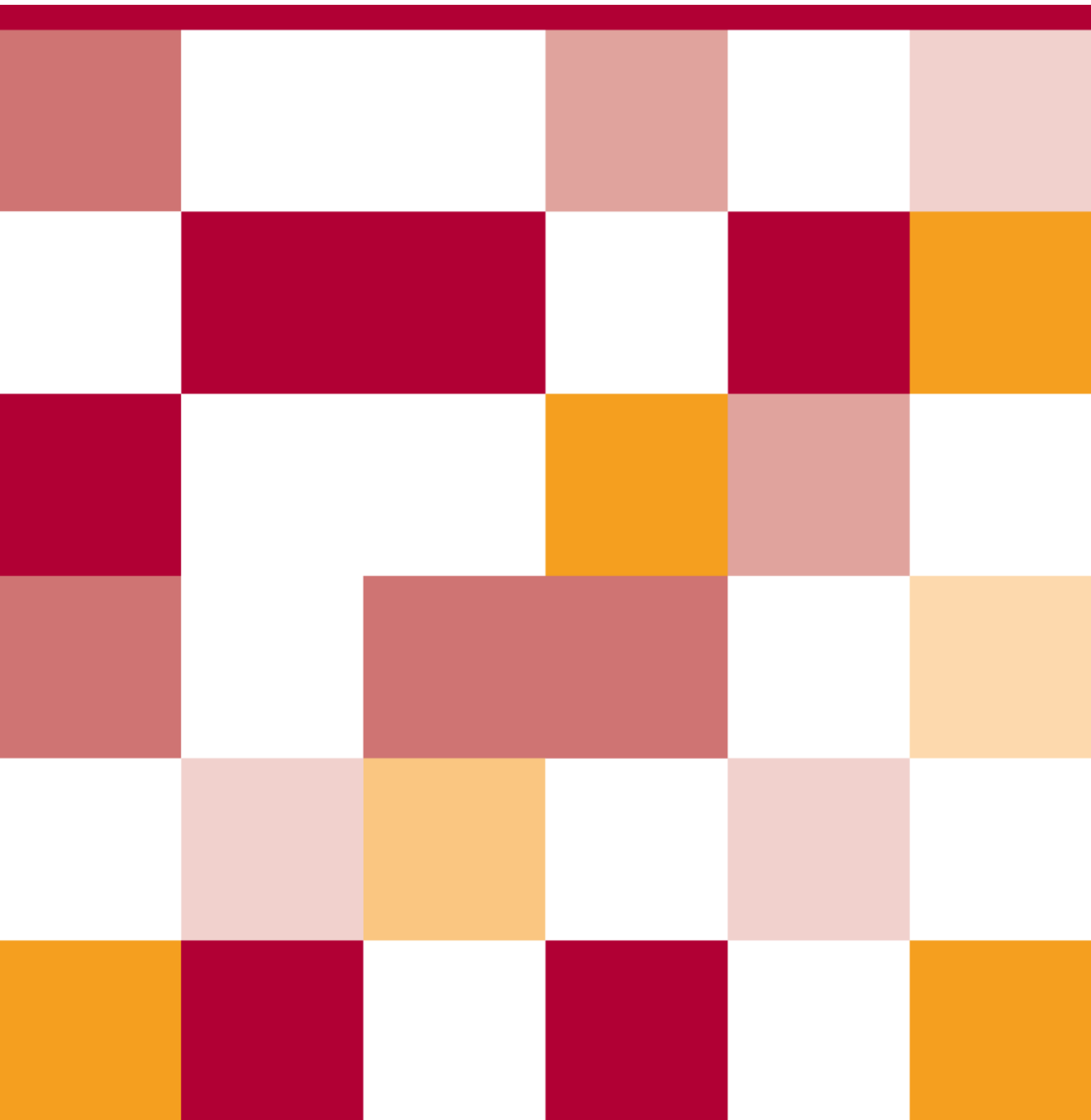




Charities Act 2006: Changes to the Accounting and Reporting Framework for charities

Draft Regulatory Impact Assessment



Draft Charities Act 2006 (Amendments reflecting changes in
Company Law Audit Provisions) Order 2007

&

Draft Charities (Accounts and Reports) Regulations 2007

PARTIAL REGULATORY IMPACT ASSESSMENT

for
Charities in England and Wales
(other than investment fund charities)

June 2007

Contents	Paragraph
Proposals	1
Purpose and intended effect of measures	2
The preparation and audit of group accounts and the content of group annual reports	2.1
External scrutiny of small company charities' accounts	2.2
Reporting public benefit in trustees' annual reports	2.3
Devolution	3
The background	4
The framework of group accounts	4.1
Threshold for preparation and audit of group accounts	4.2
Trustees' annual report – group accounts	4.3
External scrutiny of small company charities' accounts	4.4
Reporting public benefit in trustees' annual reports	4.5
Risk assessment	5
The preparation and audit of group accounts and the content of group annual reports	5.1
External scrutiny of small company charities' accounts	5.2
Reporting public benefit in trustees' annual reports	5.3
Options	6
The preparation and audit of group accounts and the content of group annual reports	6.1
External scrutiny of small company charities' accounts	6.2
Reporting public benefit in trustees' annual reports	6.3

INDEX (cont.)	Paragraph
Charity sub-sectors affected	7
The preparation and audit of group accounts and the content of group annual reports	7.1
External scrutiny of small company charities' accounts	7.2
Reporting public benefit in trustees' annual reports	7.3
Race impact assessment	8
Sustainable development	9
Cost calculations	10
The preparation and audit of group accounts and the content of group annual reports	10.1
External scrutiny of small company charities' accounts	10.2
Reporting public benefit in trustees' annual reports	10.3
The small firms' impact test	11
Competition assessment	12
Enforcement and sanctions	13
Monitoring and review	14
Consultation	15
Within government	15.1
Public consultation	15.2
Reducing the burden of forms	16
Summary and recommendations	17
Declaration	18
Contact point	19

