

Charity Commission
The Office of the Third Sector
Charities Act 2006 - Roadshow



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What changes for accounts?



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- Increased thresholds for audit and independent examination
- Harmonisation of audit and examination arrangements for company and non-company charities
- A group accounts framework – reflecting operating structure of many charities today
- A new statutory reporting duty and protection for auditors and examiners

First implementation order



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First implementation order on 27 February 2007

- Section 28 and Section 32 of 2006 Act – increases audit and examination thresholds
- Amends **Section 43** of the 1993 Act and **Section 249A(4)** and **Section 249B(1C)** of Companies Act 1985

New audit thresholds For non-company charities



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For Accounts commencing on or
after 27 February 2007

Accounts professionally audited if:

- **gross income over £500,000; or**
- **gross income of more than £100,000
and the value of gross assets is over
£2.8 million.**

New examination thresholds For non company charities



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For Accounts commencing on or after 27 February 2007

Independent examination is required when:

- **Gross income exceeds £10,000**

If the income is above £250,000 then:

- **Independent examiner must be member of a body scheduled in Act.**

New scrutiny requirement for company charities



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For Accounts commencing on or after 27 February 2007

No external scrutiny if:

- **Income not more than £90,000 and balance sheet total not more than £2.8m**

Accountants Report option if:

- **Income is between £90k and £500k and balance sheet total not more than £2.8m**

Professional audit if:

- **Income more than £500k or balance sheet total of more than £2.8m**

Second implementation order – latter part of 2007



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- Section 77 – Order power to apply Charities Act's external scrutiny and group accounts provisions to small charitable companies
- Section 30 - New group accounts framework – new Section 49A and Schedule 5A to 1993 Act
- Section 29 and 33– whistle blowing duty and protection for auditors and examiner brought into primary legislation – new sections 44A and 68A inserted into 1993 Act

Section 77 Audit and Examination



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Order made under Section 77 will:

- Bring small company charities into Charities Act scrutiny regime
- Small charitable companies will be subject to same examination and audit regime as non-company charities
- Audit exemption reports by Reporting Accountant and special audit requirements for charitable companies will be removed from Companies Act
- Long awaited “level playing field” created

Section 77 Implementation



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- Order will be subject to consultation
- Affirmative resolution needed from both Houses
- Special provisions in Companies Act for the audit of Charitable Companies will be removed (at same time)
- Consequential changes also needed to Accounts and Reports Regulations

Section 30 ... A framework for group accounts



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- Many charities undertake trades through subsidiaries
- Although SORP recommends preparation of group accounts no framework existed under Charities Act
- Group accounts essential if accounts are to reflect economic reality of how charities structure their activities
- Section 77 order will include small company charity groups within the framework

Regulations to be made under Schedule 5A



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- To set threshold for preparation and audit of group accounts
- Provide form and content, methods and principles, and notes to accounts
- Content of an extended of Trustees' Annual Report to include activities of subsidiaries
- Also a number of technical matters including financial years, auditors rights, exclusions from consolidation and calculation of aggregate gross income

Consultation on Regulations...



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- A key issue will be threshold for preparation and audit of group accounts...
- Balance of good practice, accountability and regulatory costs...
- Proposed threshold mirrors current SORP recommendation – aggregate gross income of £600,000 (before consolidation adjustments) and £500,000 net

When will changes be introduced?



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- Consultation on Section 77 order and new Accounts and Reports Regulations imminent
- Order and Regulations to be laid towards the end of 2007
- Target date – Accounting periods commencing on or after 1 January 2008

What the Act gives us....



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- More appropriate external scrutiny thresholds (with a promise to review)
- Long awaited harmonisation of scrutiny requirement between company and non-company charities
- Group accounting provisions reflecting the economic realities of how charities structure their activities
- An auditor's duty that helps protect the integrity of sector and safeguards auditors