



THE INSTITUTE
OF CHARTERED
ACCOUNTANTS
IN ENGLAND AND WALES

19 March 2008

Our ref: ICAEW Rep 34/08

Your ref:

Ms Mala Patel
PO Box 1227
Charity Commission Direct
Liverpool
L69 3UG

By email
simplification@charitycommission.gsi.gov.uk

Dear Ms Patel

FINANCIAL THRESHOLDS IN THE CHARITIES ACTS – PROPOSALS FOR CHANGE

The Institute of Chartered Accountants in England and Wales (the Institute) is pleased to respond to your request for comments on *Financial Thresholds in the Charities Acts – Proposals for Change*.

Please contact Felicity Banks at Felicity.Banks@icaew.com should you wish to discuss any of the points raised in the attached response.

Yours sincerely

Barbara Bampton
Secretary, ICAEW Charity Committee

T +44 (0)20 7920 8794
F +44 (0)20 7638 6009
E Barbara.Bampton@icaew.com

Chartered Accountants' Hall
PO Box 433 Moorgate Place London EC2P 2BJ
www.icaew.com

T +44 (0)20 7920 8100
F +44 (0)20 7920 0547
DX DX 877 London/City



THE INSTITUTE
OF CHARTERED
ACCOUNTANTS
IN ENGLAND AND WALES

ICAEW Representation

ICAEW REP 34/08

FINANCIAL THRESHOLDS IN THE CHARITIES ACTS – PROPOSALS FOR CHANGE

Memorandum of comment submitted in March 2008 by The Institute of Chartered Accountants in England and Wales, in response to the consultation paper *Financial Thresholds In The Charities Acts – Proposals For Change* published jointly by the Cabinet Office of the Third Sector and the Charity Commission in December 2007.

Contents	Paragraph
Introduction	1
Who we are	2-3
General Comments	4-5
Responses to Q1-33	6-34

INTRODUCTION

1. The Institute of Chartered Accountants in England and Wales (the Institute) welcomes the opportunity to comment on the consultation paper *Financial Thresholds in the Charities Acts – Proposals for Change* published jointly by the Cabinet Office of the Third Sector and the Charity Commission.

WHO WE ARE

2. The Institute operates under a Royal Charter, working in the public interest. Its regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the Financial Reporting Council. As a world leading professional accountancy body, the Institute provides leadership and practical support to over 130,000 members in more than 140 countries, working with governments, regulators and industry in order to ensure the highest standards are maintained. The Institute is a founding member of the Global Accounting Alliance with over 700,000 members worldwide.
3. Our members provide financial knowledge and guidance based on the highest technical and ethical standards. They are trained to challenge people and organisations to think and act differently, to provide clarity and rigour, and so help create and sustain prosperity. The Institute ensures these skills are constantly developed, recognised and valued.

GENERAL COMMENTS

4. Although we understand that the consultation fulfils a government commitment to review thresholds in the Charities Acts a year after Royal Assent of the Charities Act 2006, we believe the timing of the consultation is unfortunate. The Charities Acts 2006 is not yet fully implemented and to change thresholds at this time could cause confusion.
5. We note that the current consultation is only taking place in England and Wales. Although we realise that charity regulation is devolved and that different law already applies in Scotland and will shortly be introduced in Northern Ireland we believe it is highly desirable to have the same thresholds throughout the United Kingdom. The present situation leads to confusion for both cross border charities and professional advisers with clients in different parts of the UK and does nothing to enhance transparency or accountability.

RESPONSES TO SPECIFIC QUESTIONS/POINTS

Q1: Do you agree that the criteria in paragraph 1.10 are sensible guidelines for this review and that they should be applied in a sensible and pragmatic way as outline in paragraph 1.12?

6. Yes.

Q2. Do you think that the overall package of recommendations in this paper strikes the right balance between reducing the burden on charities and the effective regulation of charities?

7. Overall, yes although please see our detailed responses below.

Q3. Do you think our overall approach goes too far? If you do, would you say that the current thresholds should be retained or do you believe there is a case for reducing them? If the latter, what thresholds would you suggest?

