

# MIDLOTHIAN VOLUNTARY ACTION

## CONSULTATION ON THE CHARITY ACCOUNTING REGULATIONS - RESPONSE

### THRESHOLDS

#### Scottish Executive Proposal

“Chapter 4 sets out our detailed proposals for the accounting regulations. They set the income threshold below which a charity may produce receipts and payments accounts at £250,000. This is also the threshold set for auditing purposes. Setting the same thresholds for both the form of accounts and the audit requirements keeps the regime simple and consistent. Increasing this threshold from £25,000 to £250,000 is a major deregulating move. 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. The proposals only include an asset threshold for dormant charities. We believe that adding an asset threshold for active charities may be confusing and problematic and would force charities not otherwise over the threshold to undertake a valuation of assets to establish that it is below the asset threshold. We feel that this goes against the principles of a simple and proportionate regime.

Charities with an income of over £250,000 will have to produce a statement of accounts which includes:

- i. A statement of financial activities
- ii. A balance sheet
- iii. Notes to the accounts
- iv. An annual report

Those charities with an income or expenditure over £250,000 must be audited.

Charities with an income of less than £250,000 which are not companies, limited liability industrial and provident societies or SCIOs may opt instead to produce a statement of accounts on a receipts and payments basis which includes:

- i. A receipts and payments account
- ii. A statement of balances
- iii. Notes to the accounts
- iv. An annual report

Charities with an income or expenditure under £250,000 whose accounts are not required by their constitution to be audited must have their accounts approved by an independent examiner. An independent examiner is any independent person who is believed by the trustees to have the requisite ability and practical experience to carry out a competent examination of the accounts.

We believe that the threshold of £250,000 for both fully accrued accounts and audit is appropriate to the sector in Scotland. However there is little evidence available for the income of the sector and we would welcome any information you can provide on this as well as your views on the appropriateness of the thresholds proposed.

There is no proposal to exempt very small charities from independent examination. Providing that all charity accounts are independently scrutinised is an important part of providing transparency and accountability and there is a concern that adding in another threshold below which independent examination is optional creates confusion. However there have been suggestions that charities with an income less than £10,000 should be exempted from the requirements for independent scrutiny of their accounts and we are seeking your views on both these options.

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.

Table 1 Income distribution of Scottish Charities<sup>6</sup>

Income Range	Number of Charities	Percentage of Known
Less than £12,500	4580	59.0%
£12,501 - £25,000	609	7.8%
£25,001 - £50,000	862	11.1%
£50,001 - £100,000	572	7.4%
£100,001 - £200,000	415	5.3%
£200,001 - £300,000	141	1.8%
£300,001 - £400,000	99	1.3%
£400,001 - £500,000	56	0.7%
£500,001 - £600,000	32	0.4%
£600,001 - £700,000	30	0.4%
£700,001 - £800,000	19	0.2%
£800,001 - £900,000	22	0.3%
£900,001 - £1,000,000	18	0.2%
£1,000,001 - £2,000,000	99	1.3%
£2,000,001 - £5,000,000	99	1.3%
£5,000,001 - £10,000,000	54	0.7%
Over £10,000,000	55	0.7%

Figures are for those charities which SCVO has income information and represent approximately 27% of the sector in Scotland.”

### Scottish Executive Question

“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.”

### Response

We welcome the increase in the threshold from £25,000 to £250,000. We do not think it is desirable to have a third category of charity for which independent examination is optional as we feel that may give rise to concerns of financial incompetence/malpractice in members of the public.

We feel it is essential that the support mechanisms are in place to fully support the smallest organisations.

## UK CHARITIES

### Scottish Executive Proposal

“The differing audit thresholds between England and Wales and Scotland mean that some smaller UK wide charities would be subject to audit because of the Scottish regulations that would not if they operated solely in England and Wales.

In response to the consultation on the draft Bill some UK wide charities raised concerns that they would be required to produce separate accounts for their Scottish activity, others preferred to separate their Scottish activity for accounting purposes.

We propose that for English charities that register their Scottish operations, charities will choose between registering a separate charity operating in Scotland, for which Scotland-only accounts would be required, or registering the English based charity with OSCR for its Scottish operations, for which OSCR would require the accounts of the UK charity. Any adjustment of the charity's accounts to meet these regulations should be minimal as these regulations reflect UK recommended practice.”

### Scottish Executive Question

“Do you think the approach taken to UK wide charities in the proposals is the right one?”

### Response

Yes

## EXEMPTIONS

### Scottish Executive Proposal

“To avoid imposing unnecessary burdens on charities, we have proposed that charities that are subject to other Statements of Recommended Practice are exempted from the regulations in so far as they conflict with the other SORP. The exempted charities are Registered Social Landlords and Higher and Further education institutions. The significant increase in the threshold for fully accrued accounts is thought to obviate the need for further specific exemptions.

We propose that OSCR has a discretionary power to grant specific variations from the regulations where there is a conflicting requirement placed by a statutory authority.”

### Scottish Executive Question

“We seek your views on whether this is the right approach and whether the right charities are given exemptions.”

### Response

We feel that this approach is fine.

