

EXPLANATORY MEMORANDUM TO

The Charities Act 2008 (Substitution of Sums) Order (Northern Ireland) 2015 No. 385

1. Introduction

- 1.1. This Explanatory Memorandum has been prepared by the Department for Social Development to accompany the Statutory Rule (details above) which is laid before the Northern Ireland Assembly.
- 1.2. The Statutory Rule is made under sections 64(6) and 65(10)(a) of the Charities Act (Northern Ireland) 2008 (the Act) and is subject to the negative resolution procedure.

2. Purpose

- 2.1. The Order amends provisions in the Act relating to charities' accounts by substituting the sums specified in the Order.

3. Background

- 3.1. Part 8 of the Act provides the accounting and reporting framework for charities. It confers powers on the Department to make Regulations to support the accounting and reporting framework, which primarily provide for the form and contents of charities' accounts and group accounts and the content of charities' annual reports.
- 3.2. The Department proposes to make the Regulations effective from 1 January 2016. The particular requirements for individual charities are determined by the annual income thresholds set out in the Act.
- 3.3. The Order increases the gross annual income threshold which applies in determining whether a charity is required to prepare accrual accounts and the threshold which applies in determining whether a charity must have its accounts independently examined by a member of one of the bodies stipulated at 65(4) of the Act.
- 3.4. The Order will come into operation on 1 January 2016.

4. Consultation

- 4.1. The Department consulted on the thresholds as part of a wider consultation on the Charities (Accounts and Reports) Regulations (Northern Ireland) 2015. The consultation period ended on 30 October 2015.

5. Equality Impact

- 5.1. In accordance with its duty under section 75 of the Northern Ireland Act 1998, the Department conducted a screening exercise of the proposals in the Charities Bill (NIA Bill 9/07) which are now contained in the Act. It concluded that the proposals do not have significant implications for equality of opportunity and therefore considered that an equality impact assessment was not necessary.

6. Regulatory Impact

- 6.1. A Regulatory Impact Assessment was carried out to assess the impact of making the Charities (Accounts and Reports) Regulations (Northern Ireland) 2015 whilst maintaining the current thresholds as set out in the Act or by increasing them.

7. Financial Implications

- 7.1. None.

8. Section 24 of the Northern Ireland Act 1998

- 8.1. The Department has considered section 24 of the Northern Ireland Act 1998 and is satisfied that this Rule is not incompatible with any of the Convention rights, is not incompatible with Community law, does not discriminate against a person or class of person on the ground of religious belief or political opinion and does not modify an enactment in breach of section 7 of the Northern Ireland Act 1998.

9. EU Implications

- 9.1. Not applicable.

10. Parity or Replicatory Measure

- 10.1. The Order puts Northern Ireland in line with the current threshold for the production of accruals accounts and independent examination by a qualified person in England and Wales and Scotland.

11. Additional Information

- 11.1. Not applicable.

Title: Charities' accounts: independent examination and audit thresholds	Regulatory Impact Assessment (RIA)			
	Date: 18/11/15			
	Type of measure: Subordinate Legislation			
Lead department or agency: Department for Social Development	Stage: Final			
	Source of intervention: Domestic			
Other departments or agencies: None	Contact details: Kieran Doyle			
	Charities Team			
	Voluntary and Community Unit			

Summary Intervention and Options

What is the problem under consideration? Why is government intervention necessary? The Department plans to introduce the accounting and reporting requirements for charities provided by Part 8 of the Charities Act (Northern Ireland) 2008 from 1 January 2016. The income thresholds at which charities are required to have their accounts independently examined or audited, as specified in the Act, were set some time ago and the Department considers that the thresholds should be reconsidered and possibly aligned with similar thresholds which apply in England and Wales.	
What are the policy objectives and the intended effects? The requirements placed on charities for the independent external scrutiny of their accounts become increasingly rigorous the higher the income of the charity, but must be reasonable and proportionate. The effect of raising thresholds is to ease the levels for the preparation and scrutiny of charities' accounts. It is extremely difficult to determine the effects in the absence of a completed charity register in Northern Ireland therefore this assessment relies on best estimates based on the available data.	
What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base) Option 1: Thresholds remain at Charities Act (Northern Ireland) 2008 levels and are reviewed in 5 years. (Do nothing.) Option 2: Threshold at which accruals accounts must be produced and an independent examination by a qualified person is required is increased from £100,000 to £250,000. (Audit threshold remains at £500,000.) Option 3: Threshold at which accruals accounts must be produced and an independent examination by a qualified person is required is increased from £100,000 to £250,000 and the threshold at which an audit is required is increased from £500,000 to £1 million.	
Will the policy be reviewed Yes	If applicable, set review date: review in 5 years