8. Overall, we do not feel the approach goes too far, although please see our detailed responses below.

Q4. Do you think that far more radical changes are justified? If you do, what major changes would you propose? Do you think there are any general limits? For example, should routine reporting focus exclusively on large charities? If so, what thresholds would you suggest?

9. We would not support far more radical changes. We do not believe it is in the interests of the general public to focus exclusively on large charities. This could be seen as a suggestion that large charities are more likely to breach regulations than smaller ones and we have not seen evidence to support such a view.

Q5. Do the proposals have an adverse impact on any group in society? Do they have an adverse impact on a particular group of charities, or their beneficiaries?

10. No comment.

Q6. Do you agree that there should be no change to the requirement for all charities to prepare accounts and make them available to the public on request?

11. We agree there should be no change.

Q7. Registered charities with income over £10,000 must send their annual accounts to the Commission. Do you agree that this £10,000 threshold should be raised? If you do, is £25,000 the right figure?

12. Registered charities derive benefit from their registration, both at law, for example the right to claim Gift Aid, and by custom and practice, for example free advertising in many local papers. We are of the opinion that the effort for the charity is in the preparation of the accounts not the filing and that the requirement to file makes it less likely that a charity will fail to prepare the accounts. Consequently an argument could be made for all charities to file their accounts.

13. However, we recognise that to ask all charities to file their accounts, when this has not previously been a requirement, would increase the workload of the regulator without any obvious benefit to any stakeholders or the general public.

14. Therefore, we believe the threshold should stay at £10,000.

Q8. Registered charities with income over £10,000 must send their Trustees Annual Report to the Commission. Do you agree that this £10,000 threshold should be the same as the threshold for sending accounts to the Commission? If you do, is £25,000 the right figure?

15. We agree the threshold should be the same as for filing accounts. Consequently, we believe the threshold should stay at £10,000.

Q9. All registered charities must prepare a Trustees Annual Report (TAR). Do you agree that a TAR presentation threshold should be introduced to ease the

burden on small charities? If you do, is £25,000 the right figure, or should the level be the same as the registration threshold (£5,000) or another figure such as £10,000?

16. We consider that a threshold should be introduced to ease the burden on smaller charities. We believe the threshold should be set to match the threshold for filing accounts with the Charity Commission and so following on from our responses to Q7 and Q8, the threshold would be £10,000.

Q10. Charities with income over £100,000 must prepare accruals accounts. Do you agree that this £100,000 threshold should be increased? If you do, is £250,000 the right figure?

17. We are conscious that some charities hovering just around the £100,000 threshold report that it is much harder to find Treasurers to prepare accruals accounts than to prepare receipts and payments accounts. We note that in paragraph 5.4.5 of the consultation you report that you have had some feedback that it is harder to find volunteers who will examine accruals accounts. We also note from Annex 2 of the consultation the increased costs that charities suffer when they move from receipts and payments accounts to accruals accounts.
18. However, an income of £250,000 per annum translates to weekly income of nearly £5,000 a week and we have concerns that a charity of this size should prepare accounts that do not show a "true and fair" view. In particular, charities that opt for receipts and payments accounts are not required to prepare a balance sheet. Instead they are expected to submit a statement of assets and liabilities. In many cases the only asset that is reported is cash and so the reader of accounts is unable to judge the financial position of the charity at the balance sheet date.
19. On balance we would not object to raising the threshold as you suggest provided that at the same time the content of the Statement of Assets and Liabilities is made much clearer.

Q11. (i) Do you agree that the £10,000 minimum threshold for external examination of accounts should be raised? If you do, is £25,000 the right figure?
(ii) What are your views on the minimum threshold being raised to £50,000?

20. We would be happy for the threshold to be raised to £25,000, although we think this could cause confusion for charitable companies so soon after the introduction of the £10,000 threshold for independent examination
21. We share your concerns in paragraph 5.4.8 of the consultation that the risks of increasing the threshold to £50,000 could outweigh the regulatory benefits.

Q12. Charities with income over £500,000 must have their accounts audited. Do you think this £500,000 threshold should be raised? If you do, is £1 million the right figure?

