

## CONSULTATION ON CHARITY ACCOUNTING REGULATIONS RESPONSE BY SOUTH LANARKSHIRE COUNCIL

### Objective:

The Scottish Executive is committed to reform the regulatory regime for charities in order to support the charities sector and safeguard public interest. The Charities and Trustee (Scotland) Bill is being considered by the Scottish Parliament. The regulations will, therefore, only apply to charities operating in Scotland.

The regulations follow the new Charities SORP to ensure that recommended best practice and the law are compatible. SLC agree that this compatibility should be pursued. The principles in the SORP of improved transparency and accountability are consistent with those driving the Bill – again SLC are fully behind these principles. The regulations seek to deliver a system that is fit for purpose and protects the public interest without being over burdensome or more costly than necessary.

### - Points of note:

1. The examination of the accounts by somebody who is ‘independent and competent’ is identified in the paper as the key issue – the definition is not restricted to qualified accountants and it is not intended to change. SLC do not think that it is necessary for all charities to use qualified accountants to review their accounts – this would direct charity funds away from the business of the charity. The charity and the person appointed should be able to state why the appointment has been made and on what grounds.
2. Reasons for change: as stated in the consultation paper
  - 67% of the charities have income <£25,000
  - charities with income >£25,000 but are still considered relatively small, are required to produce fully accrued accounts – this can be extremely onerous. A large proportion of these are not subject to audit as this is only compulsory where income exceeds £100,000.
  - *These requirements are considered to be unduly burdensome for the sector and do not provide transparency or reassurance for the general public.*
  - The current regulations have not kept up with changes in accounting requirements: the regulations continue to require an income and expenditure account whereas, the Charities SORP has replaced this with the requirement to produce a Statement of Financial Activities. This causes unnecessary duplication of effort
  - The introduction of the Bill provides an opportunity to ensure that the accounting regulations for charities are relevant and meet with current practices and standards.

SLC considers all of these to be reasonable

3. The consultation paper has some stats re: the income distribution of Scottish charities. The info comes from SCVO’s report ‘Analysis of the Scottish Charity Sector’ Feb 2004 and represents approximately 27% of the sector in Scotland. Of these approx. 91% will fall BELOW the £250,000 threshold. (Is it fair to assume that the remaining 73% are small income charities?)

**Q – is the proposed threshold right?** Yes, in light of the desire to ensure that audit requirements are not a burden and are in line with the size and operations of the organisation, the threshold is right.

4. There is no proposal to exempt very small charities from independent examination – this scrutiny is an important part of providing transparency and accountability and SLC agrees with this. However, there have been suggestions that charities with income of <£10,000 should be exempt from the requirements for independent scrutiny of their accounts.

**Q – what are your views on this?**

According to the SCVO statistics almost 60% of all charities (for which they have information) have income < £10,000. If you assume that the rest of the charities for which they do not have information are also below this threshold, I think that in the interests of transparency and accountability and to help maintain public confidence, the requirement to have the accounts scrutinised should remain. However, perhaps the issue should be at what level of scrutiny such accounts should be examined. This should be defined.

5. UK Charities:

The differing audit thresholds between England and Wales and Scotland will mean that some smaller UK-wide charities will be subject to audit because of the Scottish regulations.

It is proposed that English charities that register their Scottish operations will choose between registering a separate charity operating in Scotland, for which Scotland-only accounts will be required or registering the English-based charity with OSCR for its Scottish operations where accounts would be required on a UK basis.

**Q – do you think the approach taken to UK wide charities in the proposal is the right one?**

- Yes, SLC agrees that this approach is reasonable

6. Exemptions:

It is proposed that where charities are subject to other SORPs, they are exempt from the charities regulations, in so far as they conflict with the other SORP. The exempted charities are: Registered Social Landlords, and Higher and Further education institutions.

**Q – we seek your views on whether or not this is the right approach and whether the right charities are given exemptions.**

- It would seem reasonable that where charities are already regulated by other SORPs, then these requirements should remain primary.

7. Designated Religious Charities:

Currently, designated religious bodies (DRBs) are exempt from the 1990 Act's provisions re: keeping accounting records and preparation of Annual accounts. The new Bill is designed to provide an equivalent but updated regime for those charities seeking the new designated religious charity (DRC) status: DRCs will NOT be exempt from requirements to maintain accounting records and prepare annual accounts and will no longer be exempt from the accounting regulations. Following discussions, it is not anticipated that this change will cause problems for the current DRBs. What is more important is that there is transparency and confidence in the charity 'brand' that all charities produce clear, publicly accessible accounts.

**Q – Do you agree with the proposal that DRCs follow the same accounting regulations as other charities in Scotland?**

- Yes

8. Charitable companies:

The proposals are that charitable companies meet the requirements of charity law and company law by following the procedures laid out in the charities SORP. According to the charities SORP if a charitable company's income is less than £90,000 no form of audit is required – under the new proposal, such a charity would have to have its accounts independently examined. This will ensure that all charities in Scotland are subject to the same thresholds.

(In England and Wales the proposed audit threshold is set to rise from £250,000 to £500,000)

**Q – Do you agree that the audit threshold for charitable companies remains at £250,000, providing a consistent accounting regime for all charities in Scotland?**

- Yes. SLC is assuming that this will not increase the burden for charitable companies.

9. Accounting Periods:

It is proposed that charities are allowed to specify their own period end date subject to permission from OSCR for successive or frequent changes to that date. The period for submitting the Annual Report and Accounts has been reduced from within 10 months to within 7 months of the period end date. Defaults will be made public, an inquiry will be launched and a person will be appointed to complete the accounts at the charity's expense.

**Q – Do you agree with the proposals re: the accounting periods, the timeframe for submitting accounts and the actions in the event of failure to do so?**

- Yes, SLC agrees with this proposal

10. Accounts in Gaelic:

The proposal states that ALL accounts must be in English, but that Gaelic versions may also be produced to members who prefer this

**Q – is this the right approach?**

- Yes. Accounts should be available for all to read, therefore, English should be the first version.

11. The Charities SORP:

To ensure that the regulations are fully consistent, it is intended that the regulations for the preparation of accounts should rely on the SORP but with a list of the specific requirements. This will ensure that the regulations are specifically tailored to meet the Scottish regulatory needs, meet the current accepted practice and reduce the possibility of conflicting accounting requirements.

**Q – do you agree that the regulations take the right approach to adopting the SORP?**

- Yes

12. The draft Regulatory Impact Assessment (RIA):

The RIA assesses the impact of the new reporting regime – it takes account of existing requirements to obviate any conflicts. It anticipates that those charities meeting with the existing requirements will face little or no additional burden.

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

- Yes. On the face of it there appears to be no additional burden, however, the results of this consultation process should be taken into account to fully assess this.