Cost of Preferred (or more likely) Option 2		
Total outlay cost for business £m	Total net cost to business per year £m	Annual cost for implementation by Regulator £m
5.666m	4.008m	Costs will be met by the Department for Social Development (as sponsor department)

Does Implementation go beyond minimum EU requirements?				N/A
Are any of these organisations in scope?	Micro Yes	Small Yes	Medium	Large

			Yes	Yes
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The final RIA supporting legislation must be attached to the Explanatory Memorandum and published with it.

Approved by: Chris Hughes Date: 27/11/15

Summary: Analysis and Evidence

Policy Option I

Description: Thresholds remain at Charities Act (Northern Ireland) 2008 levels and are reviewed in 5 years (do nothing)

ECONOMIC ASSESSMENT (Option I)

Costs (£m)	Total Transitional (Policy) (constant price)	Years	Average Annual (recurring) (excl. transitional) (constant price)	Total Cost (Present Value)
Low				
High				
Best Estimate	1.658		6.408	8.066

Description and scale of key monetised costs by ‘main affected groups’

As Option I will bring in an accounting and reporting framework for charities in Northern Ireland for the first time it is not the “do nothing” option which has no cost but would not bring in the regulations as stipulated in the Charities Act.

The transitional administrative costs are familiarisation £1.332m and initially finding a qualified independent examiner £0.326m. Annual independent examination (by qualified person) costs are estimated as £2.1m. The annual cost of preparing accruals accounts where they have not previously been done is estimated at £1.5m. Annual audit costs are estimated at £2.138m. The cost to file annual accounts is estimated at £0.67m.

Other key non-monetised costs by ‘main affected groups’

Additional costs could be the identification of previously undetected charity fraud, leading to a decrease in public trust in charities and possible fall in donations. There is no evidence to suggest high levels of charity fraud.

Benefits (£m)	Total Transitional (Policy) (constant price)	Years	Average Annual (recurring) (excl. transitional) (constant price)	Total Benefit (Present Value)
Low				
High				
Best Estimate	0		0	0

Description and scale of key monetised benefits by ‘main affected groups’

None.

Other key non-monetised benefits by ‘main affected groups’

While the Regulations could result in significant costs for some charities, there may be indirect benefits through increased transparency, accountability and public confidence, which could promote charitable giving. This could not be quantified.

Key Assumptions, Sensitivities, Risks

The assessment is based on a figure of 10,000 charities. The process of registering all charities is ongoing and will not be completed for several years. Until then, an accurate profile of the charity sector is difficult to provide. The accounting and reporting arrangements will reduce risks to charities by making them more accountable.

BUSINESS ASSESSMENT (Option I)

Direct Impact on business (Equivalent Annual) £m			
Costs: 6.408	Benefits: 0	Net: 6.408	N/A

Cross Border Issues (Option 1)

How does this option compare to other UK regions and to other EU Member States (particularly Republic of Ireland)

While the same financial reporting standard for charities applies in the other UK and Republic of Ireland charity jurisdictions, the scrutiny thresholds vary. This option would not alter the present position.

Summary: Analysis and Evidence

Policy Option 2

Description: Threshold at which an independent examination by a qualified person is required is increased to £250,000

ECONOMIC ASSESSMENT (Option 2)

Costs (£m)	Total Transitional (Policy) (constant price)	Years	Average Annual (recurring) (excl. transitional) (constant price)	Total Cost (Present Value)
Low				
High				
Best Estimate	1.658		4.008	5.666

Description and scale of key monetised costs by ‘main affected groups’

The transitional administrative costs are likely to be similar to those for Option 1 as a new accounting and reporting framework will be introduced in Northern Ireland for the first time. There are likely to be savings for groups falling within the £100,000 to £250,000 threshold as they would not be required to have an independent examination by a qualified person and in some cases they would not be required to produce accruals accounts.

Other key non-monetised costs by ‘main affected groups’

Additional costs considered include a rise in undetected charity fraud, associated with a move away from the independent examination being carried out by a qualified person, resulting in a decrease in public trust in charities and possible fall in donations. There is no evidence to suggest an increased fraud risk.