22. The threshold for audit was only increased from £250,000 to the present level in the 2006 Act. We consider it is too soon to double the threshold again, although we do acknowledge your concerns about the impact of international audit standards in paragraph 5.5.5 of the consultation.

Q13 Charities with income greater than £100,000 but not exceeding £500,000 must have their accounts audited if their assets are worth more than £2.8m (before deduction of liabilities).

- (i) Do you think the lower income trigger should be raised to £250,000 in line with the proposed increase in the thresholds for preparing accruals accounts?**
- (ii) Do you agree that the asset element should be increased to £3.26 million to remain in line with the threshold for companies that are not charities?**

23. We assume that by worth you refer to the balance sheet value as opposed to an alternative measure of worth. We consider that the income trigger should be linked to the threshold for accruals accounts (but see our comments under Q10 above).

24. We agree that the asset element should be increased to remain in line with the threshold for companies that are not charities.

Q14 If a charity with income between £250,000 and £500,000 opts for an Independent Examination, it must appoint a Qualified Examiner. If the £500,000 income-based audit threshold is raised, should this lower £250,000 threshold also be raised? If so, what would be the right figure?

25. As noted in our response to Q12, we do not feel the time has come to raise the audit threshold. If it is raised, we believe that the threshold for appointing a Qualified Examiner should remain at £250,000.

Q15. Registered charities with income over £10,000 must state that they are registered on certain documents. Do you agree that this £10,000 threshold should be increased? If you do, is the £25,000 the right figure?

26. Our view is that all registered charities should state that they are registered on the appropriate documents since they enjoy the benefits of being registered. Making this a requirement might also help to distinguish smaller charities from unregistered organisations.

Q16. There is a £500 threshold relating to recovery of the cost of proving a charity's title to a rentcharge. Do you think that this should be increased? If so, is £1,000 the right figure?

27. No comment.

Q17. A person may be a professional fund-raiser if his or her relevant income exceeds £5 a day or £500 a year. Do you agree that these figures should be increased? If you do, are £10 a day and £1,000 a year the right figures?

28. No comment.

Q18. There is a qualified right to a refund in connection with broadcast appeals that applies to donations of £50 or more. Do you agree that this minimum figure should be changed? If you do, is £100 the right figure?

29. No comment.

Q19. Most charities with income over £5,000 are required to register with the Commission. Do you agree that the general registration threshold should remain at £5,000? If you do not, what should it be?

30. We agree it should remain at £5,000.

Q20. All registered charities with income over £10,000 are required to make an annual return to the Commission. Do you agree that this threshold should remain at £10,000? If you do not, what should it be?

31. We consider that all registered charities should file an annual return since this is the obvious vehicle for notifying the Commission of changes in trustees.

Q21. Do you agree that the benefits of the current Annual Return, based on the annual accounts and reports cycle, outweigh the benefits of taking a different, perhaps biennial, approach to reporting? If you do not, what approach would you suggest for the Annual Return and/ or the preparation of accounts and reports by charities?

32. We believe it is better for the cycle to remain annual. We consider that a charity is less likely to forget to do its Annual Return or file its accounts if it is an annual requirement. To change to an alternate cycle might also create extra administration for the Commission itself.

Q22. The 2006 Act changed the ability of charities to spend capital, transfer property and modify their powers. Do you agree that no further changes should be made to these thresholds in these areas until their effect has been assessed as part of the five year review? If you do not, what changes would you make?

33. No comment.

Q23. Do you think that any other thresholds covered by this consultation should be changed? If you do please let us have details.

34. No.

Email: Barbara.Bampton@icaew.com

© The Institute of Chartered Accountants in England and Wales 2008

All rights reserved.

This document may be reproduced without specific permission, in whole or part, free of charge and in any format or medium, subject to the conditions that:

- it is reproduced accurately and not used in a misleading context;
- the source of the extract or document, and the copyright of The Institute of Chartered Accountants in England and Wales, is acknowledged; and
- the title of the document and the reference number (ICAEW Rep 34/08) are quoted.

Where third-party copyright material has been identified application for permission must be made to the copyright holder.

www.icaew.com