1. Proposals

- 1.1 This Regulatory Impact Assessment (RIA) examines the impact of additions and changes to the accounting and reporting requirements currently placed on charities in England and Wales by the Charities (Accounts and Report) Regulations 2005 SI 572 (“the 2005 Regulations”) that are considered necessary as a consequence of the changes to Part 6 of the Charities Act 1993 (“the 1993 Act”) made by the Charities Act 2006 (“the 2006 Act”).
- 1.2 Perhaps the most significant change introduced by the 2006 Act is the insertion of a new section 49A and Schedule 5A into the 1993 which creates a new provision for the preparation and scrutiny of the group accounts of parent charities and their subsidiary undertakings. The proposed Regulations are required to provide a framework enabling the preparation of group accounts, related notes and their audit together with an expanded trustees’ annual report that includes the activities of subsidiary undertakings.
- 1.3 This RIA also examines proposed Regulations resulting from other changes to Part 6 of the 1993 Act which are expected to be made by the Charities Act 2006 (Amendments reflecting changes in Company Law Audit Provisions) Order 2007 (“the draft section 77 order”). In particular, this RIA looks at proposed Regulations to address changes in the accounts scrutiny regime for charities that are companies which will occur when section 1175 and Schedule 9 of the Companies Act 2006 are brought into force. Regulations will be necessary to provide for the reporting duties of auditors and independent examiners of charitable companies where the accounts will not have to be audited under company law.
- 1.4 The draft section 77 order will also extend the scope of the new group accounts provisions to those parent charities which are companies but which do not, under company law, have any obligations in relation to the preparation or audit of group accounts. Again, Regulations are required to provide the reporting duties of auditors.
- 1.5 In addition, the 2006 Act reinforces the requirement that the purposes of a charity should benefit the public. This RIA also examines the impact of changes to

Regulations relating to the trustees' annual report considered necessary to provide a mechanism for reporting how this public benefit requirement is met through the activities of a charity.

1.6 There are other changes made by the 2006 Act to Part 6 of the 1993 Act which will involve some changes to the 2005 Regulations which are not considered to give rise to any significant regulatory costs or savings, and are therefore excluded from this assessment, these include:

- Providing for the reporting duties where an independent examination of a health service charity following the introduction the Regulatory Reform (National Health Services Charitable and Non-Charitable Trust and Accounts) Order 2005;
- A proposed Regulation requiring an independent examiner to report qualifications held where the income of the charity exceeds £250,000;
- Deletion of the existing whistleblowing provision applying to auditors and independent examiners under the 2005 Regulations which are now provided for in the new section 44A of the 1993 Act; and
- A restriction of the existing disclosure of particulars of grants made in the notes to the accounts so that the requirements are compatible with the new section 42 (2A) of the 1993 Act which does not require the disclosure of details of institutional grants made by a charitable trust during the lifetime of a settlor or any spouse or civil partner of the settlor.

1.7 This RIA, in its analysis of the proposed Regulations, classifies the proposals into three broad categories of change relating to:

- The preparation and audit of group accounts and the content of group annual reports;
- The external scrutiny of the accounts of small companies that are charities;
- The reporting of public benefit in the trustees' annual report.

1.8 A separate consultation document and RIA has been prepared in relation to a small number of minor changes proposed in the Regulations affecting the

accounting requirements of common investment funds and common deposits funds (investment fund charities). Copies of these two documents are available electronically at:

http://www.cabinetoffice.gov.uk/third_sector/law_and_regulation/charities_act_2006/implementation.asp.

2. Purpose and intended effect of measures

2.1 The preparation and audit of group accounts and the content of group annual reports.

2.1.1 The draft Regulations:

- set the threshold requirements for the preparation of group accounts by parent charities, and for the scrutiny of those accounts;
- provide a framework for the preparation group accounts, including notes to the accounts and for the expansion of the trustees' annual reports so as to include information relating to subsidiary undertaking(s).

2.1.2 The purpose of the draft Regulations is to provide a concise yet workable framework for the preparation of group or consolidated accounts and to provide for the content of the notes to group accounts and the accompanying group annual report. The proposed Regulations reflect current sector practice and are consistent with financial reporting standards and practice and the recommendations contained within the Charities Statement of Recommended Practice (SORP).

2.1.3 Similar objectives apply to the reporting duties placed on auditors of group accounts. Again current sector practice for most non-company charities preparing group accounts is to extend the auditors' duties under the 1993 Act, that apply to individual accounts, to include an audit opinion on the group accounts. The proposed Regulations build on these existing reporting duties

and provide similar reporting duties in the context of group accounts.

2.1.4 In the context of parent charities that are companies preparing group accounts under the 1993 Act, a similar approach is adopted, with existing reporting duties placed on charity auditors modified to reflect company law and to enable an audit opinion to be given on the group accounts.

2.1.5 The overall purpose of the proposed changes is to ensure that the accounting and reporting framework continues to be relevant to charities' reporting needs and to maintain appropriate accountability to stakeholders and the wider public for the resources controlled.

2.2 External scrutiny of small company charities' accounts

2.2.1 Currently, the accounts scrutiny provisions of Part 6 of the 1993 Act do not apply to charitable companies. The draft section 77 order will apply the accounts scrutiny provisions of Part 6 to the individual accounts of those charitable companies, where those accounts do not have to be audited under company law.

2.2.2 The proposed Regulations set out the reporting duties placed on the auditor or independent examiner of a small company charity when that audit or examination is undertaken under the 1993 Act. The reporting duties proposed in the Regulations are based on the existing reporting duties that currently apply to non-company charities modified, in so far as necessary, to recognise the company law framework applying to the accounts preparation of company accounts. This will result in a simpler, more consistent framework of reporting duties.

2.3 Reporting public benefit in the trustees' annual reports

2.3.1 The 2006 Act includes a statutory definition that, to be a charity, an organisation must have purposes which fall within the descriptions of charitable purposes introduced by the 2006 Act and that these purposes must be for the public

benefit.

- 2.3.2 In order to provide charity trustees with a mechanism to report on how they meet this public benefit requirement, the proposed Regulations amend the existing requirements of trustees' annual report so it can be done as part of reporting a charity's activities and achievements.
- 2.3.3 The proposed Regulations take forward proposals contained in the Charity Commission's consultation on their draft public benefit guidance. They take a proportionate approach that is consistent with the principle that small charities should not have the same regulatory requirements as larger ones. The proposals also reflect the established principle that charities which are subject to audit are also subject to different levels of accountability and hence should provide more detailed information in their trustees' annual reports than those not subject to audit.

3. Devolution

- 3.1 The accounting and external scrutiny proposals affect registered and excepted charities in England and Wales. Proposals relating to the trustees' annual report and group annual reports only affect charities in England and Wales that are required to prepare a trustees' annual report.
- 3.2 The changes to the audit regime for small charities that are companies, which will be made by sections 1175 and schedule 9 of the Companies Act 2006, affect charitable companies throughout the United Kingdom.

4. The background

4.1 The framework for group accounts

- 4.1.1 The 2006 Act inserts a new section 49A and Schedule 5A into the 1993 Act which creates new provisions for the preparation and audit of group accounts of

parent charities and their subsidiary undertakings. The draft section 77 order will extend the scope of these provisions to those parent charities which are companies but which do not, under company law, have an obligation to prepare group accounts.

