



THE INSTITUTE
OF CHARTERED
ACCOUNTANTS
IN ENGLAND AND WALES

14 September 2007

Our ref: ICAEW Rep 80/07

Your ref:

Helen Morgan
Office of the Third Sector
Cabinet Office
35 Great Smith Street
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By email

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Dear Ms Morgan

**CHARITIES ACT 2006: CHANGES TO THE ACCOUNTING AND AUDITING
FRAMEWORK**

The Institute of Chartered Accountants in England and Wales ('the Institute') is pleased to respond to your request for comments on *Charities Act 2006: Changes to the Accounting and Auditing Framework*.

Please contact me should you wish to discuss any of the points raised in the attached response.

Yours sincerely

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ICAEW Representation

ICAEW REP 80/07

CHARITIES ACT 2006: CHANGES TO THE ACCOUNTING AND AUDITING FRAMEWORK

Memorandum of comment submitted in August 2007 by The Institute of Chartered Accountants in England and Wales, in response to the Office of the Third Sector's consultation paper Charities Act 2006: Changes to the Accounting and Auditing Framework published in June 2007

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INTRODUCTION

1. The Institute of Chartered Accountants in England and Wales (the 'Institute') welcomes the opportunity to comment on the consultation paper *Charities Act 2006: Changes to the Accounting and Auditing Framework* published by the Office of the Third Sector in June 2007.

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 128,000 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 ICAEW ensures these skills are constantly developed, recognised and valued.
4. The Institute's Charity Committee is responsible for co-ordinating the technical considerations of the charity sector with respect to Chartered Accountants working within or for charities. Its membership represents practitioners, their clients and Chartered Accountants employed in financial roles within charities.

RESPONSES TO SPECIFIC QUESTIONS/POINTS

Q1: Do the requirements for the form and content of group accounts and related notes to the group accounts provided by the draft 2007 Regulations provide a sufficiently robust framework for their preparation?

Yes.

Q2. If not, how might the draft 2007 Regulations be strengthened to provide a workable framework for their preparation?

Not applicable.

Q3. Do you agree that the threshold set for the preparation of group accounts should be identical to that set for the audit of group accounts, and that the scrutiny should always take the form of an audit?

It makes sense to have and continue to have harmonisation of thresholds. We agree an audit would be the appropriate form of scrutiny.

Greater clarity would be achieved through cross referencing within the draft Regulations, for example a cross reference signposting the lay reader to where gross and net income is defined. (We suggest altering the heading under group accounts

on page 6 of the draft Regulations to include reference to net income would improve clarity).

Q4. Do you consider the draft 2007 Regulations set a reasonable threshold for the audit of group accounts? If not, what threshold do you believe to be appropriate?

Yes.

Q5. In the context of a group which contains a non-charitable subsidiary undertaking should aggregate gross income be calculated by reference to that subsidiary's turnover, or by reference to those items of income or gains that would be construed as gross income in charity accounts?

We are comfortable with the second reference point: that aggregate gross income should be calculated by reference to those items of income or gains that would be construed as gross income in charity accounts.

Q6. In general, do you consider that draft 2007 Regulations provide a workable framework of the preparation and audit of group accounts? Do you have any suggestions as to how the Regulations relating to group accounts might be improved?

Yes.

Q7. Do you agree with the approach proposed in the draft section 77 order for bringing small charities that are companies into the scrutiny regime of Part 6 of the 1993 Act?

Yes.

Q8. Do the draft 2007 Regulations provide an appropriate framework for reporting duties of auditors and independent examiners of small company charities' accounts? If not, how might they be improved?

In Regulation 11(2)(e) reference is made to the SOFA. In 11 (4)(e) reference is made to income and expenditure accounts. We note this difference and question whether it could cause confusion.

Q9. Do the draft 2007 Regulations provide an appropriate framework for reporting duties of auditors of group accounts for parent charities that are companies? If not, how might they be improved?

No further comments.

Q10. Small charities that are companies, but which are also exempt charities are excluded from the draft section 77 order. Does that present any particular problems?

It is not clear whether this apparent potential loophole would cause a problem in practice or not. However we consider that work should be undertaken to ensure that there is appropriate oversight, regulation and safeguards in place for such entities.

Q11. Do the draft 2007 Regulations provide an appropriate focus within the group annual report to enable trustees to explain the aims and objectives set

for subsidiary undertakings and to explain the strategies adopted and activities undertaken to achieve them?

No. We consider that a single uniform narrative would be more appropriate. The current proposal (Regulation 18 in particular) will catch wholly immaterial subsidiaries. There is therefore a risk that too much prominence will be given to immaterial subsidiaries. In our view the draft Regulations should clearly reflect the position in the SORP as it stands and not seek to include additional content. In other words it should follow the SORP not supplement it.

Q12. Do the draft 2007 Regulations create an appropriate balance between providing relevant information about activities conducted through subsidiary undertakings and the regulatory cost of providing such information? If not, what provisions might be added or removed?

See answer to Q11.

Q13. Do you agree that it is appropriate for charities to report publicly how they meet the public benefit requirement?

Please see our response to the public benefit test consultation ICAEW Rep 49/07

Q14. Do you agree that the annual report of a charity is the best medium through which to report public benefit? If not, please explain what other medium should be considered and why.

Please see our response to the public benefit test consultation ICAEW Rep 49/07

Q15. Do the draft 2007 Regulations achieve the right balance in reporting public benefit and the regulatory cost of providing such information? If not, how might the provisions be improved?

Please see our response to the public benefit test consultation ICAEW Rep 49/07

Q16. Do you have any comments about the partial Regulatory Impact Assessment (RIA) that accompanies this consultation? Does it present a sound analysis of the costs of compliance for charities and the benefits the Regulations will bring?

We question whether the costs are underestimated. In particular there does not appear to be consideration of the misalignment with the content of the SORP, nor of the cost of additional public benefit paragraphs in the Trustees' Annual Report.

Q17. Do you have any comments or suggestions on the drafting of Regulations as they apply to general and special case charities?

No further comments.

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