



# **Response to the Consultation on the Charity Accounting Regulations**

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## INTRODUCTION

For over 120 years CHILDREN 1<sup>ST</sup>, The Royal Scottish Society for Prevention of Cruelty to Children, has been working to give every child in Scotland a safe and secure childhood. We support families under stress, protect children from harm and neglect, help them recover from abuse and promote children's rights and interests. We provide 32 services in 17 local authorities as well as three national services including ParentLine Scotland, the free national telephone helpline for parents and carers.

Throughout Scotland, our staff and volunteers use their skills to help children overcome the difficulties in their lives and rebuild trust and confidence. For more information about how we work to keep children safe in Scotland, visit [www.children1st.org.uk](http://www.children1st.org.uk).

In the financial year 2003-2004, Children 1st's audited accounts show income of £5.594 million; expenditure of £5.573 million and Reserves including Restricted and Designated Funds of £4.835 million.

This is the context within which the Response to the Consultation has been framed.

## PRE-AMBLE

The consultation paper sets out proposals for updating and modernising existing accounting regulations to reflect current UK accounting practice and to ensure the requirements are proportional to the sizes of charities. The proposals are intended to help to maintain public confidence in the sector without placing undue burdens on charities.

## 1. THRESHOLDS

### **Are proposed thresholds the right ones and should there be a third category of charity for which independent examination is optional?**

a) The proposal to raise the income threshold below which a charity may produce receipts and payments accounts to £250,000 should be helpful both to those responsible for accounts preparation, as well as to the members and public who read those accounts. To prepare the annual Statement Of Financial Activities (SOFA) one must understand and use the charity accounting SORP and its terminology. Such expertise is unlikely routinely to exist in a small organisation, however the proposed regulations still require smaller charities to analyse grants and donations in the same way as the SOFA. If enough expertise exists in order to so report then perhaps the accruals basis is not such a challenge for smaller charities. A consequence is that accounts could be prepared in a required format

which is not understood by those responsible for or interested in the affairs of the small charity.

Two points for consideration:- 1. Statutory funders routinely require to see copies of audited annual accounts, or require audited accounts for individual pieces of work, most particularly perhaps from the smaller less financially secure organisation. If there is no longer a statutory requirement for audited accounts from the smaller charities group will statutory agencies accept an Independent Examiner's statement instead of a professional auditor's statement? 2. Will auditors be prepared to provide an audit certificate for an individual piece of work or project if they have not audited the organisation as a whole?

b)Setting the audit threshold for small charities at £250,000 keeps the regime simple and consistent. It produces two clearly defined groups of charities which should make it easier to publicly address and act on their separate needs and problems, be they accounting or broader issues.

c)An asset threshold would be problematic for smaller charities because of the need to revalue assets regularly giving rise to the risk that organisations could drift in and out of the scope of annual audit requirement depending on market conditions at year end date.

d)If all charities with income below £250,000 must have independent scrutiny there will have to exist an adequate supply of independent persons or accounting firms capable and in a position to provide that scrutiny for the thousands of charities in this category.

For those with professional accounting qualifications certifying accounts and stating one's qualifications to do so can be problematic since institutes can insist on their members having practising certificates and carrying professional indemnity insurance before they express any financial opinion, no matter how small or inconsequential.

## 2. UK CHARITIES-

### **Is the approach taken to UK wide charities in the proposals the right one?**

The options available to UK wide charities appear reasonable though the reasons for the disparity in audit thresholds is not made clear in the consultation paper.

## 3. EXEMPTIONS

### **Is this the right approach and are the right charities given exemptions?**

It is reasonable that charities subject to another SORP are exempt from having to produce more than one set of compliant accounts.

#### 4. DESIGNATED RELIGIOUS CHARITIES

##### **Should DRCs follow the same regulations as other charities in Scotland?**

Yes they should, to ensure fairness and transparency, and to provide confidence in charitable giving and activity.

#### 5. CHARITABLE COMPANIES

##### **Should the audit threshold for charitable companies remain at £250,000 providing a consistent regime for all charities in Scotland?**

Yes. Charitable companies should meet the requirements of charity law by following the procedures in the SORP, and for consistency and simplicity their audit thresholds should remain at £250,000, though the reason for the discrepancy with England is not clear in the consultation document.