- 4.1.2 Before this change, the preparation of group accounts was a practice recommended by the Charities SORP and applied to those charities where the combined income of the group exceeded the statutory charity audit threshold for individual accounts. The preparation of group accounts is now general sector practice. However, until the 1993 Act was amended by the 2006 Act, no legal status was given to group accounts by charity law.
- 4.1.3 Charity law only required the preparation of entity or individual accounts reflecting those activities carried out directly by the charity and the resources it controlled directly. Similarly, there was no legal provision for an annual report to accompany group accounts.
- 4.1.4 However, charities are making increasing use of group structures using trading subsidiaries to undertake income generating trades and, on occasions, to conduct certain of their charitable activities through subsidiaries to help isolate the charity from risk. The purpose of group accounts is to present financial information about the activities of a parent charity and its subsidiary undertakings as a single entity and to show the resources controlled by the group, its obligations and the results achieved with its resources.
- 4.1.5 Larger charitable companies that are parent charities are required by company law to prepare group accounts and smaller parent charities are able to do so, on a voluntary basis. However, the threshold set for the preparation and audit of group accounts did not differentiate between charitable and commercial companies. The Charities SORP's recommendations, which set a lower threshold for the preparation of group accounts, are also generally applied by charitable companies.
- 4.1.6 The changes introduced by the 2006 Act were in response to a sector sponsored amendment to the Bill. Whilst the 2006 Act creates the requirement

for group accounts, Regulations are required in order to provide a workable and practicable framework for both preparers and auditors of group accounts. The proposed Regulations set out:

- how to determine the aggregate gross income of the group for threshold purposes;
- the threshold at which group accounts should be prepared and audited;
- the form and content of group accounts, the methods and principles to be used in their preparation, information to be included by way of notes and the content of a group annual report;
- the circumstances in which a subsidiary may or must be excluded from the group accounts;
- dealing with differing financial years of group members and the duties of charity trustees of parent charities to secure that the financial years of group members coincide; and
- an auditor's rights to information in relation to subsidiary undertakings.

4.1.7 The proposed Regulations have built on the framework already provided for by the existing 2005 Regulations for individual accounts of charities. In dealing with consolidation methods and principles reliance has been placed on generally accepted accounting practice supplemented by the Charities SORP's recommendations. In this way both the length and complexity of the Regulations is reduced and ensures the proposed Regulations accord with existing sector and recommended practice.

4.2 **Threshold for preparation and audit of group accounts**

4.2.1 The draft Regulations propose that groups with an aggregate gross income of more than £600,000 before consolidation adjustments and £500,000 net of consolidation adjustments should be required to prepare group accounts. The draft Regulations also propose the same threshold for the audit of group

accounts.

- 4.2.2 It would clearly be illogical to require an audit of group accounts where there is no requirement for group accounts to be prepared and similarly to require the preparation of group accounts without the assurance provided by audit would limit the value of group accounts to users.
- 4.2.3 The threshold proposed is also consistent with the Charities SORP which recommends the preparation of group accounts where the aggregate gross income of the group exceeds the audit threshold applying to an individual charity's accounts. This recommendation is generally applied by the charity sector.

4.3 **Trustees' annual reports – group accounts**

- 4.3.1 Regulations currently set out the content of a trustees' annual report accompanying the individual accounts of a charity and provide for a review of the activities of a charity. In addition, the annual report provides other information relating to the charity, its trustees or officers. Regulations are needed to ensure this framework remains relevant to the reporting needs of charities that prepare group accounts and the information needs of users of the group annual report and accounts.
- 4.3.2 The Charities SORP recommends that charities, which are subject to statutory audit, include in the trustees' annual report an explanation of the significant activities undertaken through subsidiary undertakings and a review of the achievements and performance of subsidiary undertakings. The Regulations build upon this recommended practice.
- 4.3.3 Accompanying information contained in the annual report is vital in explaining the numerical information contained in the accounts. It is therefore important, if this policy objective is to be maintained, for the annual report accompanying group accounts to also address the activities, achievement and policies of both the parent charity and the subsidiary undertakings it controls.

4.3.4 The proposed Regulations seek to build on existing Regulations extending the report to the aims and objectives set for subsidiary undertakings, the strategies for achieving them and details of activities and achievement. In addition, key policy statements in relation to investment performance and policies, reserves and risk management are extended to include subsidiary undertakings.

4.4 External scrutiny of small company charities' accounts

4.4.1 The draft section 77 order will bring small company charities into the scrutiny regime of Part 6 of the 1993 Act (ie those charitable companies which are not required to have their individual accounts audited under company law).

4.4.2 The 2006 Act will simplify the external scrutiny arrangements for company and non-company charities by providing a common framework. This will address a long standing sector concern as to the inconsistencies between the external scrutiny arrangements applied by the Companies Act to smaller company charities and those applied by the 1993 Act to non-company charities.

4.4.3 The extension of the accounts scrutiny regime in Part 6 to the individual accounts of small charitable companies creates a need for the new accounting and reporting Regulations to address the reporting duties of auditors and independent examiners of small company charities. The policy approach has been to apply those duties that currently apply to the auditors and independent examiners of non-company charities, modified, in so far as necessary, to recognise the company law framework applying to their preparation.

4.5 Reporting public benefit in trustees' annual reports

4.5.1 All charities have to provide benefit to the public in order to justify their charitable status. The 2006 Act reinforces the requirement that their purposes benefit the public, and that this applies to every charity in England and Wales. The Charity Commission, the independent regulator of charities, has defined statutory objectives that include promoting awareness and understanding of public benefit as well as enhancing the effectiveness of charities and improving

their accountability.

- 4.5.2 This accountability could be enhanced by charities reporting on how they meet the public benefit requirement. Information provided in the trustees' annual report already explains a charity's purposes, activities and achievements and it is envisaged that where they do not already do so, these explanations should include reference to the charity's public benefit. Many charities are already starting to address this issue of "public benefit" in their annual reporting.
- 4.5.3 It is also recognised that there is a need to balance the desire for greater transparency and accountability by charities about the benefits they provide to the public, against commitments to avoid unnecessary administrative burdens on charities. A 'one size fits all' approach to reporting on public benefit is therefore not considered to be appropriate.
- 4.5.4 For charities below the new statutory audit threshold introduced by the 2006 Act, the proposed Regulations would require the charity trustees to give consideration to the Charity Commission's public benefit guidance, and set the currently required explanation of main activities in the context of the public benefit requirement.
- 4.5.5 Larger charities, above the audit threshold, would be required to provide a review of significant activities undertaken during the year in order to further its purposes for the benefit of the public. As currently, the review would provide details of the aims and objectives sets by the charity trustees and of the strategies and activities for achieving them. Similarly, details would continue to be provided of achievements by reference to the aims and objectives set.
- 4.5.6 All charities required to prepare a trustees' annual report would also be required by the proposed Regulations to confirm in the annual report that the charity trustees have, in the administration of the charity, paid due regard to any guidance published by the Commission under section 4 of the 2006 Act on public benefit.