## DESIGNATED RELIGIOUS CHARITIES

### Scottish Executive Proposal

“Currently, designated religious bodies ( DRBs) are exempt from the 1990 Act's provisions requiring charities to keep accounting records (section 4 of Act) and parts of section 5 on the preparation of Annual Accounts and report.

The provisions in the new Charities Bill are designed to provide a roughly equivalent but updated regime for those religious charities that seek 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 we believe that their accounting practices mean the removal of the exemption will not cause problems for the current DRBs. The increase in the thresholds for producing fully accrued accounts and for audit purposes mean that small congregations will not be subject to overly onerous regulation and it is important for transparency and confidence in the charity "brand" that all charities produce clear, publicly accessible accounts.”

### Scottish Executive Question

“Do you agree with the proposal that DRCs follow the same accounting regulations as other charities in Scotland?”

### Response

Yes.

## CHARITABLE COMPANIES

### Scottish Executive Proposal

“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. Charitable companies do not require to have any form of audit if their annual income is less than £90,000 under company law. However we propose that under the charity accounting regulations they will have to have their accounts independently examined. This was the position in the Charities Accounts (Scotland) Regulations 1992, which will be repealed by the Charities and Trustee Investment (Scotland) Bill. [Although Company Law is reserved the setting of the audit thresholds for charitable companies is devolved.](#) The Westminster Charities Bill proposes that the audit threshold for English and Welsh charitable companies is raised from £250,000 to £500,000. This increase will not apply to Scottish charitable companies and we propose that the audit threshold for Scottish Charitable Companies remains at £250,000. This will ensure that all charities in Scotland are subject to the same thresholds.”

### Scottish Executive Question

“Do you agree with the proposals that the audit threshold for charitable companies remains at £250,000, providing a consistent accounting regime for all charities in Scotland?”

### Response

Yes.

## ACCOUNTING PERIODS

### Scottish Executive Proposal

We propose 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 to OSCR has been reduced from within 10 months to within 7 months of the period end date. If a charity fails to do this OSCR may make the default public, launch an inquiry into that charity and appoint a person to complete the accounts at the charity's expense.

### Scottish Executive Question

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

### Response

- We agree with the proposal on the accounting period.
- We feel that the period for submitting the Annual Report and Accounts to OSCR should remain at 10 months and not be reduced.
- Actions available to OSCR - we would like to see a requirement for OSCR to make efforts to contact the charity before further steps are taken. We would also like OSCR to advise the local CVS in order that assistance could be offered.

## ACCOUNTS IN GAELIC

### Scottish Executive Proposal

The proposals state that the accounts must be in English but that charities may also produce versions in Gaelic for issuing to members and enquirers who prefer this.

### Scottish Executive Question

“Is this the right approach? Should all accounts and reports be in English? Should OSCR be prepared to accept the annual report and accounts in Gaelic?”

### Response

We think the proposal is the right approach.

We do not think OSCR should be prepared to accept the annual report and accounts in Gaelic because of (a) the resources required; (b) the precedent for other community languages; and (c) if the annual report and accounts are available only in Gaelic, members of the public without the Gaelic would be unable to read them.

## THE CHARITIES SORP

### Scottish Executive Proposal

It is our intention to ensure that these regulations are fully consistent with the Charities SORP. In doing this we had three options:

1. To have no detailed regulatory requirements but simply require those accounts which are on the accruals basis to follow the recommendations of the SORP
2. To have certain clear requirements for Scottish charities set out, particularly in respect of format and disclosure, but refer to the methods and principles in the SORP
3. To have comprehensive detailed requirements, ensuring there is no conflict with the SORP but essentially re-presenting it as regulations

The proposals are intended to reflect the second of these options, in that the regulations for the preparation of fully accrued accounts should rely on the charities SORP but list specific requirements. This will ensure that the regulations are tailored to meet Scottish regulatory needs, whilst meeting current accepted practice and reducing the possibility of conflicting accounting requirements. Reference to the SORP will provide increased flexibility allowing the regulations to adapt as accounting practices change.

### Scottish Executive Question

“Do you agree that the regulations take the right approach to adopting the SORP?”

## THE DRAFT REGULATORY IMPACT ASSESSMENT (RIA)

### Scottish Executive Proposal

The RIA examines the impact of the new reporting regime on charities and OSCR. It takes into account the intention to update existing requirements to obviate conflicts, and to de-regulate by raising thresholds. We anticipate that charities that are meeting the existing requirements of the 1992 Regulations and the appropriate SORP will face little or no additional burden.

### Scottish Executive Question

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

### Response

#### Compliance Costs:

- We welcome that the new thresholds will mean a larger number of charities will be able to choose to produce accounts on a receipts and payments basis.
- We welcome that the new audit threshold will allow an increased number of charities to opt for independent examination rather than audit.
- Training Costs:
  - We feel that **availability** of relevant training is very important.
  - We would like to see funding provided to Councils for Voluntary Service to provide free training to small charities on the new requirements;
  - We would like to see free/low cost training provided around the country by SCVO for larger charities.
  - We think that the training requirements of small charities has been underestimated as we feel that many small charities will produce their own accounts rather than rely on an accountant.