Benefits (£m)	Total Transitional (Policy) (constant price)	Years	Average Annual (recurring) (excl. transitional) (constant price)	Total Benefit (Present Value)
Low	0		Optional	Optional
High	0		Optional	Optional
Best Estimate	0		2.4	2.4

Description and scale of key monetised benefits by ‘main affected groups’

It is estimated that 1,350 charities would no longer require an independent examination by a qualified person (an estimated cost of £1,000 per charity) and that approximately half of these (700 charitable companies and others) would already be producing accruals accounts saving approximately £1,500 per charity. This would lead to a total saving of £2.4m for this option.

Other key non-monetised benefits by ‘main affected groups’

None.

Key Assumptions, Sensitivities, Risks

The assessment is based on a figure of 10,000 charities. The process of registering all charities is ongoing and will not be completed for several years. Until then, an accurate profile of the charity sector is difficult to provide.

BUSINESS ASSESSMENT (Option 2)

Direct Impact on business (Equivalent Annual) £m		
Costs: 6.408	Benefits: 2.4	Net: 4.008

Cross Border Issues (Option 2)

How does this option compare to other UK regions and to other EU Member States (particularly Republic of Ireland)

While the same financial reporting standard for charities applies in the other UK and Republic of Ireland charity jurisdictions, the scrutiny thresholds vary. This option would align the threshold with the similar threshold for England and Wales.

Summary: Analysis and Evidence

Policy Option 3

Description: Threshold at which an independent examination by a qualified person is required is increased to £250,000 and threshold at which an audit is required is increased £1 million

ECONOMIC ASSESSMENT (Option 3)

Costs (£m)	Total Transitional (Policy) (constant price)	Years	Average Annual (recurring) (excl. transitional) (constant price)	Total Cost (Present Value)
Low				
High				
Best Estimate	1.658		3.182	4.84

Description and scale of key monetised costs by ‘main affected groups’

The transitional administrative costs are likely to be similar to those for Option 1 as a new accounting and reporting framework will be introduced in Northern Ireland for the first time. Some groups within the £500,000 to £1m thresholds will save the cost of an audit but will pay for an independent examination by a qualified person instead.

Other key non-monetised costs by ‘main affected groups’

Additional costs considered include a rise in undetected charity fraud, associated with a move away from the independent examination being carried out by a qualified person, and from audit to independent examination by a qualified person, resulting in a decrease in public trust in charities and possible fall in donations. There is no evidence to suggest an increased fraud risk.

Benefits (£m)	Total Transitional (Policy) (constant price)	Years	Average Annual (recurring) (excl. transitional) (constant price)	Total Benefit (Present Value)
Low	0		Optional	Optional
High	0		Optional	Optional
Best Estimate	0		3.226	3.226

Description and scale of key monetised benefits by ‘main affected groups’

As with Option 2 it is estimated that 1,350 charities would no longer require an independent examination by a qualified person (£1,000 per charity) and that approximately half of these (charitable companies and others) would already be producing accruals accounts. In addition it is estimated that 600 charities would no longer require an audit of their accounts a cost saving £1.426m, but would require an independent examination by an independent qualified person costing £600,000 instead.

Other key non-monetised benefits by ‘main affected groups’

None.

Key Assumptions, Sensitivities, Risks

The assessment is based on a figure of 10,000 charities. The process of registering all charities is ongoing and will not be completed for several years. Until then, an accurate profile of the charity sector is difficult to provide.

BUSINESS ASSESSMENT (Option 3)

Direct Impact on business (Equivalent Annual) £m		
Costs: 6.408	Benefits: 3.226	Net: 3.182

Cross Border Issues (Option 3)

How does this option compare to other UK regions and to other EU Member States (particularly Republic of Ireland)

While the same financial reporting standard for charities applies in the other UK and Republic of Ireland charity jurisdictions, the scrutiny thresholds vary. This option would closer align the thresholds with similar thresholds for England and Wales.

Evidence Base

The policy problem and the rationale for government intervention

Accurate, clear and publicly available information about charities' finances and activities is essential to promote public confidence in them and the charity sector as a whole. While charity law requires charities to be accountable and transparent, the requirements placed on charities must be reasonable and proportionate. It is important that the independent external scrutiny of charities' accounts is carried out by persons who are suitably qualified to carry out the scrutiny at a level that is proportionate to the income of the charity.