5. Risk assessment

5.1 The preparation and audit of group accounts and the content of group annual reports

5.1.1 In the absence of the proposed Regulations charities would need to rely entirely on financial reporting standards and the Charities SORP to determine the methods and principles used for consolidation and the preparation of group accounts. Similarly, auditors would lack a statutory framework for their audit reporting on group accounts.

5.1.2 The accompanying information contained in the trustees' annual report has particular importance, enhancing the relevance and understanding of the financial information contained in accounts. The proposed Regulations maintain the existing focus of the annual report ensuring the key issues of aims and objectives, strategies and achievement are reported in a group context.

5.1.3 Without the framework provided by the proposed Regulations, implementation of the group accounting and reporting provision would remain problematic. Significant areas of uncertainty would arise, for example, the format and specific matters to be included in the auditor's report; how exactly a group annual report should be structured; and, what specific notes to the group accounts are necessary.

5.1.4 The approach adopted by the proposed Regulations minimises these risks and uncertainties by providing a framework that builds on current charity reporting practice but limits the detail and content of Regulations to that considered compatible with the provision a workable framework.

5.2 External scrutiny of small company charities' accounts

5.2.1 Whilst primary legislation sets the requirement and thresholds for independent examination and audit, the Regulations set the reporting duties placed on charity auditors and independent examiners.

5.2.2 Regulations are needed to apply the existing reporting duties of a charity auditor

and independent examiner to the small company charities that will fall within the scrutiny regime of the 1993 Act. Without the proposed Regulations these duties would be unspecified creating uncertainty as to what matters should be included in the report which would lead to inconsistency between the independent examination of small company and non-company charities.

5.3 Reporting public benefit in trustees' annual reports

5.3.1 The public benefit requirement is not a new requirement for charities. Charities must already have purposes which benefit the public. The 2006 Act has reinforced this requirement by explicitly including public benefit in the definition of a charitable purpose and by requiring charity trustees to have regard to any Charity Commission guidance on public benefit.

5.3.2 Assessing whether charities are continuing to meet the public benefit requirement is an important tool in maintaining an accurate register of charities. If the Charity Commission fails to apply the public benefit test, there is a risk that there will be organisations on the register which are not for the benefit of the public. This will affect the overall credibility of the register, and how it is perceived and used by the public, potential donors and funders.

5.3.3 The proposed Regulations address this risk through annual reporting requirements in a proportionate manner. The proposals reflect the established principle that charities which are subject to audit are also subject to different levels of accountability and hence are required to provide more detailed information in relation to the public benefit aspects of their purposes in their annual report than those not subject to audit.

6. Options

6.1 The preparation and audit of group accounts and the content of group annual reports

Option 1: Rely on existing regulations

6.1.1 Without the proposed Regulations, a legal requirement would exist requiring the

preparation of group accounts, notes to the accounts and a group annual report. However, there would be no framework within Regulations for their preparation or for their content. Regulatory costs would still arise from this legislative requirement but preparers would lack the framework necessary to implement these requirements without the proposed Regulations. Similar issues would arise in the context of auditors' reporting duties. A duty to report would exist in law but there would be no framework setting consistent reporting duties that apply to all auditors of group accounts. Although use could be made of existing voluntary best practice, such as the Charities SORP, the uncertainty as to the appropriate form and content may cause increased compliance costs and inconsistent practices.

Benefits

- 6.1.2 This option would not provide any benefits as it would fail to deliver a framework that can be applied consistently to the preparation of group accounts and their audit. Compliance costs would not be reduced by this option.

Option 2: Implement the proposed Regulations

- 6.1.3 This option involves the introduction of proposed Regulations to create a necessary framework for group accounts prepared under the 1993 Act and their audit. The approach has been to create a workable framework for the preparation and audit of group accounts and to do so as economically as possible in terms of the requirements introduced.

Benefits

- 6.1.4 A concise and workable framework is provided building on the framework that already exists under the 2005 Regulations for individual accounts of charities and the Charities SORP.

Option 3: Implement the proposed Regulations but at a higher income threshold

- 6.1.5 The preparation and audit of group accounts is now general practice within the charity sector. The proposed threshold set for the preparation of group accounts mirrors that recommended by the Charities SORP and creates audit and preparation thresholds based on the aggregate gross income of a group rather than just that of parent charity.

- 6.1.6 The preparation of group accounts is already voluntary sector best practice, and so the threshold set does not create any additional compliance cost for the vast majority of parent charities that already prepare group accounts. However, we would be particularly interested in sector views on this issue and whether the threshold for the preparation and audit of group accounts could be set at a higher level. For example, aggregate gross income of £1m (mirroring the Charity Commission's threshold for filing a Summary Information Return) or even at £5.6m (mirroring the income threshold under company law applying to companies more generally).
- 6.1.7 This approach would increase some risks as parent charities could then avoid audit by using subsidiaries and thereby reducing the income received directly by a charity to a level below the audit threshold applying to individual charity accounts. Also the transparency and accountability of a charity which uses subsidiaries, as opposed to its peers which may not, will be reduced and information relating to activities and resources controlled through subsidiaries will not be as accessible to stakeholders and other users of accounts.

Benefits

- 6.1.8 Whilst compliance costs would not necessarily be reduced, this option would recognise sector practice in this area, but only make group accounting, audit and annual reporting mandatory at a higher level of income. This option places reliance on the continued application of good accounting practice in this area by the sector and an acceptance that a minority may choose not to prepare group accounts in the absence of regulatory requirements.

6.2 External scrutiny of small company charities' accounts

Option 1: Rely on existing regulations

- 6.2.1 Without the proposed Regulations, the law would still require the audit or independent examination of the individual accounts of small company charities, but the reporting duties would be unspecified. Moreover, existing Regulations cannot be applied as they refer only to accounts prepared under the charities' accounting framework and not to those prepared under company law

provisions.

- 6.2.2 Auditors and examiners of small company charities would therefore be in an anomalous position of being enabled by the legislative changes to undertake such assignments but have no reporting duties set by Regulations. In the absence of a reporting framework provided by the proposed Regulations, there is likely to be confusion amongst trustees, practitioners and the sector as to what is required.