#### 6. ACCOUNTING PERIODS

##### **Do you agree with the proposals on accounting periods, the timeframe for submitting accounts and the actions available to OSCR if a charity fails to do so?**

The proposal allowing charities to specify their own period end date is reasonable. The 7 months filing limit with OSCR is reasonable. The public notice and inquiry into defaulting charities is reasonable.

A point for consideration is that many charities may have a 31st March period end in line with funding statutory bodies. A 7 month filing period may not spread the workload of OSCR evenly throughout the year. There is the potential for creating backlogs or undue delays for OSCR's work.

#### 7. ACCOUNTS IN GAELIC

**All accounts and reports should be in English. It is the legal language of the country and of the SORP which must be followed by charities. Given the earlier point regarding the need for adequate numbers of independent examiners and auditors to certify smaller charity accounts any constraint on their number or ability to provide an opinion on a charity's accounts should be avoided.**

If Gaelic is allowed for accounts then there is no reason for other minority languages to be excluded, with the most likely consequence perhaps being that only a small number of independent examiners and auditors are able to certify their accounts, thus market forces cannot prevail should fees arise.

## 8.THE CHARITIES SORP

### **Do the regulations take the right approach to adopting the SORP?**

Yes it is good to have the format and disclosure requirements for Scottish charities clearly set out, though clearer for the thousands of charities in Scotland might be a “SORP in Scotland” type of booklet similar to that produced by the Charity Commission in England. It is never satisfactory to work with a guide which gives statutory requirements of another country as a sub-note or sentence at the end of a paragraph or appendix. It is unfortunate the SORP has very recently been revised and issued with potentially out of date data for Scotland.

## 9.THE DRAFT REGULATORY IMPACT ASSESSMENT (RIA)

### **Does the RIA provide an accurate picture of the impact of the new regulations?**

a) Business Sectors Affected – How much simpler accounts will be for smaller charities to produce is best known by those in that group, though the need to follow aspects of the SOFA and the SORP mean that the accounts will not become simple in themselves.

b) Issues of Equity and Fairness – The proposals should provide a proportionate and consistent regulatory regime for charities operating in Scotland.

c) Compliance Costs – How many smaller charities will find themselves able to produce simplified accounts will depend on how many must meet the requirements of statutory and other funders for formal audit (as opposed to independent) certification of annual accounts or individual project accounts.

Given that an independent examiner will need to know charity accounting practice and the charity SORP sufficient to be able to give an informed opinion on charity accounts, it is difficult to imagine groups other than accountants being able routinely to fulfil this function where statutory funders are involved.

Given the restrictions and constraints on qualified accountants expressing a public opinion it is less likely that their opinion will be free of cost.

d) Training Costs – There are two groups – one which produces their annual accounts and notes in full themselves then submits them for audit , and the other which uses their auditors to produce the public audited accounts from accounts information supplied. The larger the charity's income does not mean they are more likely to produce annual accounts themselves. The annual accounts process is time consuming, which can interfere with day to day operational matters, and ultimately the auditors have to audit all the notes to the accounts as well as the accounts themselves in order to be able to sign off the audit.

The SORP regulations would apply to all charities once turnover exceeds £250,000 and so turnover is to some extent irrelevant in deciding how many people in an organisation need to be trained in the accounting regulatory changes. A charity with a few large contracts may have greater turnover than one with many small contracts, but their accounts departments may actually be the same size.

e) Competition Assessment – The accounts regulations should have no impact on competition in the charitable marketplace so long as statutory funders accept contracts with those smaller charities not obliged to be audited. The regulations deal with presentation of the annual accounts rather than the operational activities of charities.

f) Enforcement and Sanctions

Regulating and enquiring into charity accounts is core OSCR business.

g) Monitoring and Review

It is not clear from the consultation paper to what extent OSCR can inform the SORP. As regulator OSCR should have the knowledge and ability to influence the SORP where change is found to be necessary from its activities with all Scottish charities.

Yes it is good to have the format and disclosure requirements for Scottish charities clearly set out, though clearer for the thousands of charities in Scotland might be a “SORP in Scotland” type of booklet similar to that produced by the Charity Commission in England. It is never satisfactory to work with a guide which gives statutory requirements of another country as a sub-note or sentence at the end of a paragraph or appendix. It is unfortunate the SORP has very recently been revised and issued with potentially out of date data for Scotland.