The Department plans to introduce the accounting and reporting requirements for charities provided by Part 8 of the Charities Act (Northern Ireland) 2008 from 1 January 2016. The income thresholds at which charities are required to have their accounts independently examined or audited, as specified in the Act, were set some time ago and the Department considers that the thresholds should be reconsidered and possibly aligned with similar thresholds which apply in England and Wales.

Policy objectives and intended effects

The requirements placed on charities for the independent external scrutiny of their accounts become increasingly rigorous the higher the income of the charity. The effect of raising thresholds is to ease the levels for the preparation and scrutiny of charities' accounts.

Policy options considered, including alternatives to regulation

The gross income thresholds at which charities are required to have their accounts independently examined or audited in Northern Ireland are specified in the Charities Act (Northern Ireland) 2008. The thresholds have not been increased since then and differ from current equivalent thresholds for England and Wales (relevant because Northern Ireland charity legislation is broadly in line with that for England and Wales). A simple comparison is made in the table below.

NORTHERN IRELAND	ENGLAND AND WALES EQUIVALENT	SCRUTINY OF ACCOUNTS
Gross income up to £100,000	Gross income up to £250,000	Independent examination
Gross income over £100,000, up to £500,000	Gross income over £250,000, up to £1 million and assets less than £3.26m	Independent examination by qualified person
Gross income over £500,000	Gross income over £1 million or Gross income over £250,000 and assets more than £3.26m	Audit

The Charity Commission estimates there are between 7,500 and 12,000 charities operating in Northern Ireland. For the purposes of this assessment we have used a mid- range figure of 10,000 charities. The percentages for income bands that have been summarised in the table below are based on [research](#) published by the Commission in March 2015¹.

¹ What do charities look like in Northern Ireland. Available online at: <http://www.charitycommissionni.org.uk/about-us/research/research-reports/#oneyear>

Registered charities by income band	
<i>Income Band</i>	<i>Percentage</i>
Up to £100,000	70%
£100,001 to £200,000 *	11%
£200,001 to £300,000 *	5%
£300,001 to £400,000	3%
£400,001 to £500,000	2%
Over £500,000 **	9%
Total	100%

* We have used £13.5% as the percentage for an £100,001 to £250,000 income band (the percentage for the £100,001 to £200,000 and half that of the £200,001 to £300,000 income bands).

** The [research](#) indicated that 20 charities in a 603 charities sample had income of over £1m (3%), leaving 6% in a £500,001 to £1m income band.

Three options are set out below.

Option 1: Thresholds remain at 2008 Act levels and are reviewed in 5 years. (Do nothing.)

INCOME	PRESENTATION OF ACCOUNTS	SCRUTINY OF ACCOUNTS
Up to £100,000	Statement of accounts, unless trustees elect to use receipts and payments basis	Independent examination
Over£100,000, up to £500,000	Statement of accounts	Independent examination by qualified person
Over £500,000	Statement of accounts	Audit

Under this option it is estimated that 7,000 charities (70%) in Northern Ireland would be required to have an independent examination of their accounts, a further 2,100 (21%) would be required to have an independent examination of their accounts by a qualified person about half of which would be required to produce accruals accounts for the first time and 900 (9%) would be required to have a full audit of their accounts carried out.

A review in 5 years means the matter would be reconsidered when the exercise to register all charities here will have been completed, there is more comprehensive information on the incomes of charities in Northern Ireland and there will have been some annual reporting.

Option 2: Threshold at which an independent examination by a qualified person is required is increased to £250,000. (Audit threshold remains at £500,000.)

INCOME	PRESENTATION OF ACCOUNTS	SCRUTINY OF ACCOUNTS
Up to £250,000	Statement of accounts, unless trustees elect to use receipts and payments basis	Independent examination
Over £250,000, up to £500,000	Statement of accounts	Independent examination by qualified person
Over £500,000	Statement of accounts	Audit

Under this option it is estimated that about 8,350 charities (83.5%) would be required to have an independent examination of their accounts (an increase of 1,350 (13.5%)). The number which would be required to have an independent examination of their accounts by a qualified person and produce accruals accounts would be between 700 and 750 (7.5%) and 900 (9%) would be required to have a full audit of their accounts carried out. This option includes an increase in thresholds for the preparation of accruals accounts, not just scrutiny requirements, meaning some charities (those that are not companies) falling within the income band £100,000 to £250,000 would no longer be required to present a 'true and fair' view of the financial position of the charity.