Benefits

- 6.2.3 This option would not provide any benefits as it would fail to provide a consistent framework for the reporting duties of auditors of charity groups and not reduce regulatory costs.

Option 2: Implement the proposed Regulations

- 6.2.4 Whilst existing Regulations provide for the reporting duties of charity auditors and independent examiners on the individual accounts of non-company charities, the proposed Regulations are necessary to address the legislative changes. In particular, the proposed Regulations are needed to specify the reporting duties to be applied by auditors and examiners of small company charities. The approach has been to modify the existing duties placed on charity auditors to recognise the company law framework applying to their preparation.

Benefits

- 6.2.5 This option provides a reporting framework for the audit and examination of small company charities that is consistent with the requirements placed on non-company charities by the existing Regulations. It brings them into a regime designed specifically for charities.

6.3 Reporting public benefit in trustees' annual reports

Option 1 – Do nothing

6.3.1 All charities must have charitable purposes which are for the public benefit. In the absence of a reporting mechanism in relation to the public benefit requirement a number of objectives inherent in the 2006 Act are risked. For example there will be a greater risk of:

- there being organisations on the register of charities which do not meet the public benefit requirement;
- the Charity Commission not fulfilling its statutory public benefit objective; and
- damage to public trust and confidence.

Benefits:

6.3.2 No increase in the regulatory burden on the sector.

Option 2 – Implement the proposed Regulations

6.3.3 This option recognises the central role of the trustees' annual report in providing information about a charity's aims, objective, activities and achievements and proposes that this established reporting mechanism is used to provide information relating to public benefit.

6.3.4 All registered charities below the audit threshold (gross income of £500,000 or less and an aggregate value of assets of £2.8m or less where income exceeds £100,000) would set the brief summary of their main activities, currently required, in the context of how its purposes further the benefit of the public. Larger charities, with a statutory audit requirement, would provide a review of significant activities undertaken in order to further its purposes for the benefit of the public.

6.3.5 All registered charities would include a simple statement in their trustees' annual report confirming that the charity trustees have considered any guidance published by the Charity Commission under section 4 of the 2006 Act in relation to the public benefit requirement.

6.3.6 It should be noted that proposals for simplifying various charity law thresholds,

including increasing the threshold for the preparation of the Trustees' Annual Report, are to be published for consultation in autumn 2007. If a proposal to increase the threshold for the preparation of the Trustees' Annual Report is taken forward, this would reduce the number of charities affected by these regulations.

Benefits

6.3.7 This approach supports greater transparency in sector reporting creating a focus on how charities benefit the public thereby enhancing public trust and confidence in their work. In addition, trustees are made aware, through reference to Charity Commission guidance, of how to fulfil their obligations to ensure their charity provides public benefit.

Option 3 – Reporting public benefit through the Commission's Annual Return process

6.3.8 An alternative approach would be for charities to report on their public benefit requirement through the Charity Commission's Annual Return process. For example, charities with an annual income between £10,000 and £100,000 could self certify on their Annual Return that their charity continues to meet the public benefit requirement and that they have had regard to Charity Commission guidance on public benefit where relevant.

6.3.9 Charities with an annual income between £100,000 and £1 million could provide a written explanation in their trustees' annual report of how they consider their charity meets the public benefit requirement.

6.3.10 Charities with an annual income over £1 million could provide a fuller written explanation of how they consider their charity meets the public benefit requirement in its Summary Information Return.

6.3.11 The Charity Commission considered this option, but rejected it at an early stage because of concerns that:

- the three different reporting formats might be confusing for charity trustees and their advisors;

- it introduced a new, arbitrary reporting threshold of £100,000;
- it would offer no regulatory savings compared with the option 2 of reporting information through the trustees' annual report; and
- using the annual report provides a higher level of public accountability and a more coherent framework.

Benefits

6.3.12 This option offers no regulatory costs savings or benefits compared with option 2 and is more complex.

7. Charity sub-sectors affected

7.1 The preparation and audit of group accounts and the content of group annual reports

- 7.1.1 The requirement for group accounts and group annual reports will affect all non-company parent charities where the "aggregate gross income" of the group exceeds £600,000 gross (before consolidation adjustments) and £500,000 net (after consolidation adjustments). Parent charities that are companies will be similarly affected, except that where the parent charity exceeds the Companies Act's threshold for a small parent company its group accounts will continue to be prepared and audited under company law provisions.
- 7.1.2 Information provided to the Charity Commission by charities completing their annual returns indicates that 556 non-company parent charities and 1257 company parent charities on its register will be affected by this requirement.
- 7.1.3 The group accounting requirements of the proposed Regulations also apply to excepted charities but such charities are not required to produce a group annual report unless they are voluntarily registered or are directed by the Charity Commission to prepare an annual report. However, any excepted parent charities will be required to prepare a group annual report on loss of their excepted status if the aggregate income of the group exceeds the preparation threshold.

- 7.1.4 The Charity Commission estimates that there may be as many as 5000 excepted charities with an income of more than £100,000. Of these 5000 charities, it is estimated that there are 2000 armed forces charities and up to 2000 Church of England PCCs. These charities only rarely make use of trading subsidiaries.
- 7.1.5 The remaining 1000 excepted charities may on occasions make use of trading subsidiaries. Excepted charities are also usually non-company charities and if their income distribution follows the register income profile and their propensity to utilise subsidiary undertaking mirrors that of other registered non-company charities then some 80 excepted charities will be affected by the new group accounts and audit provisions.
- 7.1.6 Excepted charities are not required by the proposed Regulations to prepare a group annual report. Following changes to be introduced by the Charities Act 2006 charities that are currently excepted will be required to register. On registration the requirement to prepare a group annual report will apply at the same income threshold as for other registered charities.
- 7.1.7 Exempt charities are not affected by the proposed Regulations as they are neither required to prepare group accounts nor a group annual report. Following changes to be introduced by the 2006 Act, the Charity Commission estimates that 5,000 charities that are currently excepted will be required to register.

7.2 **External scrutiny of small company charities' accounts**

- 7.2.1 There are some 14,100 company charities that will, following the Ministerial order to be made under section 77 of the 2006 Act, be subject to the external scrutiny regime of the 1993 Act instead of that of the Companies Act. Of these, 6,200 company charities, with gross incomes between £10,000 and £90,000, will become subject to a form of external scrutiny for the first time. The changes will also affect any currently excepted charities constituted as companies with gross incomes below the new charity audit threshold. However, excepted

charities are only rarely constituted as companies and therefore the numbers affected are unlikely to be significant.

