

# **Charities (Accounts and Reports) Regulations (Northern Ireland) 2015.**

**A summary of the public consultation  
findings and the Department for Social  
Development's response.**

**December 2015**



Department for  
**Social  
Development**

[www.dsdni.gov.uk](http://www.dsdni.gov.uk)

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## 1. Background

- 1.1 The Department for Social Development (DSD) is making the Charities (Accounts and Reports) Regulations (Northern Ireland) 2015 under the powers conferred by the Charities Act (Northern Ireland) 2008.
- 1.2 The regulations will, for the first time in Northern Ireland, provide for:
- the preparation of accounts by charities and their scrutiny;
  - the preparation of annual reports by charities; and
  - the preparation and scrutiny of group accounts and group annual reports by parent charities.
- 1.3 The regulations will only apply to charities in NI once they have registered with the Charity Commission for Northern Ireland and will apply to financial years starting on or after 1 January 2016.

## 2. The consultation process

### The formal public consultation

- 2.1 As the proposed Charities (Accounts and Reports) Regulations (Northern Ireland) 2015 are the first such regulations in Northern Ireland DSD opted for a wide public consultation which included Regulatory Impact Assessments and an online response facility available on the DSD website. Other formats were also made available for those that did not wish to respond online.
- 2.2 The consultation began on 1 September 2015 and closed on 30 October 2015. It was necessary to launch the consultation during Assembly recess due to the tight timeframe allowed in order to bring the regulations into effect from 1 January 2016. Ministerial approval was given for this course of action.
- 2.3 A consultation event was held at NICVA on 25 September to give charities in NI and other interested parties the opportunity to be properly informed about the impact of the regulations and to assist them in responding to the consultation.
- 2.4 As part of the consultation DSD also took the opportunity to consult on the annual income thresholds contained within the Charities Act which determine the particular requirements for individual charities. These thresholds were changed in March 2015 in England and Wales and it was deemed appropriate that DSD also seek views on the thresholds at this stage.

### Purpose of this document

- 2.5 This document summarises the public consultation findings and outlines DSD's response. It is not intended to be a record of all consultation responses and comments that were made nor is it intended to provide a response to individual comments and responses made during the consultation.

### Responses

- 2.6 There were 39 responses made using the online survey and 21 by e-mail using a similar format. The use of this format enabled DSD to quantify the extent of agreement with the proposals made in the consultation document. Where possible we have used this to give an indication of the extent to which there was agreement with the proposals. We have highlighted any areas where there were a significant number of comments or where there was significant divergence from the online survey findings.
- 2.7 It must be borne in mind that not all responses were complete. In some cases only particular questions were addressed and in others respondents indicated a preference for more than one of the options presented in respect of the accounting and reporting thresholds.

2.8 Respondents were from across the charitable, accounting and legal sectors and a list of those respondents who were content for their responses to be presented in the report is shown at **Annex A**.

### 3. Summary of Findings and the Department's Response on the Draft Regulations

#### 3.1 Part 1 – General

**Regulation 2 makes provision regarding the interpretation of the Regulations, including the definitions that apply for the purposes of the Regulations.**

##### Questions:

1. To what extent do you agree that the definition of 'general charity' is a helpful term to describe all charities which are neither 'special case' charities nor 'investment fund' charities?

Please comment on how you think this category of charities could be described.

2. To what extent do you agree that the definition of 'special case charity' accurately identifies such charities?

Please comment on how this definition might be improved?

#### Consultation findings

3.1.1 Over half of respondents (54%) agreed or strongly agreed that the definition of general charity was a helpful term. Only 5% of the total respondents were of the opinion that the definition was not helpful.

3.1.2 In relation to the definition of special case charity, only 8% of the total respondents disagreed that the definition of special case charity was not accurate.

#### DSD response

3.1.3 The Department is pleased that the majority of respondents agreed that the definitions set out in the Regulations are helpful and accurate and has therefore determined that no amendment is required. Only one respondent commented that the definition of special case charity was unclear but did not provide an alternative definition.

**Regulation 3 makes provision for the financial year and accounting reference date of charities which are not companies and the circumstances in which the charity trustees may amend the accounting reference date.**

##### Questions:

3. To what extent do you agree with proposals for the 'accounting reference date' of a charity?

4. To what extent do you agree that a limit on the number of changes to the financial year end date (accounting reference date), in the absence of consent from the Commission, to one change in any three year period is a simple and reasonable approach?