This lower level of scrutiny applicable to 83.5% of charities could reduce public confidence in charities and the charity sector. However, this must be balanced against the additional cost burden on some charities.

Option 3: Threshold at which an independent examination by a qualified person is required is increased to £250,000 and threshold at which an audit is required is increased to £1 million.

INCOME	PRESENTATION OF ACCOUNTS	SCRUTINY OF ACCOUNTS
Up to £250,000	Statement of accounts, unless trustees elect to use receipts and payments basis	Independent examination
Over £250,000, up to £1 million	Statement of accounts	Independent examination by qualified person
Over £1 million	Statement of accounts	Audit

Under this option it is estimated that about 8,350 charities (83.5%) would be required to have an independent examination of their accounts. The number which would be required to have an independent examination of their accounts by a qualified person would be about 1,350 (13.5%) about half of which would be required to produce accruals accounts for the first time and 300 (3%) would be required to have a full audit of their accounts carried out. This option includes an increase in thresholds for the preparation of accruals accounts, not just scrutiny requirements, meaning some charities (those that are not companies) falling within the income band £100,000 to £250,000 would no longer be required to present a 'true and fair' view of the financial position of the charity.

The lower level of scrutiny applicable to 83.5% of charities could reduce public confidence in charities and the charity sector. The lower level of scrutiny applicable to high income charities could reduce public confidence in such charities (which fall below the audit threshold) and the charity sector. However, this must be balanced against the additional cost burden on some charities.

Monetised costs and benefits

Option I

Costs

Familiarisation costs: The Charity Commission estimates there are between 7,500 and 12,000 charities operating in Northern Ireland. For the purposes of this assessment we have used a mid-range figure of 10,000 charities. All charities registered in Northern Ireland will be affected by the introduction of the Regulations.

Charities will already be preparing accounts, including accruals accounts for some, and they will have to come into line with the new legislative requirements. Less overall familiarisation time may be needed in the case of groups of charities.

Approximately 10,000 charities' trustee boards will bear the costs of familiarisation with the Regulations. We have estimated that it would take one trustee 6 hours (best estimate) to read the Regulations, check their charity's income, and disseminate information contained in them to the other trustees. Trustees undertake their duties on a voluntary basis but, for the purposes of this impact assessment, we have costed their time at £22.2 per hour (this is based on data from the Annual Survey of Hours and Earnings (ASHE) 2013, on the median gross hourly wage for 'Other Managers'², including 30% non-wage costs and expressed in 2014/15 terms).

The total familiarisation costs are therefore estimated to be £1.332m (10,000 charities x £22.2 x 6 hours). Since familiarisation times can vary, depending on a trustee's ability to check amounts and disseminate information, a low cost estimate based on familiarisation time of 4 hours is £0.888m (10,000 x 22.2 x 4) and a high cost estimate based on familiarisation time of 8 hours is £1.776m (10,000 x 22.2 x 8). These figures do not represent actual expenditure; rather they represent monetised voluntary effort.

Search costs: It is expected that the scrutiny responsibilities contained in the Regulations may result in additional costs to affected charities with finding a qualified independent examiner.

It is anticipated that many higher income charities affected by the regulatory requirements will continue to use their existing auditors. For charities requiring independent examination by a qualified person (charities with gross income over £100,000, up to £500,000), it is conservatively assumed that, on average, a day (7 hours) of trustee time will be devoted to search and negotiation for every charity affected by the regulatory requirements.

With an estimated 2,100 charities affected (see 'Costs by Charity Income Band' section below), the total search cost is calculated at £0.326m (2,100 x 22.2 x 7). This figure does not represent actual expenditure; rather it represents monetised voluntary effort.

² Occupational category as used in the Administrative Burdens Measurement Exercise Technical Summary: <http://webarchive.nationalarchives.gov.uk/20070603164510/http://www.dti.gov.uk/files/file35995.pdf>

Summary of cost assumptions

Regulations familiarisation costs				
Estimate	Familiarisation time (hours)	Rate per hour (£)	Charities affected	Total (£m)
High	8	22.2	10,000	1.776
Low	4	22.2	10,000	0.888
Best	6	22.2	10,000	1.332

Search costs for a qualified independent examiner			
Search hours	Rate per hour	Charities affected	Total (£m)
7	£22.2	2,100	0.326

Costs by Charity Income Band: As of 19 January 2015, the Charity Commission had registered 786 charities. The percentages for income bands that have been summarised in the table below are based on [research](#) published by the Commission in March 2015³.