- 7.2.2 Exempt charities are currently unaffected by new arrangements for the external scrutiny of small company charities. However it is anticipated that following changes introduced by the 2006 Act that an estimated 6,800 charities that are currently excepted or exempt will be required to register. It is not anticipated that a significant number of them will be constituted as companies.

7.3 **Reporting public benefit in trustees' annual reports**

- 7.3.1 There are 88,922 registered charities with an income of more than £5,000 but below the £500,000 that will be required by proposed Regulations to prepare a simplified trustees' annual report. In addition there are 8,630 charities above this income threshold that are required to prepare more a detailed trustees' annual report.
- 7.3.2 Although exempt and excepted charities are not required to prepare an annual report, it is anticipated that following changes introduced by the 2006 Act that an estimated further 6,800 charities that are currently excepted or exempt will become registered.

8. Equality impact assessment

- 8.1 It is not considered that the proposed changes will bring disproportionate benefits or costs to any particular groups. Research conducted by the Council for Ethnic Minority Organisations (CEMVO) suggests that the vast majority of BME organisations are small, with an income of less than £10,000, and so would not be significantly affected by the proposals.

9. Sustainable development

- 9.1 Consideration has been given to whether these proposals will have costs or provide benefits in environmental protection, social values and progress, or the economy's long term growth and development. The proposals would not lead to any disproportionate adverse impact and will help enhance the public's confidence in the sector.

10. Cost calculations

10.1 The preparation and audit of group accounts and group annual reports

Option 1 – Rely on existing Regulations

- 10.1.1 Without the proposed Regulations, a legal requirement would still exist requiring the preparation and audit of group accounts, notes to the accounts and the preparation of a group annual report. However, there would be no framework within Regulations for their preparation or for their content. A duty to report would exist in law but there would be no framework setting consistent reporting duties that apply to all auditors of group accounts. If the proposed Regulations are not introduced any compliance costs associated with group accounts would not be avoided and are estimated to be the same as the introduction of the proposed Regulations under Option 2.

Option 2 – Implement proposed Regulations

- 10.1.2 The new Regulations require parent charities with a group aggregate gross income of £600,000 before consolidation adjustments and £500,000 net of consolidation adjustments to prepare group accounts.
- 10.1.3 It is recognised that some charities with a gross income of less than £500,000 also have subsidiary undertakings whose income when consolidated with that of the parent charity will take the group over the threshold for group accounts. It is estimated, based on a sample of 300 that a parent charity's gross income is increased by 34 per cent, on average, following consolidation.

- 10.1.4 Based on Annual Return information provided by charities to the Charity Commission, adjusted for the income uplift described in the preceding paragraph, some 1,257 company charities will have a group income falling within the band £500,000 to £5,600,000. Above this income threshold company charities will generally fall within the company law requirements of the Companies Act which require all companies, including charities, that do not qualify as small to prepare group accounts under that regime.
- 10.1.5 Non-company charities are less likely to undertake activities through subsidiary undertakings. Annual return information provided by charities to the Charity Commission, adjusted as above, indicates that there are 556 non-company parent charities affected.
- 10.1.6 Excepted charities are also affected by the proposed group accounts Regulations. Assuming their income distribution mirrors that of registered charities and their propensity to use subsidiary undertakings is the same as other non-company charities then some 400 excepted charities will be affected.
- 10.1.7 Currently exempt charities are not affected by the proposed group accounts Regulations. However, many will have to register, when relevant provisions of the Charities Act 2006 come into effect. Using the same assumption as set out for excepted charities, it is estimated that some 150 exempt charities will be affected on registration.
- 10.1.8 The preparation of group accounts is now general practice within the charity sector and is an accounting recommendation of the Charities SORP. Group accounts are prepared by consolidating financial information contained in the individual accounts of the parent charity and all of its subsidiary undertakings. In the absence of minority interests, this process involves adjusting any profit and loss account of subsidiary undertakings into a Charities SORP format and a cross addition of each data field in the primary statements and notes to the accounts to arrive at a consolidated position. Adjustments are also made to eliminate intra-group transactions.
- 10.1.9 The Commission holds cost data on charity regulation that was prepared for it

and the Cabinet Office's Better Regulation Executive as part of the cross Government Administrative Burdens Reduction Project. The weighted average cost for the preparation of individual accounts and related notes was approximately £4,000 including both internal and external costs. It is estimated that the preparation of group accounts would add some 25 per cent to these costs (or £1,000).

10.1.10 The preparation of group accounts is already general sector practice. The Charity Commission estimates that over 95 per cent of charities affected by the proposed Regulations already prepare group accounts. The "business as usual" discount of 95 per cent applying to the preparation of individual accounts is therefore also considered appropriate to apply in the context of group accounts. The "business as usual" elements of costs arise where a particularly regulatory cost can be discounted because the requirement of regulations is usual sector practice and would be undertaken irrespective of regulatory requirements.

10.1.11 On this basis the estimated regulatory costs are:

Income Band	Company parent	Non-company parent	Total number of charities	Total cost £
£500,000 to £5,600,000	1,257	361	1,618	1,618,000
Over £5,600,000	N/A	195	195	195,000
Excepted and exempt	N/A	550	550	550,000
Total	1,257	1,106	2,363	£ 2,363,000
Less Business as usual element (BAU)	-	-	-	£ (2,244,850)
Total (after BAU)	-	-	-	£ 118,150

--	--	--	--	--

10.1.12 An indicative costing has been prepared using estimated hours, cost estimates from the Annual Survey of Hours and Earnings collected by the Office of the National Statistics and a standard 30 per cent uplift for overheads. This provides a check against the above estimates. The resulting costs for a typical charity are set out below and support the indicated cost of £1000 for the internal costs of preparing group accounts.

Task	Staffing	Hours	Rate £	Total cost £
Set up spreadsheet	Admin. and Clerical	4	10.76	43.04
Enter data from primary statements	Technical	4	16.51	66.04
Enter data from notes to accounts	Technical	4	16.51	66.04
Consolidation adjustments	Internal Professional	5	23.40	117.00
Enter spreadsheet data into accounts format	Internal Professional	10	23.40	234.00
Review	Internal Professional	7	23.40	163.80
Approval of accounts by Board	Trustees	9	21.09	189.81
				£ 879.73

10.1.13 The proposed regulations will also require the group accounts prepared to be audited. The audit opinion is expressed on the aggregated figures contained in the primary statements of the group accounts. Where the individual accounts of the parent charity and those of its subsidiaries have been audited then further audit work on the individual accounts is likely to be limited. Audit work will be necessary to ensure the individual accounts are correctly aggregated and checks will also normally be necessary to ensure intra-group transactions and

balances are properly eliminated on consolidation and that accounts are presented in accordance with the relevant statutory framework.

