

Charity Audit and Independent Examination consultation
Office for Civil Society
Cabinet Office
4th Floor
1 Horse Guards Road
London SW1A 2HQ

By email to: charities-act@cabinetoffice.gov.uk

27 January 2015

Dear Sirs

Charity Audit and Independent Examination

Deloitte LLP is pleased to respond to the consultation on Charity Audit and Independent Examination. We have set out our detailed responses to the consultation questions in the Appendix to this letter.

We would be happy to discuss our letter and the draft proposals with you. If you have any questions, please contact Richard Gillin on 020 7007 0202 or rgilllin@deloitte.co.uk.

Yours faithfully



Deloitte LLP

Appendix

Responses to detailed questions

Raising the audit financial thresholds

Question 1. 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?

Question 2. 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?

Question 3. Do you agree that the income component of the asset threshold should be increased from £250,000 to £500,000?

Our answer to all three questions (Q1-Q3) is yes. We agree with the increase for the reasons given in Lord Hodgson's report.

We are aware of some concerns that have historically been expressed about the "expectation gap" arising from the work necessary for an independent examination and the degree of comfort a reader might take from the wording of the independent examiner's report. We suggest that this should be addressed by the Charity Commission working with OSCR and the Charity Commission for Northern Ireland to update the Directions, perhaps having regard to the recently finalised International Standard on Review Engagements 2400 (Revised) *Engagements to Review Historical Financial Statements* issued by the International Auditing and Assurance Standards Board. This standard is aimed specifically at giving assurance to users of small and medium sized entities' financial statements.

Question 4. Do you think that the asset component of the asset threshold should stay at £3.26 million in line with companies law (Option 1) or increase to £5 million (Option 2)?

We agree with the Government that the asset threshold should be aligned with that for companies. Following the consultation "UK Implementation of Chapters 1-9 of the EU Accounting Directive" the Companies, Partnerships and Groups (Accounts and Reports) Regulations 2015 have been laid before Parliament. Subject to Parliamentary approval, these regulations will increase the asset threshold to £5 million for financial years commencing on or after 1 January 2016, with an option to apply for financial years commencing on or after 1 January 2015. For that reason, we believe that the limit should be £5 million (Option 2).

Question 5. Do you envisage any difficulties arising from these proposed changes to the threshold? If so, please provide evidence to support your view.

No.

Question 6. Do you agree with the estimated costs and cost savings outlined in Part IV? It will be helpful if you can provide actual examples of the difference in the costs between the two forms of examination.

We have no view.

Question 7. Do you have any other comments about the proposed change to the threshold?

The law still requires appointment of an individual, rather than a firm, as an independent examiner. Given the increase in size limits, and the fact that the complexity of larger charities might mean that it is more helpful to appoint a firm so that there can be continuity of staffing from year to year, the law might also usefully permit appointment of a firm. The simplest change would be to allow appointment of a firm eligible to carry out audits under Part 42 of the Companies Act 2006; the most flexible change would be to allow for the appointment of a firm where the majority of voting rights are controlled by members of a professional body or bodies which qualify them for individual appointment.

We encourage the Office of Civil Society to work with the devolved administrations in Scotland and Northern Ireland to align their requirements in this area. Given that some charities need to register in England & Wales, Scotland and Northern Ireland, unifying rules so far as is practicable would contribute to a further reduction in administration burdens for charities.

Increasing the preparation threshold for group accounts

Question 8. Do you agree that the preparation threshold for group accounts should be consequentially increased in line with the audit threshold from £500,000 to £1 million?

Yes.

The government's proposal is based on the idea that the group accounts threshold should be increased because group accounts are not suited to independent examination. We suggest that the question should be the other way around: "Do group accounts provide useful information to users of the financial statements of a charity of this size?" The question "What assurance might be given on such financial statements?" is secondary.

We believe that £1 million is a suitable level for the preparation of group accounts. For charities with a smaller income threshold:

- related party transaction disclosures will be given for transactions between the parent and its subsidiaries; and
- in the case of a UK subsidiary, separate accounts will be available from the Charity Commission and/or Companies House.

We agree that the cost of preparing group accounts for such charities is likely to outweigh the benefits; for those charities that see a benefit, it will still be possible to prepare group accounts.

In view of the need to avoid a multitude of different thresholds for different exemptions, it may be worth considering whether the group accounts threshold should be aligned with the audit threshold (i.e. (a) income > £1 million or (b) assets > £5 million and income > £500,000).

Increasing the choice of independent examiners available to charities that must have their accounts examined by an accountancy professional

Question 9. 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?

Question 10. 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.

We have no specific suggestions for these questions. However, we would like to support the criteria for assessing the suitability of an organisation set out on page 10 of the consultation paper. We suggest that the criteria should also make some mention of the need to consider the need for appropriate quality control.