Registered charities by income band	
Income Band	Percentage
Up to £100,000	70%
Over £100,000, up to £500,000	21%
Over £500,000	9%
Total	100%

A figure of 10,000 charities is used for the estimates below.

Charities with an annual gross income up to £100,000

It is estimated that 7,000 charities (70%) in Northern Ireland have an income up to £100,000.

The Regulations will provide that charities with an annual income up to £100,000 will have their accounts (which can be prepared on a receipts and payments basis) examined by an independent person who is reasonably believed by the charity's trustees to have the requisite ability and practical experience to carry out a competent examination of the accounts. The independent person could be an accountant or bank official who may provide their services free of charge or for a nominal charge to the charity. The conclusion therefore is that the costs to charities in this income band will be relatively low.

Charities with an annual gross income over £100,000, up to £500,000

It is estimated that 2,100 charities (21%) have an annual gross income over £100,000, up to £500,000. The typical cost of an independent examination by a qualified person for a charity in this income band is estimated to be around £1,000 (using the amount in the Cabinet Office Regulatory Impact Assessment: Raising the Charity Audit Threshold, dated 31 October 2014)⁴. This will result in an estimated cost of £2.1m (2,100 charities x £1,000) for this income band.

³ What do charities look like in Northern Ireland. Available online at: <http://www.charitycommissionni.org.uk/about-us/research/research-reports/#oneyear>

⁴ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/384992/Charity_Audit_Threshold_Impact_Assessment.pdf

Although some charities falling within this income band will be required to produce accruals accounts for the first time we estimate at least half will be charitable companies and will already be doing it. We therefore estimate that 1,000 charities will pay in the region of £1,500 per charity to have accruals accounts produced, resulting in an estimated cost for this income band of £1.5m.

Charities with an annual gross income over £500,000

It is estimated that 900 charities (9%) have an annual gross income over £500,000. It is likely that most charities in this income band will already have their accounts audited (though difficult to confirm in the absence of data). The Cabinet Office Regulatory Impact Assessment: Raising the Charity Audit Threshold dated 31 October 2014, uses £4,750 as a conservative estimate of the average cost of an audit for a charity with an annual income of between £500,000 and £1 million (and assets of less than £3.26 million⁵). This is based on the figure for charities in the £0-£1 million bracket from the charity Financials Audit fee report, June 2014⁶. Taking £4,750 as the average cost of a charity audit, a high estimate of the resulting cost to this income band will be £4.275m (900 charities x £4,750). Given the likelihood that a large number of charities in this income band will already have their accounts audited, £2.138m provides a mid-range (best estimate) of costs.

Option 2

This option would raise the threshold at which an independent examination by a qualified person is required, to £250,000. The audit threshold would remain at £500,000.

For the purposes of this assessment the familiarisation and search costs have been estimated the same as for Option 1 as each of the options introduces a new regulatory framework for Northern Ireland, which will be introduced at the same time as a new Charities SORP.

The typical cost of an independent examination by a qualified person for a charity in this income band is estimated to be around £1,000 (using the amount in the Cabinet Office Regulatory Impact Assessment: Raising the Charity Audit Threshold, dated 31 October 2014)⁷.

Under this option it is estimated that 1,350 (13.5%) would no longer require an independent examination by a qualified person an increase from 7,000 (10,000 x 70%) to 8,350 (10,000 x 83.5%). The cost saving for those charities that no longer require a qualified independent examination is estimated at £1.35m (1,350 charities x £1,000).

In addition approximately half of these organisations are thought to be charitable companies and therefore are already required to produce accruals accounts. As such it is estimated that approximately 700 charities individually saving roughly £1,500 annually on the cost of producing accruals accounts, a total saving of £1.05m.

⁵ The figure is based on 1208 charities in this income bracket from data on the 'top' 5000 UK charities, where 'top' includes all charities with: income >£1.6 million or net assets >£3.2 million. It is assumed that the number of charities meeting these criteria with income below £500,00 is low due to the nature of the 'top' charity definition (i.e. the number of charities with income below £500,00 but expenditure below > £1.56 million and /or > 3.2 Million is low). Available online at: <http://secure.charityfinancials.com/reports.aspx>

⁶ Northern Ireland charities are not required to include assets when preparing their accounts.

