CIPFA The Chartered Institute of Public Finance & Accountancy

Report – Agenda item 8 (paper 4)

Committee	Charities SORP Committee
Venue	CIPFA's Offices, Edinburgh
Date	6 February 2015
Author	Secretariat to the Charities SORP Committee
Subject	Possible implications of increasing the Charities Audit Threshold for the Trustees' Annual Report

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1. Purpose

1.1. The purpose of this paper is to:

- inform the Board of proposed changes charities audit thresholds;
- discuss the possible implications of increasing the charity audit threshold for the Trustees Annual Report requirements in the SORPs; and
- discuss next steps.

2. Background

2.1. The Cabinet Office has consulted on raising the charity audit threshold and also on extending the list of accountancy membership bodies able to carry out independent examinations for charities with income exceeding £250,000. This proposal applies to charity law in England and Wales only, as charity law is devolved in Northern Ireland and Scotland.

2.2. Under current charity law, a charity must have its accounts scrutinised independently by an auditor on the Register of Statutory Auditors if it has an annual income of more than £500,000, or assets worth more than £3.26m combined with an income of more than £250,000.

2.3. The Government's proposal is to increase these thresholds so that the annual accounts would be audited only for those charities whose annual income exceeds £1 million or those charities whose assets are worth more than £3.26 million and they have an annual income exceeding £500,000.

2.4. The government is also proposing that the audit threshold for parent charities in group structures be increased from £500,000 to £1m a year to ensure there is no discrepancy between the threshold for the accounts of parent charities and subsidiaries.

2.5. In addition, the Government has consulted on whether to extend the list of professional accountancy membership bodies able that carry out independent examinations for charities with an income exceeding £250,000.

2.6. In the Charities SORPs 2015, the reporting requirements of the Trustees' Annual report take into account the size of the charities. Larger charities are required to make additional disclosures in the Trustees' Annual Report. Larger charities in the SORPs are defined as those charities subject to a statutory audit under charity law (those charities with a gross income of £500,000 (UK) or 500,000 Euros (Republic of Ireland) in the reporting period.

3. Key issues

3.1. If this Cabinet Office proposal is approved, the SORP Committee is asked to consider whether the reporting requirements in the Trustees' Annual Reports should continue to be linked to the income audit threshold for charities or not.

3.2. Some of the key issues that the Charities SORP Committee might like to consider when considering the above options are:

- ***Consistency in reporting requirements.*** As far as we are aware, there are no current plans to change the audit threshold for Northern Ireland and Scotland. Therefore, if the Trustees' Annual Reports reporting requirements continue to be linked to the statutory audit threshold, then the reporting requirements for charities in England and Wales will be different to Northern Ireland and Scotland. This may also cause confusion for charities operating in different jurisdictions in the UK.

- ***Level of accountability required for charities.*** As outlined the SORPS***,*** larger charities, due to having a greater degree of public accountability and stewardship, are required to provide additional information in the Trustees' Annual Report. Smaller charities are encouraged to include some or all of the additional information required of larger charities in the Trustees' Annual Report.

- ***Stability of the Charities SORPs.*** If the Charities SORPs reporting requirements are delinked from the statutory audit income threshold for charities, this may make the SORPs more future proof of any further changes in audit thresholds.

- ***Burden on charities, advisers and other stakeholders.*** The burden on charities, their advisers and other stakeholders is influenced by a number of factors such as:

  - ongoing change in reporting requirements resulting in limited periods of stability;
  - the level of mandatory disclosures which may be excessive given the size of entity; and
  - complexity of the reporting requirements, for example, having different requirements for the Trustees' Annual Report for charities operating in different jurisdictions in the UK.

4. Recommendations

4.1. If the Cabinet Office proposal of increasing the statutory audit threshold is approved, the Secretariat recommends that the Charities SORP Committee considers de-linking the reporting requirements of the Trustees' Annual Report to the statutory audit threshold. This recommendation is based upon the following reasons:

- Increased consistency in reporting in the Trustees Annual Report for larger charities operating across multiple jurisdictions in the UK.

- Reducing the burden on charities, their advisors and other key stakeholder who have recently adopted the new SORPs;

- Future changes in the charity audit threshold will no longer influence the reporting requirements of the Trustees' Annual Reports.

5. Next Steps

5.1. Should the Committee be minded to approve the recommended approach, the Secretariat will begin drafting amendments to the definition of larger charities included in the glossary to the SORPs.