## Consultation findings

- 3.1.4 Overall 58% either strongly agreed or agreed with the proposals for the accounting reference date of a charity, only 3% disagreed.
- 3.1.5 Again 58% either strongly agreed or agreed that one change to the accounting reference date was a reasonable approach. One respondent suggested that it might be helpful if the Commission could exercise some flexibility with regard to changes particularly in the early years as the regulations bed in.

## DSD response

- 3.1.6 The Department is pleased that the majority of respondents were in agreement with the proposals and has therefore determined that no amendment is required. Flexibility in respect of the number of changes is clearly a matter for the Commission.

**Regulation 4 makes provision for the Statement Of Recommended Practice (SORP) which applies. General charities will use the charities SORP. Investment fund charities and charities operating as registered housing associations or further education or higher education institutions will apply specialist SORPs that apply to their particular activities.**

### Question:

5. To what extent do you agree that regulation 4 correctly identifies the SORP that is applicable to each of the categories of charities identified?

Please comment on why you disagree.

## Consultation findings

- 3.1.7 Over half of respondents (54%) either strongly agreed or agreed that regulation 4 correctly identified the SORP applicable to each of the categories of charity. Only 3% disagreed stating that the drafting was defective in that two approaches had been adopted i.e. the full name and date in some cases and a more general approach in others.
- 3.1.8 A number of suggestions were made regarding the need to ‘future proof’ references to the SORP in the Regulations.

## DSD response

- 3.1.9 The Department is pleased that the majority of respondents were in agreement that regulation 4 correctly identifies the applicable SORP for each of the different categories of charity. We have noted the comments in respect of the drafting and have made some minor amendments to address this thereby “future proofing” the SORP references.

## 3.2 Part 2 - Form and contents of statement of accounts

Part 2 of the Regulations sets out the form and contents of the statement of accounts prepared by charity trustees, the notes to the accounts and the methods and principles for preparing accounts under section 64(1) of the 2008 Act. The Regulations also require the accounts to be prepared using the methods and principles of FRS102 and the applicable SORP.

### Questions:

6. To what extent do you agree that, by specifying in regulations that charities apply FRS102 and the applicable SORP, the Regulations do not need to specify the form and contents of accounts, the notes to the accounts and the methods and principles for their preparation?

7. To what extent do you agree that it is appropriate to specify in regulations that 'special case' charities should apply the relevant SORP when preparing their accounts?

### Consultation findings

3.2.1 The survey responses showed the majority of respondents (61%) were in support of the regulations referencing the standards rather than repeating detail that is provided and fully explained elsewhere. Less than 2% disagreed.

3.2.2 Overall 54% of respondents agreed that it is appropriate to specify in the regulations that special case charities should apply the relevant SORP when preparing their accounts. Again less than 2% disagreed with this proposal

### DSD response

3.2.3 The Department is pleased that the format of the Regulations are seen by most respondents as a sensible approach as we believe that to do otherwise would make the regulations lengthy and overly complex.

### Questions:

8. In your opinion should the Regulations allow charities to limit their disclosure of comparative information to the amounts presented in the total column of the statement of financial activities?

Please comment on why you do not think the Regulations should allow charities to limit their disclosure of comparative information to the amounts presented in the total column of the statement of financial activities.

### Consultation findings

3.2.4 The survey responses showed that 32% said 'yes' the regulations should allow charities to limit their disclosure as to do otherwise would make the accounts unreadable as they would be cluttered with information. 15% disagreed and 53% had no view or weren't sure.



Those that disagreed did so mainly for reasons of transparency stating that they should only be allowed to do so if a suitable analysis was set out in the notes instead.

### **DSD response**

3.2.5 The Department acknowledges comments that providing comparative information could complicate the accounts, however, it has been noted that some are unhappy with an apparent inconsistency with FRS102 and SORP and a minor amendment has been made in the regulations to address this.

### 3.3 Part 3 - Preparation of group accounts

Part 3 of the Regulations makes provision for the preparation of group accounts which combine the accounts of a parent charity and its subsidiary undertakings.

#### Questions:

9. To what extent do you agree that the regulations dealing with the methods and principles for the preparation of group accounts are better addressed by reference to FRS102 and the applicable SORP, rather than by detailed scheduling of methods and principles for consolidation in the Regulations?

10. To what extent do you agree that if the charity audit threshold is increased that the threshold at which group accounts must be prepared should be similarly increased?

#### Consultation findings

3.3.1 The survey responses showed that less than 2% of respondents disagreed with the proposals contained in the regulations in relation to addressing the methods and principles of preparation of group accounts.

