

Title: Charities' accounts: independent examination and audit thresholds	Regulatory Impact Assessment (RIA)			
	Date: /08/15			
	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.				
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.) This is the Department's preferred option. It allows for a better informed decision as to the thresholds which are appropriate. It should not raise any public confidence issues. 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.) 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.				
Will the policy be reviewed Yes			If applicable, set review date: review in 5 years	

Cost of Preferred (or more likely) Option 1		
Total outlay cost for business £m	Total net cost to business per year £m	Annual cost for implementation by Regulator £m
0	0	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 Yes	Large Yes

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

Approved by:

Date:

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	Optional		Optional	Optional
High	Optional		Optional	Optional
Best Estimate	0		0	0

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

In line with impact assessment guidance the do nothing option has zero costs or benefits as impacts are assessed as marginal against the do nothing baseline.

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

In line with impact assessment guidance the do nothing option has zero costs or benefits as impacts are assessed as marginal against the do nothing baseline.

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

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

In line with impact assessment guidance the do nothing option has zero costs or benefits as impacts are assessed as marginal against the do nothing baseline.

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

In line with impact assessment guidance the do nothing option has zero costs or benefits as impacts are assessed as marginal against the do nothing baseline.

Key Assumptions, Sensitivities, Risks

In line with impact assessment guidance the do nothing option has zero costs or benefits as impacts are assessed as marginal against the do nothing baseline.

BUSINESS ASSESSMENT (Option I)

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

Cross Border Issues (Option I)

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	0.036		0	0.036
High	0.071		0	0.071
Best Estimate	0.036		0	0.036

Description and scale of key monetised costs by 'main affected groups'

The transitional administrative costs are familiarisation (£0.036m or £0.071m).

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		1.35	1.35

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 (£1,000).

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: 0.036	Benefits: 1.35	Net: 1.31

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	0.142		Optional	0.142
High	0.191		Optional	0.191
Best Estimate	0.142		0	0.142

Description and scale of key monetised costs by 'main affected groups'

The transitional administrative costs are familiarisation (£0.049m or £0.098m) and initially finding a qualified independent examiner to replace an auditor (£0.093m).

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		3.6	3.6

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 (£1,000). It is estimated that 600 charities would no longer require an audit of their accounts (£4,750), but would require an independent examination by a qualified person (£1,000) 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: 0.142	Benefits: 3.6	Net: 3.46

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

We wish to seek views on whether the income thresholds for the scrutiny of charities' accounts in Northern Ireland should remain at the current levels or should be increased. 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 16% as the percentage for an £100,001 to £250,000 income band (combined percentages for the £100,001 to £200,000 and £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 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.

This is the Department's preferred option. It allows for a better informed decision as to the thresholds which are appropriate here. It should not raise any public confidence issues.

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 would be about 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 charities 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.

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%) 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 charities 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.

Monetised costs and benefits – Options 2 and 3

Costs

Option 1 does not propose any change to the thresholds in the Charities Act (Northern Ireland) 2008, so there are no change-related costs.

Familiarisation costs: A number of charities would be affected by changes in thresholds (from those published in the Charities Act (Northern Ireland) 2008) under options 2 and 3.

We have estimated that it would take one trustee an hour (best estimate) to read about changes in thresholds, check their charity’s income, and disseminate information to the other trustees. Trustees undertake their duties on a voluntary basis, but for the purposes of this impact assessment we have valued 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.

For option 2, the total familiarisation costs are therefore estimated to be £35,520 in respect of 1,600 charities (10,000 charities x 16% x £22.2 x 1 hour). Since familiarisation times can vary, depending on trustee's ability to check amounts and disseminate information, a high cost estimate based on familiarisation time of 2 hours is £71,040 (10,000 x 16 x 22.2 x 2). *These figures do not represent actual expenditure; rather they represent monetised voluntary effort.* Also, while these are familiarisation costs, there are benefits from the lower level of scrutiny of accounts.