10.1.14 These additional audit costs will normally be borne by the parent charity. It is estimated that these procedures will add up to 25 per cent to the audit costs currently met by parent charities in relation to their individual accounts, although it should be noted that charities preparing group accounts following the Charity SORP's recommendations are already generally obtaining audit opinions on their group accounts. Parent company charities that exceed the Company Act 2006 threshold for small parent companies will not require an audit of their group accounts under the 1993 Act as they are already subject to an audit requirement under company law.

10.1.15 As described in paragraph 10.1.9 the Commission holds data on charity regulation. The weighted average cost for audit was £8,800. This may include the audit of group accounts when prepared but such costs, if any, cannot be separately identified and therefore have been ignored. The average additional audit cost is estimated at £2,200 of which 95% is again regarded as business as usual cost reflecting existing sector practice in relation to the audit of group accounts.

Income Band	Company parent	Non-company parent	Total number charities	Total cost £
£500,000 to £5,600,000	1257	361	1618	3,559,600
Over £5,600,000	N/A	195	195	429,000
Excepted and exempt	N/A	550	550	1,210,000
Total	1,257	1,106	2,363	£ 5,198,600
Less Business as usual element	-	-	-	(4,938,670)

Total (after BAU)	-	-	-	£ 259,930
-------------------------------	---	---	---	------------------

10.1.16 Registered charities are already required by existing Regulations to prepare an annual report on their own activities. These requirements however do not currently extend to providing information about the activities or policies of subsidiary undertakings although this extension of the trustees' annual report is general sector practice where group accounts are prepared.

10.1.17 The work involved in preparing a group annual report is primarily collation of existing information currently reported in a charity's individual annual report and those of its subsidiary undertakings. For example, subsidiary undertakings that are companies will prepare a directors' report.

10.1.18 The cost data held by the Commission (see paragraph 10.1.9) identifies the average regulatory cost (i.e. excluding costs which would have been incurred regardless of regulation, known as Business as Usual Costs) for a charity preparing an annual report in the income band £500,000 to £1,000,000 as £552 per charity and £537 above this threshold. For the purposes of this assessment, a standard cost of £550 has been used. This data has been used to estimate the additional costs likely to be involved in adding information relating to subsidiary undertakings to an annual report as currently required.

10.1.19 Although the level of activities carried out through subsidiary undertakings can vary significantly, sample data indicates that typically subsidiary undertakings account for a quarter of a group's income. On this basis, it has been assumed that providing additional information about subsidiary undertakings within a group annual report will increase the costs of preparing an annual report of a parent charity by 25 per cent, that is, £137.50.

10.1.20 Neither exempt nor excepted charities are required to prepare either individual or group annual reports. However excepted charities and certain exempt charities will be required to register in 2008 following changes introduced by the 2006 Act. Assuming these charities follow the profile of other non-company charities currently registered then a further 550 charities will be affected on their

registration.

Income Band	Company parent	Non-company parent	Total number of charities	Total cost £
£500,000 to £5,600,000	1257	361	1618	222,475
Over £5,600,000	N/A	195	195	26,812
Excepted and exempt	N/A	550	550	75,625
Total	1257	1106	2363	£ 324,912

10.1.21 The regulatory costs resulting from the proposed Regulations relating to the introduction of the group accounts requirements, excluding business as usual costs, are summarised below:

Cost element	Total cost
Preparation of group accounts and related notes to the accounts	£118,150
Audit of group accounts	£259,930
Group annual reporting	£324,912
Total	£702,992

Option 3: Implement the proposed Regulations but at a higher income threshold

10.1.22 The preparation and audit of group accounts is now general practice within the charity sector. The threshold set for the preparation of group accounts mirrors that recommended by the Charities SORP and creates an audit threshold based on the aggregate gross income of a group rather than just that of parent charity. In so far as the preparation of group accounts is already sector practice, the threshold set does not create any additional compliance cost for the vast

majority of parent charities that already prepare group accounts. However, we would be particularly interested in sector views on this issue and whether the threshold for the preparation and audit of group accounts could be set at a higher level. For example, at an aggregate gross income of £1m (mirroring the Charity Commissions threshold for filing a Summary Information Return) or even at £5.6m (mirroring the income threshold under company law applying to companies more generally). This approach would increase some risks as parent charities could then avoid audit by using subsidiaries and thereby reducing the income received directly by a charity to a level below the audit threshold applying to individual charity accounts.

10.1.23 Whilst compliance costs would not necessarily be reduced, this option would recognise sector practice in this area but only make group accounting, group annual reports and audit mandatory at a higher level of income. This option places reliance on the continued application of good accounting practice in this area by the sector and an acceptance that a minority may choose not to prepare good accounts in the absence of regulatory requirements.

10.2 **External scrutiny of small company charities' accounts**

Option 1: Rely on existing regulations

10.2.1 Auditors and independent examiners of small company charities would be in an anomalous position when undertaking an audit or independent examination under the 1993 Act if no reporting duties are set by Regulations. In the absence of specific reporting requirements being provided by the proposed Regulations, there is likely to be confusion amongst trustees, practitioners and the sector as to what matters are to be included in such reports.

10.2.2 The compliance costs from the extension of charity audit and independent examinations to small company charities would still be incurred and could well exceed the cost identified in option 2.

Option 2: Implement the proposed regulations

10.2.3 Whilst existing Regulations provide for the reporting duties of charity auditors

and independent examiners of non company charities, the proposed Regulations are necessary to provide similar reporting duties for auditors and examiners of small company charities.

- 10.2.4 The reporting duties proposed are consistent with those previously applied under the Companies Act 1985. The audits carried out will continue to follow the same auditing standards and charity audit guidance issued by the Auditing Practices Board. The proposed change to allow an audit to be undertaken under the 1993 Act is therefore considered to be cost neutral.
- 10.2.5 The reporting duties of an independent examiner are somewhat different to the duties placed on a reporting accountant by the Companies Act 1985 although data from the Administrative Burdens Reduction Project indicate that costs are similar. The indicative external cost of £250 for an accountant's report exceeds the £213 external cost estimated for an independent examination. It is also anticipated that the implementation of the change to independent examination will permit small company charities to realise the saving from a more uniformed scrutiny regime and a larger pool of potential examiners, with the competitive saving more than offsetting any additional work involved.
- 10.2.6 Many charities opt to have a form of external scrutiny, even when there is no mandatory requirement, and consequently it is assumed that a business as usual adjustment would apply to the extension of independent examination to small company charities which previously have had the more expensive audit exemption report on a voluntary or mandatory basis.
- 10.2.7 The external scrutiny arrangements of the 1993 Act also apply to excepted charities. However, very few excepted charities are constituted as companies and therefore the impact of the proposed Regulations on this part of the sector is likely to be minimal.
- 10.2.8 If these cost estimates (see above) are applied to those charities affected, the following costs and savings are derived:

