

# Charities Act Review: Reporting & accounting requirements for charities

## Consultation response

16<sup>th</sup> April 2012

CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. Our 14,000 members work throughout the public services, in national audit agencies, in major accountancy firms, and in other bodies where public money needs to be effectively and efficiently managed.

As the world's only professional accountancy body to specialise in public services, CIPFA's portfolio of qualifications are the foundation for a career in public finance. They include the benchmark professional qualification for public sector accountants as well as a postgraduate diploma for people already working in leadership positions. They are taught by our in-house CIPFA Education and Training Centre as well as other places of learning around the world. We also champion high performance in public services, translating our experience and insight into clear advice and practical services. They include information and guidance, courses and conferences, property and asset management solutions, consultancy and interim people for a range of public sector clients.

Globally, CIPFA shows the way in public finance by standing up for sound public financial management and good governance. We work with donors, partner governments, accountancy bodies and the public sector around the world to advance public finance and support better public services.

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**General Comment**

- 1. CIPFA welcomes the opportunity to respond to the Charities Act Review call for evidence on the reporting and accounting requirements for charities. CIPFA plays an active part in civil society. As a charity, accounting institute and member based support organisation, CIPFA contributes to developing and strengthening the capacity of civil society within a rapidly changing economic and social landscape.

**Comments**

- 2. This response focuses on the questions included in the call for evidence document on reporting and accounting requirements for charities. We have included the table format and original question numbering (set out below) to aid analysis.

**Reporting and accounting requirements for charities – response to questions**

**Question 1:** Do you think that the current thresholds at which charities have to send their accounts and Annual Reports to the Charity Commission are set at the right level? Should smaller charities have to comply, so that their information can be made available to the public as well? Or should the threshold be raised, so relaxing the requirement for other charities?

**Response to question 1**

The current thresholds for charities to send their accounts and annual reports to the Charity Commission are at a reasonable level given that they reflect the particular position of charities with regard to stewardship of public funds and the importance of maintaining public confidence in charities.

We would also recommend that charities falling below the current thresholds should be encouraged to voluntarily file their accounts and, where these are provided, that these accounts should be made available on the Charity Commission website to view online.

Making these smaller charity accounts available for viewing online would encourage and support accountability and transparency. It also would improve opportunities for researchers interested in undertaking accounting research on smaller charities.

**Question 2:** If you are a charity, do you think the regulatory burdens around accounts and reports (preparation, scrutiny, and/or submission) are too onerous? Could the burdens be lightened without putting at risk public confidence in the sector?

**Response to question 2**

In line with our response to question 1, given the need for ensuring accountability and transparency in relation to the stewardship of charity funds and maintaining public confidence, we would not recommend lightening the regulatory requirements regarding accounts and reports (preparation, scrutiny, and/or submission).

**Question 3:** Do charity accounts and Annual Reports provide the information the public and other stakeholders need about a charity? How could the presentation of information be improved? Do you have any other comments on the preparation of charity accounts and reports?

### **Response to question 3**

Our view is that, overall, the charity accounts and annual report provide a reasonable level of useful information to the public about the charity. This includes the non-financial information provided in the annual report.

There do, however, appear to be two areas where the non-financial reporting could be strengthened:

- Sustainability reporting
- Impact reporting

While we would not want to unnecessarily increase the reporting burden for charities it would seem appropriate to include a concise environmental sustainability report on the charity's use of key finite resources (such as energy and water). This could be as simple as reporting associated costs and amounts consumed. Reporting on waste management could also be included, given the pressure on landfill and the increasing need to recycle.

In terms of impact reporting, this is a developing area and it would be useful to see annual reporting reflect this development in terms of encouraging charities to consider and report on their impact.

In addition, in relation to receipts and payments accounts, we recommend the introduction of a standardised form of reporting. While the existing guidance and templates on receipts and payments accounting are helpful it would be better if they were given greater weight as a standard approach that charities would be expected to adopt.

**Question 4:** Is it useful for charity information including accounts and Annual Reports to be available through the Commission's website? Have you ever tried to find these documents through the Commission? Did the information meet your needs? Is there other information that should be available on the Commission's website?

### **Response to question 4**

Yes the inclusion, on the Commission's website, of charity information including accounts and annual reports is extremely useful and is an important component in ensuring accountability and transparency to a range of stakeholders, including current and potential donors.

