

Charity Audit & Independent Examination Consultation
Office for Civil Society
4th Floor
1 Horse Guards Road
London
SW1A 2HQ

26 January 2015

Dear Sir,

Charity audit and independent examination consultation

I am pleased to submit the Institute's response to the above consultation and trust the comments are useful to your deliberations on increasing audit thresholds and extending the role of independent examiner to other accounting bodies.

About ICSA

The Institute of Chartered Secretaries and Administrators (ICSA) is the professional body qualifying and supporting company secretaries and corporate administrators in all sectors of the UK economy. Members are educated in a range of topics including finance, HR, company law, administration and governance, which enable them to add value to any organisation.

ICSA is a leading international voice on corporate governance and delivers a professional education that gains its strength in the breadth of the syllabus; designed to assist boards and work with senior managers to identify and maximise opportunities within relevant legal frameworks and established best practice.

The Institute has some 10% of UK Members directly employed in the not-for-profit sector, with many more involved on a voluntary basis in capacities such as trustees and school governors. In formulating the Institute's response to the above consultation document, Members covering large multi-million pound charities to small, local organisations were approached for their views given the depth of their knowledge of the sector, complying with relevant legislation and the importance of sound governance arrangements in effecting a change within the communities they operate.

General comments

ICSA is generally supportive of any practical measures that result in less bureaucracy for charities, especially where proposals underline the importance of a proportionate and risk-based approach to regulation. It is from this perspective that the ICSA has cautiously responded in the manner it has in order to help reduce confusion in regulatory matters for trustees and the public alike and for smaller charities to be able to commit more time, resources and effort to meeting their charitable objects.

It must be noted however, that we do have concerns regarding the importance of charities being open and transparent in their activities and finances and have some considerable agreement with the view that the proposals could weaken the public trust placed in the sector.



ICSA believes that it would be helpful if guidance was made available explaining the impact the proposed changes in the financial thresholds will have on the Charity Commission's approach to countering terrorist and other abuse. It could be argued that the proposals to increase the financial thresholds are not congruent with the Commission's stated aim to tackle the threat of criminal abuse within the charity sector and run counter to the thrust of the draft Protection of Charities Bill.

The spectre of fraud and terrorist abuse in the sector is often reported but little evidence is provided to support the premise. Without such evidence it is difficult to reconcile the need to lessen the financial oversight of charities via an independent examination or full audit, as detailed in this consultation, with the desire to introduce sanctions against trustees, officers and agents that go far beyond any measures available to other sectors. Taken together, the recent proposals affecting the governance and regulation of the sector present a less than coherent approach.

Regulation should not be removed where there is a reasonable chance that it will result in a reduction in the public's trust in charities or a decline in trustees' commitment to be transparent and accountable in the way they fulfil their duties. De-regulatory measures should therefore be countered by a greater emphasis on trustees to be accountable and transparent in their actions in order that any risks to charity funds can be noticed speedily and due action taken to protect such funds and reputation.

Response to consultation questions

Q1. Do you agree that the income threshold at which charities should have to have their accounts audited should be increased from £500,000 to £1 million?

Due to the fact that accounts below the threshold are still submitted to a form of examination we cautiously agree with raising the threshold to £1 million. As previously mentioned however, we would be more supportive of such a rise in the threshold if further information was available as to how the proposal meshes with the Commission's objectives to maintain public confidence and promote transparency and accountability in charities, and also with their framework for tackling criminal activities aimed at the sector.

Q2. Do you agree that the aggregate group income threshold at which parent charities should have to have group accounts audited should be increased from £500,000 to £1 million?

This proposal appears to be sensible given that it harmonises thresholds and thereby minimises the possibility for confusion or misunderstanding.

Q3. Do you agree that the income component of the asset threshold should be increased from £250,000 to £500,000?

Further information supporting the proposal would have been helpful to understanding the arguments for the change. If, however, there is agreement in raising the income thresholds for charities to £1 million it would appear sensible to increase the income component. Suitable information and guidance would be helpful to make trustees and those involved in preparing accounts aware of the difference between charitable companies and non-charitable companies in this regard, especially as other thresholds will be the same across the different types of organisation.

Q4. Do you think that the asset component of the asset threshold should stay at £3.26 million in line with company law or increase to £5 million?

It would be eminently sensible to bring thresholds in line with those required for charitable companies as a way of reducing confusion and misunderstanding within the sector and the general public. ICSA therefore agrees with option one: to retain the £3.26 asset threshold.

Q5. Do you envisage any difficulties arising from these proposed changes to the threshold? If so, please provide evidence to support your view.

ICSA does not foresee any real difficulties arising from these proposals, but does recognise concerns relating to a possible decrease in public trust associated with an increase in audit thresholds.

Q6. Do you agree with the estimated costs and cost savings outlined? It will be helpful if you can provide actual examples of the difference in costs between the two forms of examination.

ICSA has no comment to make with regards to this question.

Q7. Do you have any other comments about the proposed change to the threshold?

Only the comments previously mentioned.

Q8. Do you agree that the preparation threshold for group accounts should be consequently increased in line with the audit threshold from £500,000 to £1 million?

It is considered that the threshold for both the preparation and audit of accounts should both be at the same level to reduce the possibility for confusion or misunderstanding.

Q9. Is there a recognised professional accountancy membership body that you propose could be added to the list of those whose appropriately qualified members can carry out independent examinations of the accounts of charities with incomes that are more than £250,000?

Any new body entered onto the list of professionals able to perform independent examinations should meet the criteria detailed in the proposal as well having a wide range of experience in a range of non-profit and charitable organisations. Diversity of experience will add insight to the person undertaking the independent examination and provide a rounded service to the organisation(s) utilising their skills.

Q10. If you have suggested a body to be added to the list of those whose members should be able to act as independent examiners, please provide a detailed explanation of how they meet the criteria outlined in this document.

ICSA has no comment to add.

It is hoped that the above comments are useful to you in your deliberations relating to audit thresholds and the extension of qualified individuals able to perform independent examinations. Should you wish to discuss any points in further detail, or how ICSA may be able to assist you in your endeavours on this topic, please do not hesitate to contact me.

Yours faithfully,

Louise Thomson FCIS
Head of Policy, Not for Profit
ICSA

Email: lthomson@icsa.org.uk
Tel: 020 7612 7040