies should remain at £250,000 thereby providing a consistent accounting regime for all charities in Scotland.

Accounting Periods

The group generally welcomed the proposal to shorten the period for submitting Annual Reports and Accounts to OSCR from ten months to seven months, but noted that many charities have a financial year-end of 31st March. Allowing for sufficient time to prepare and audit reports and accounts, these charities might not be able to produce final Annual Reports and Accounts until well into the summer months. Moreover, meetings for approval and signature of the Annual Report and Accounts may be difficult for many charities to arrange as this is the period when volunteer Trustees are likely to be on vacation. Further, this shortened period might place additional pressures on the availability of auditing staff.

In order to alleviate some of these pressures, SCDFG suggested a seven-month deadline for charities over the £250,000 threshold and a longer deadline for those under the threshold.

The actions available to OSCR should a charity fail to submit its Annual Report and Accounts by the deadlines set were acceptable with the following understanding:

- a. If a charity foresaw that it would not meet this deadline due to circumstances beyond its control, OSCR should be able to grant an extension to the charity without penalty, providing prior notice and an explanation has been given.
- b. With so many changes in charity-associated legislation taking place at this time, OSCR should take into account that charities may need time to adapt and fully adopt the new regulations. OSCR should allow a two-year transition period from the introduction of the Bill.

Accounts in Gaelic

All Annual Reports and Accounts should be submitted to OSCR in English, however, should a charity also wish to provide Annual Reports and Accounts in Gaelic then they should be allowed to do so.

The Charities SORP

We welcome the approach that the regulations adopt the SORP.

The Draft Regulatory Impact Assessment (RIA)

The expectation is that at least one person in any charitable organisation would be acquainted with all the new regulations, which have come, or are about to come, into effect. However, OSCR should provide good quality training for small charities. Most larger charities already participate in training programmes run by various organisations; however, Trustees of smaller charities do not always attend these training sessions. OSCR should know from its register of charities who the smaller charities are.

Proposals

Duty to Keep Accounting Records

The group felt that the Statement "The charity must take all reasonable steps to protect its accounting records" required further guidance and explanation. For example, what are the guidelines when a charity ceases to operate?

Accounting Periods

We are in agreement with the proposal under this heading.

Trustees Annual Report and Accounts

As OSCR will have a charity's Annual Report and Accounts, it should not be necessary for charities to issue reports free of charge to other parties when requested. Organisations or individuals wishing to obtain a copy of a charity's Annual Report and Accounts should be able to obtain this from OSCR or be able to download from the web.

The disclosure requirements for charities with an annual income over £250,000 are accepted.

Smaller Charities

SCFDG recognise the need to reduce the amount of work undertaken by smaller charity organisations. However, Trustees of smaller charities should be aware that by excluding the optional points of disclosure, they may affect their ability to obtain funds from fund-giving charities.

Reporting to OSCR

The summary of the reporting procedures and consequences of failure to comply, have already been considered above.

Dormant Charities

We agree that Trustees of dormant charities should forward a statement of assets to OSCR each year.

Trustees Annual Report Contents

Statement of Financial Activities (SOFA)

After considering the SOFA requirements, we believe that further clarification is required on the following points:

- a. Sub-paragraph (xii). Where it states “If grants and donations made total 5% of total resources expended an analysis is required”, does this refer to total grant and donation expenditure or resources expended for the whole charity covering all activities?
- b. Sub-paragraph (xiii). Under governance costs, do strategic planning costs cover both internal and external expenditure?

Further disclosure notes:

- a. Sub-paragraph (i). The sub-committee expressed concern over what exactly was meant by types of activity. Small charity organisations would have a wide variety of activities and this could result in a large activity list if detailed. What interpretation is envisaged under this sub paragraph?
- b. Sub-paragraph (ix). The sub-committee felt that further clarification was required as to the definition of *ex gratia*. This term was usually referred to in terms of redundancy payments.

Balance Sheet and Other Notes to the Accounts.

The working group was content with the disclosures required in a charity's Balance Sheet.

Requirements for Accounts Prepared on a Receipts and Payment Basis.

The group was content with the disclosures required for accounts prepared on a receipts and payments basis.

Requirements for Audit

We welcome the requirement for all charities to have their Annual Report and Accounts either audited or independently examined. As previously stated, guidance should be issued to independent examiners and there should be an additional threshold of £10,000 for exemptions.

SCFDG
30th June 2005

**Charity Accounting Regulations
Consultation Paper
Annex A**

Scottish Charity Finance Directors Group

The Scottish Charity Finance Directors Group (SCFDG). SCFDG was launched in 1994 to provide a forum for those working in and concerned with all financial management aspects of charities and other voluntary organisations in Scotland. There are now over 140 members throughout Scotland with a variety of interests.

Members of the Working Group		
Name	Charity	Position
Patricia Aniello	Scottish Association for Mental Health	Director of Finance
Sandra Macdonald	The MacRobert Trust	Accountant
John S Steven	Church of Scotland	Assistant Treasurer
R. Graeme Thom	Scott-Moncrieff	Consultant, Former Auditor of Charities of all sizes, Treasure of 15 Charities both service organisations and grant making.