It is also an extremely useful resource for researchers working in the field of charity accounting. This can only be a good thing in improving our understanding of and assessment of the quality of charity accounting and reporting across the board but also within specific charity sub-sectors.

**Question 5:** Are the scrutiny requirements for charity accounts proportionate and set at the right levels? Do you have any comments on the requirements for independent examination or audit of accounts, or the various financial thresholds at which different requirements apply?

### **Response to question 5**

Our view is that, overall, the scrutiny requirements for charity accounts are

proportionate and set at the right levels. We would however welcome a move to harmonise the thresholds across England & Wales, Scotland, and Northern Ireland.

In relation to the prescribed list of those able to undertake independent examinations above £250,000, we recommend consideration of the potential benefits of including persons who hold relevant charity accounting qualifications approved by accounting institutes but who are not on the prescribed list. Two examples are:

- CIPFA - Certificate in Charity Finance and Accountancy
- ICAEW - Diploma in Charity Accounting

Currently persons who hold these qualifications will only be on the prescribed list if they are members of one of the listed bodies. We would ask that this be reviewed to consider if the inclusion of persons with the above or similar qualifications would be a useful step and if so, how that might be progressed and on what terms.

For information, the CIPFA Certificate in Charity Finance and Accountancy is a joint professional and academic qualification for individuals working in charity finance who do not yet hold a recognised finance qualification specific to their vocation. The four modules cover:

- Charity finance and accounting
- Voluntary sector financial management
- Advanced charity accounting
- Taxation of charities

Those who successfully complete the course can apply for affiliate membership of CIPFA.

**Question 6:** Did you know that a charity must provide its accounts and (unless it is unregistered) its Annual Report to any member of the public who asks for it? Have you ever asked a charity for these documents, or looked for them on a charity's website? If you are a charity, do you make them available on your website, if you have one?

**Response to question 6**

We were aware of that requirement. We do make our annual report and accounts available on our website. See: [www.cipfa.org.uk/corporate/annual\\_report.cfm](http://www.cipfa.org.uk/corporate/annual_report.cfm)

The facility to access annual reports and accounts on the Charity Commission website, however, does provide an important additional channel which in many cases is easier to access when compared to searching an individual charity's website.

**Question 7:** Are there other ways to make the information contained in charities accounts and Annual Reports available to the public? For example, should charities publish them on their own website, if they have one?

**Response to question 7**

In order to ensure accountability and transparency, we believe that it is very important for charities to make their accounts and annual reports available on their own websites or at minimum to include a link to the Charity Commission's website.

However, we would not recommend that smaller charities that are currently not required to file their accounts with the Charity Commission, be required to include their accounts on their website (if they have one). While they could be encouraged to include them voluntarily, it would seem unreasonable to require these smaller charities to include their accounts on their website while the regulator does not require them to file their accounts with them.

**Question 8:** What sanctions should there be for charities that fail to submit accounts and Annual Reports to the Commission within ten months of the end of their financial year? Is “naming and shaming” enough? What other sanctions would be appropriate, for example fines, suspension of registered charity status, or suspension of access to charity tax exemptions and reliefs?

**Response to question 8**

While based only on anecdotal evidence our understanding is that the “naming and shaming” approach does work and that some donors do look on the website and note if the charity is late filing.

Rather than introduce any further sanctions at this point, we recommend that research be commissioned to study the effectiveness of the current approach and the degree to which any proposed changes are likely to result in significant improvements. Part of this process should consider the additional administrative costs and the potential financial burden it might create for smaller charities with limited funds.

**Question 9:** Do you have any other comments on the accounting and reporting requirements that apply to charities?

**Response to question 9**

Our view is that the development of the charity accounting and reporting framework including the charity SORP has improved the quality of reporting over the years. The SORP plays a pivotal role in this, as a comprehensive source of guidance which can be accessed by charity workers (paid and unpaid) who may only have a partial knowledge of accounting as well as accountants with only a partial knowledge of charities and their accounting requirements.

Having said that, there is always more to do in regard to improving understanding of charity accounting and reporting, especially in regard to readers of accounts with limited or no knowledge of charity accounting. We see an important role here for institutes like our own in improving public understanding and to this end we will continue to produce educational and training resources aimed at both accountants and non-accountants in the charity sector.