⁷ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/384992/Charity_Audit_Threshold_Impact_Assessment.pdf

Taken together the cost of producing accruals accounts and independent examination by a qualified person mean that option 2 would lead to annual savings in the charitable sector of £2.4m.

Option 3

This option would raise the threshold at which an independent examination by a qualified person is required to £250,000 and also raise the audit threshold to £1 million.

For the purposes of this assessment the familiarisation and search costs have been estimated the same as for option 1 as each of the options introduces a new regulatory framework for Northern Ireland which will be introduced at the same time as a new Charities SORP.

In addition to the savings to the sector under option 2 it is estimated that the number of charities which would require an audit would decrease from 900 (10,000 x 9%) to 300 (10,000 x 3%), meaning that 600 (6%) would no longer require an audit of their accounts. An independent examination by a qualified person would be required instead. This means that approximately 600 charities would save £1.425m in audit costs but would pay £600,000 for an independent examination by a qualified person, a net gain of £826,000. The total cost savings under this option are therefore estimated at £3.22m.

Summary and preferred option

Non-monetised costs / other considerations

There is the potential that, with fewer charities obliged to subject their accounts for independent examination by a qualified person or for an audit, a rise in charity fraud could result. However, there does not appear to be any evidence to support this view. Any increased scope for fraud will be mitigated by charities' accounts still being subject to a level of independent scrutiny and being available to the public on the Commission's website. Charities will be legally required to send a copy of their accounts to anybody that asks for them. This will mean that charity fraud will remain unlikely, and associated costs low. The Commission would monitor whether increasing the audit thresholds for these charities had any impact on levels of fraud or abuse.

An associated cost of lower levels of scrutiny of charities' accounts may be a decline in public trust of charities. However, smaller charities not currently subject to audit do not appear to suffer from issues of public confidence: a survey by 'Ipsos MORI'⁸ found that 47% of people disagreed when asked if they trusted big charities more than smaller charities, compared to only 37% who agreed.

Summary and preferred option

The framework for charities' accounting and reporting requirements is set out in Part 8 of the Charities Act (Northern Ireland) 2008, which includes powers to enable the Department to provide further detail by regulations. The intention is that the Regulations will come into operation on 1 January 2016, for the financial years of registered charities beginning on or after that date. Compliance with the Regulations will be assisted by guidance issued by the Charity Commission.

⁸ Available online at:

www.gov.uk/government/uploads/system/uploads/attachment_data/file/284715/ptc_ipsos_mori_2012.pdf

Much of the costs outlined are notional in that they relate to amounts attributed to voluntary effort. Actual costs will be for an independent examination (mainly when carried out by a qualified person), the production of accruals accounts or for an audit.

Ultimately any increase in the threshold for accruals accounts increases the percentage of the charity sector in Northern Ireland not providing a 'true and fair view' of their financial position to the public or having their accounts independently examined by a qualified person. It also increases the risk of poor financial reporting in the absence of any statutory framework for the form and content of receipts and payments. This of course must be balanced against the increased administrative and financial burden the proposed thresholds would have, particularly on smaller charities in the early years as they have to adapt their systems and either train or employ professional assistance in preparing accruals accounts where they may have been only producing receipts and payments accounts to date.

We do not believe therefore that Option 3 as presented should be pursued as it does not provide the level of accountability necessary to provide full public confidence of the charitable sector. Thresholds in Northern Ireland are determined using gross annual income only as opposed to England and Wales and Scotland where assets are also considered in the absence of an assets threshold would actually increase the disparity with the rest of the UK and create an accountability gap in respect of some charities where they would have an annual income of perhaps £900,000 and assets worth millions.

Ultimately any increase in the threshold for accruals accounts increases the percentage of the charity sector in Northern Ireland not providing a 'true and fair view' of their financial position to the public or having their accounts independently examined by a qualified person. It also increases the risk of poor financial reporting in the absence of any statutory framework for the form and content of receipts and payments. This of course must be balanced against the increased administrative and financial burden the proposed thresholds would have, particularly on smaller charities in the early years as they have to adapt their systems and either train or employ professional assistance in preparing accruals accounts where they may have been only producing receipts and payments accounts to date. For this reason we have decided that Option 2 provides the best balance of accountability against cost and is therefore the Department's preferred option.