For option 3, the total familiarisation costs are therefore estimated to be £48,840 in respect of 2,200 charities, which is £35,520 in respect of 1,600 charities (10,000 x 16 x £22.2 x 1) for a £100,001 to £250,000 income band plus £13,320 in respect of 600 charities (10,000 x 6 x £22.2 x 1) for a £500,001 to £1m income band. Since familiarisation times can vary, depending on trustee's ability to check amounts and disseminate information, a high cost estimate based on familiarisation time of 2 hours is £97,680, which is £71,040 (10,000 x 16 x £22.2 x 2) plus £26,640 (10,000 x 6 x £22.2 x 2). *These figures do not represent actual expenditure; rather they represent monetised voluntary effort.* Also, while these are familiarisation costs, there are benefits from the lower level of scrutiny of accounts.

Search costs: It is expected that an increase in the scrutiny thresholds may result in transitional costs to affected charities with finding an independent examiner.

For option 2, it is estimated that 1,600 charities (10,000 charities x 16%) with gross income over £100,000 up to £250,000 will not be required to have an independent examination of their accounts by a qualified person. In this case, search costs to find an (unqualified) independent examiner will be minimal. There are benefits from the lower level of scrutiny of accounts.

It is anticipated that many charities affected by a change to the audit threshold will continue to use their existing auditors to carry out the independent examination (all qualified auditors are also qualified to carry out independent examinations). In this case, search costs will be minimal: it is assumed that only an hour or two of trustee time will be required to negotiate an independent examination price with an existing auditor. In cases where existing auditors are unable or unwilling to carry out an independent examination, or where charities choose to change providers, more trustee time will be required to search for and compare rates of independent examination and come to an arrangement with a qualified person. As there is no available indication of what proportion of charities will change auditor as a result of a change to independent examination by a qualified person, 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 a change in the audit threshold.

For option 3, it is estimated that 600 charities (10,000 charities by 6%) will not require an audit of their accounts and be required to find a qualified independent examiner with a total search cost calculated at £93,240 (600 x 22.2 x 7). *This figure does not represent actual expenditure; rather it represents monetised voluntary effort.* The qualified independent examination that will take the place of the audit is less costly, so there are benefits from the lower level of scrutiny of accounts.

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

Threshold change familiarisation costs (option 2)				
<i>Estimate</i>	<i>Familiarisation time (hours)</i>	<i>Rate per hour (£)</i>	<i>Charities affected</i>	<i>Total (£m)</i>
High	2	22.2	1,600	0.071
Low	1	22.2	1,600	0.036
Best	1	22.2	1,600	0.036

Threshold change familiarisation costs (option 3)				
<i>Estimate</i>	<i>Familiarisation time (hours)</i>	<i>Rate per hour (£)</i>	<i>Charities affected</i>	<i>Total (£m)</i>
High	2	22.2	2,200	0.098
Low	1	22.2	2,200	0.049
Best	1	22.2	2,200	0.049

Search costs for a qualified independent examiner (option 3)			
<i>Search hours</i>	<i>Rate per hour</i>	<i>Charities affected</i>	<i>Total (£m)</i>
7	£22.2	600	0.093

Costs by Charity Income Band:

Option 1 does not propose any change to the thresholds in the Charities Act (Northern Ireland) 2008, so there are no change-related costs. Options 2 and 3 consider a lower level of scrutiny of accounts, which would save on the costs of independent examination by a qualified person or auditor (see **Benefits** section below)

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'³ found that 47% of people disagreed when asked if they trusted big charities more than smaller charities, compared to only 37% who agreed.

Benefits

Option 1

Option 1 does not propose any change to the thresholds in the Charities Act (Northern Ireland) 2008, so there are no change-related benefits.

³ Available online at:

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

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.

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.

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

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.

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

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.

Under this option it is estimated that the number of charities which would require an audit would decrease from 900 (10,000 × 9%) to 300 (10,000 × 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. The cost saving for those charities that no longer require an audit is estimated at £2.25m (£4,750 - £1,000 × 600 charities).

The total cost savings under this option are therefore estimated at £3.6m.

Summary and preferred option

Options 2 and 3 involve changes which would be made without an accurate profile of the charity sector here.

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

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.

The Department's preferred option is Option 1. 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. This option allows for a better informed decision as to the thresholds which are appropriate here. It should not raise any public confidence issues.