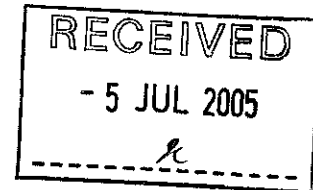


Fiona Warne
Charity Bill Accounts Regulations Consultation
Voluntary Issues Unit
Scottish Executive Development Department
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4 July 2005



Dear Fiona,

Consultation on the Charity Accounting Regulations.

I am grateful for the opportunity to respond to the consultation paper on proposed changes to the Charity Accounting Regulations.

My direct experience with charity accounting is based on:

1. currently keeping the books for two small charities, each with annual income less than £10,000;
2. five years, as a diocesan treasurer, responsible for ensuring the accounts of 30 plus congregations corresponded with the charity accounting regulations.

I hold no professional accounting qualifications, but am a graduate of the Harvard Business School, was a professional investment analyst and engaged in financial management throughout my business career.

I wish to submit comments on just two of the questions raised in the consultation paper.

1. We would like your views on whether the proposed thresholds are the right ones and whether there should be a third category of charity for which independent examination is optional.

I welcome and endorse the statement on page 13 of the Consultation Paper:

"We believe that the preparation of fully accrued accounts requires a level of expertise unlikely to be readily available to a charity as small as £250,000 and that they will rarely have transactions of a complexity that would make receipts and payments accounts misleading."

I would therefore support the £250,000 threshold for audits.

My primary concern, however, is the problem faced by small charities where even preparation of a *Statement of Receipts and Payments* not only still requires a knowledge and understanding of the Charity SORP contents – in particular the income and expense classifications – but also requires an independent examiner to have that expertise. In my

experience such expertise is not always to be found even in the accounting profession, and is rare in the case of other non-charity professionals whose experience is usually with business accounting.

I submit that this view is in accord with the findings of the February 2005 OSCR Monitoring Study of accounts prepared on a receipts and payments basis - paragraph 4.4.1:

"Of the 28 charities in this category, only one charity's report and accounts met all the key requirements"

and

"These results lead us to infer that the trustees and independent examiners of this smallest charity category are not fully aware of the requirements of the regulations."

Thus, I strongly advocate that there should be a third category for charities with annual income less than say £10,000-£12,500.

For this third category, I submit one or more of the following options should be considered:

1. the preparation of a Statement of Receipts and Payments on normal business accounting principles without reference to the Charity SORP requirements;
2. a option to submit a simple standardised Statement of Receipts and Payments such as the Charity Commissioners CC64(a) return;
3. delay for three years, or until sufficiently widespread awareness of the regulations has developed, reference to the requirements of the Charity SORP.

I consider making independent examination optional for *third category* charities to be possibly the easiest administrative option, but the least desirable: there will always be a strong case for the accounting records of even the smallest charity to be subject to scrutiny. **The aim should be to make that scrutiny feasible, realistic and proportionate.** Currently the lack of a third category means, in reality, many smaller charities have to resort to fee-charging advice or risk inexpert non-compliance.

2. Does the RIA provide an accurate picture of the impact of the new regulations? Do you have any comments on the RIA?

I find it unrealistic to expect anyone concerned with even the smallest charity to gain any proper awareness or understanding of changes in charity accounting requirements on the basis of one half day private study. Even so the table on page 39 of the Consultation document shows that charities with less than £25,000 income represent a significant proportion of the cost impact – probably, even more so if the 20,000 Scottish charities "unknown" to SCVO were to be included. I submit, therefore, in terms of total impact there is the strongest case for careful consideration to be given to developing realistic and proportionate accounting requirements for the smaller charities.

Yrs Sincerely

A Gordon Macpherson

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