3.3.2 58% strongly agreed or agreed that if the charity audit threshold was increased the threshold at which group accounts must be prepared should also be increased.

#### DSD response

3.3.3 The Department is pleased that the format of the Regulations are seen by most respondents as a sensible approach as we believe that to replicate what is in FRS102 and the SORP would make the regulations lengthy and overly complex.

3.3.4 The Department has after consideration decided not to increase the audit threshold for accountability reasons, therefore the threshold at which group accounts must be prepared remains as stated in the Charities Act (Northern Ireland) 2008.

### 3.4 Part 4 – Scrutiny of Accounts

Part 4 of the Regulations makes provision regarding the duties of auditors and independent examiners and the reports to be made by them.

#### Questions:

11. Are you satisfied that Part 4 of the Regulations provides a sufficient and proportionate framework for audit and independent examination of charity accounts?

Please comment on what additional requirements you think are needed.

#### Consultation findings

3.4.1 The survey responses showed that just over 41% of respondents said 'Yes' they were satisfied that Part 4 of the Regulations provided a sufficient and proportionate framework.

3.4.2 Those who responded 'No' (15%) were mainly concerned with the availability of appropriate guidance.

#### DSD response

3.4.3 The Department welcomes the support for the audit and independent examination framework and recognises the need for similar guidance to that available in the rest of the UK. The Charity Commission is to consult on guidance early in 2016 once the regulations are brought into operation.

### 3.5 Part 5 – Annual Reports

Part 5 of the Regulations makes provision regarding the report and information to be contained in the annual report prepared by the charity trustees of a charity under section 68(1) of the 2008 Act.

#### Questions:

12. Are you satisfied that Part 5 of the 2015 Regulations provides a sufficient and proportionate framework for annual reporting?

Please comment on what additional requirements are needed?

#### Consultation findings

3.5.1 Responses showed that only 5% of respondents were of the opinion that Part 5 did not provide a sufficient and proportionate framework. However, the need for guidance was highlighted again as the new prescribed Trustee Annual Report will require more detail than most charities, especially the smaller ones, will have been required to provide to date.

#### DSD response

3.5.2 The Department is pleased that the majority of those who responded supported the proposals in respect of the Trustee Annual Report. We note again the specified need for guidance which will be drafted and consulted upon by the Charity Commission in 2016 once the regulations have come into operation.

## 4. Summary of Findings and the Department's Response on the Accounting and Audit Thresholds

Three options were proposed for consideration:

**Option 1:** Thresholds remain at 2008 Act levels and are reviewed in 5 years.

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

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

### Questions:

13. To what extent do you agree that the thresholds in Northern Ireland should remain at the 2008 Act levels and be reviewed in 5 years?

Please comment on why you disagree.

14. To what extent do you agree that the threshold at which an independent examination by a qualified person is required should be increased to £250,000 (the threshold for the preparation of accruals accounts would also be increased to this amount)?

Please comment on why you agree

15. To what extent do you agree that the threshold at which an independent examination by a qualified person is required should be increased to £250,000 (the threshold for preparation of accruals account would also be increased to this amount) and also that the threshold at which an audit is required should be increased to £1 million?

Please comment on why you agree.

### Consultation findings

4.1.1 The responses showed that 21% were of the opinion that thresholds should remain at 2008 levels. 54% of respondents supported increasing the threshold of £100,000 to £250,000.

4.1.2 Many respondents who supported an increase in the thresholds stated that the proposed thresholds (those in the Charities Act (Northern Ireland) 2008) create a disparity between Northern Ireland and the rest of the UK and queried why the higher thresholds in England and Wales and Scotland should not be applicable in Northern Ireland. Many stated that leaving them at the 2008 levels would create a greater administrative and financial burden upon Northern Ireland charities, especially the smaller ones, which would never previously have had to prepare their accounts on an accruals basis or have them independently

examined or audited. Some cited the complexity of accruals accounts and the fact that their production would inevitably require the services of a professional and would not be easily understandable by trustees.

4.1.3 Those in favour of retaining the existing thresholds believed that it was a matter of transparency and that raising the threshold at which accruals accounts were produced would mean less charities providing a “true and fair” view of their organisation.

4.1.4 42% of respondents were of the opinion that both thresholds should be raised as per option 3 with many of those stating that this should include an asset threshold such as that in England and Wales.

## DSD response

4.1.5 The Department acknowledges comments made on the possible burdens that could be placed on smaller charities if the thresholds are not increased. However in taking a decision the Department must be mindful to ensure that the correct balance is struck between the appropriate levels of accountability and the possible cost burden on the charitable sector. It is important that the sector is seen to be open and transparent in its financial activities and that the appropriate levels of scrutiny are in place.

4.1.6 Charity law is different across the UK jurisdictions of England and Wales, Scotland and Northern Ireland. Option 3 would not align the income thresholds in Northern Ireland with the rest of the UK as England and Wales and Scotland take a charity’s assets into consideration whereas Northern Ireland does not. Furthermore the thresholds for England and Wales and Scotland are not the same as the audit threshold in England and Wales is £1million whereas in Scotland it remains at £500,000.

4.1.7 The Department has therefore decided to raise the threshold at which accruals accounts are produced and independently examined by a qualified person from £100,000 to £250,000 and trust that this will go some way to addressing the concerns raised in respect of the additional financial burden that the lower threshold would have placed on small charities.

4.1.8 The Department has also determined that the audit threshold should remain the same as is currently set out in the Charities Act. The audit thresholds in England and Wales and Scotland contain a two part rule which in addition to gross income takes a charity’s assets into consideration whilst in Northern Ireland the audit thresholds are based on gross annual income only. To raise the audit threshold in the absence of this two part rule would create an accountability gap in respect of some charities where they would have an annual income of perhaps £900,000 and assets worth millions and still not have audited accounts. An assets threshold was ruled out when the Charities Bill was taken through the Assembly and the Department has no plans to introduce one.

Please let us know if you have any additional comments relating to the proposals.

## Consultation findings

4.1.9 The survey responses showed a consistent level of support for the regulations and only minor amendments to the regulations were required following consideration of the responses received.

## DSD response

4.1.10 The Department is pleased that overall the respondents were supportive of the regulations. The comments made were considered by the Department and where amendments were considered necessary these were agreed with the Accounts and Reports Working Group. Amendments related in the main to some minor drafting issues in respect of accountancy terminology, “future proofing” of the SORPs and making it more explicit that Parts 4 and 5 of the regulations apply to charitable companies.

## 5. Overall Summary

- 5.1 The reporting framework which the regulations bring into operation is designed to promote transparency and provide accountability for the stewardship of charitable funds and through the audit or independent examination of accounts provide assurance to funders and other stakeholders.
- 5.2 The Department is pleased that the vast majority of respondents were supportive of the proposed regulations. Suggestions received (in relation to charities which were companies and also how the SORP was defined) were considered by the Accounts and Reports Working Group and some minor amendments were made to the regulations in this regard.
- 5.3 In relation to the audit thresholds, following comments from respondents and after careful consideration the Department has decided to increase the threshold at which accruals accounts must be prepared and a qualified examination carried out, from £100,000 to £250,000 this is in line with England and Wales and also Scotland.
- 5.4 As there was some support for also increasing the threshold at which fully audited accounts must be provided from £500,000 to £1million (with the introduction of an asset threshold as in England and Wales) this was also considered. However, ultimately it was decided that the threshold should remain as set out in the Charities Act (Northern Ireland) 2008 as it was not possible to bring in an asset threshold at this point in time.



**List of respondents**

- Drumlough Presbyterian Church
- Joint Committee for the Church of Ireland Dioceses of Connor and Down and Dromore
- Volunteer Now
- Northern Ireland Association for Mental Health
- Harpurs Hill Children and Family Centre
- Association of Baptist Churches in Ireland
- Chartered Accountants Ireland
- The Confederation of Community Groups (Newry & District)
- PKF-FPM Accountants Ltd
- NIACRO
- Oasis - Caring In Action
- Baxterworld Ltd (Accountancy practice representing charities)
- NIACRO
- NICVA
- The Free Presbyterian Church of Ulster
- Belfast City Council
- Women's Resource and Development Agency
- Office of the Scottish Regulator
- Association of Church Accountants and Treasurers
- Rural Community Network
- Omagh Forum for Rural Associations
- Supporting Communities
- Association of Charity Independent Examiners
- South Antrim Community Network
- County Down Rural Community Network
- Directory of Social Change
- CIPFA
- Charity Law Association
- Presbyterian Church in Ireland
- Cookstown and Western Shores Network
- DSD Housing Finance and Standards
- Celine Corrigan Accountants
- Ballynahinch Support Group
- Church of Ireland (Charity Registration Monitoring Working Group)