Income band	Number of charities	Introduction of independent examination costs £	New regime savings £	Total costs £
£10,000 to £90,000	6,234	1,327,842	-	1,327,842
£90,000 to £250,000	4,879	-	(180,523)	(180,523)
£250,000 to £500,000	2,987	-	(110,519)	(110,519)
Total	14,100	£ 1,327,842	£ (291,042)	£ 1,036,800
Less: Business as usual costs	-	-	-	(984,960)
Total (after BAU)	-	-	-	£ 51,840

10.3 Reporting public benefit in trustees' annual reports

Option 1 – Do nothing

10.3.1 The option of not placing any reporting duty on charities in relation to public benefit does exist, however, to do so would run contrary to key policy objectives inherent in the 2006 Act. This option would place no additional compliance costs on the charity sector in relation to reporting on the public benefit requirement.

Option 2 – Implement proposed Regulations

Charities below the audit threshold:

10.3.2 The proposed Regulations would involve charity trustees giving consideration to the public benefit guidance to be published by the Charity Commission and setting the currently required explanation of main activities in a context of public benefit requirement. Given the statutory requirement that a charity's purposes must be for the public benefit, consideration of a charity's purposes is inherent in a trustee's duties and therefore no additional compliance cost should arise from the simple confirmatory statement required. Similarly, the minor refocusing of information already provided in the trustees' annual report is unlikely to give rise to any additional regulatory costs. However the proposed review of charity law thresholds, to be published for consultation in autumn 2007 is likely to recommend an increased threshold for the preparation of a Trustees' Annual Report.

Auditable charities with income of £1 million or less:

10.3.3 The costs data held by the Commission has identified the average regulatory cost (i.e. excluding costs which would have been incurred regardless of regulation, known as Business as Usual Costs) for a charity in this income bracket preparing an annual report as £552 per charity.

10.3.4 It is estimated that there will be an initial 20% to 25% increase in regulatory costs for charities in this income group from the proposed Regulations, falling to 10% to 15% from year two onwards.

10.3.5 There are 3,400 registered charities in this income group, giving an additional cost of between £375,000 and £469,000 in year one and £188,000 and £282,000 in subsequent years.

10.3.6 It is estimated that 1,000 charities currently exempt and excepted charities that will have to register, when relevant provisions of the Charities Act 2006 come into effect, will fall within this income band. Assuming a similar cost structure these proposals would add a further £110,000 to £138,000 in year one and £55,000 to £82,500 in subsequent years.

Charities with an income of over £1 million:

10.3.7 Costs data held by the Charity Commission identify the average regulatory cost (i.e. excluding Business as Usual Costs) for a charity of this size preparing a trustees' annual report as £537.

10.3.8 Again, it is estimated that in the first year of the new public benefit requirement coming into effect there will be a 20% to 25% increase in regulatory costs for charities in this income group, falling to 10% to 15% from year two onwards.

10.3.9 There are 5,230 registered charities in this income group, giving an additional cost of between £562,000 and £702,000 in year one and £281,000 to £421,000 in subsequent years.

10.3.10 It is estimated that 1,500 charities currently exempt and excepted charities that will have to register, when relevant provisions of the Charities Act 2006 come into effect, will fall within this income band. Assuming a similar cost structure these proposals would add a further £161,000 to £201,500 in year one and £80,500 to £121,000 in subsequent years.

10.3.11 The following table shows a summary of additional reporting costs for charities:

Category	Year one costs	Subsequent annual costs
Registered charities with an income between £500,000 and £1 million	£375,000 to £469,000	£188,000 to £282,000
Currently excepted or exempt charities with an income between £500,000 and £1 million	£110,000 to £138,000	£55,000 to £83,000
Registered charities with an income above £1 million	£562,000 to £702,000	£281,000 to £421,000
Currently except or exempt charities with an income above £1 million	£161,000 to £202,000	£81,000 to £121,000
Totals	£1,238,000 to	£605,000 to

	£1,511,000	£907,000
--	-------------------	-----------------

Option 3 – Reporting public benefit through the Commission’s Annual Return process

10.3.12 An alternative option has been considered whereby smaller charities with an annual income between £10,000 and £100,000 would report on their public benefit requirement through self-certification as part of the Annual Return process. Charities with an annual income between £100,000 and £1 million would report through their trustees’ annual report whilst larger charities would provide a fuller written explanation of how they consider their charity meets the public benefit requirement in a larger and more refined Summary Information Return (SIR).

10.3.13 Assuming that charities would still need to have regard to the Commission guidance and that the information provided in the trustees’ annual report would provide the basis of any SIR submitted then this option would offer no compliance cost savings over option 2 above.

11. The Small Firms' Impact Test

11.1 As the proposed measures only have an impact for charities, they fall outside the scope of the Small Business Service.

12. Competition Assessment

12.1 The competition filter test indicates that the proposed Regulations give no competition concerns.

13. Enforcement and sanctions

- 13.1 The proposed Regulations will, if necessary, be enforced under existing provisions of the Charities Act 1993 and will result in no significant additional enforcement costs.

14. Monitoring and review

- 14.1 The proposed Regulations will be monitored on an ongoing basis by the Charity Commission.
- 14.2 During the passage of the Charities Act 2006, an undertaking was given to review the thresholds in charity law for reporting, accounting and examination and audit. This review will be subject to external consultation. It is likely that the consultation will recommend increasing the threshold above which Charities must prepare a Trustees' Annual Report, which could reduce the number of charities affected by these proposed changes and ensure a more proportionate reporting regime.
- 14.3 The Charities Act 2006 also requires (section 73) the Minister to appoint a person to evaluate the impact of the Act within five years of Royal Assent, and reporting his or her findings to Parliament.

15. Consultation

15.1 Within government

- 15.1.1 The Charity Commission has been centrally involved in the development of the proposed Regulations, and has worked closely with the Office of the Third Sector throughout their preparation. The Charity Commission has also sent copies of their Consultation on Draft Public Benefit Guidance to government departments with an interest in the public benefit of charities.

15.2 Public consultation

- 15.2.1 Copies of the consultation and RIA have been forwarded to charity umbrella groups, government departments with an interest in accounting and reporting

and to relevant professional bodies and selected audit practices with a specialism in charity sector accounting and reporting.

15.2.2 The consultation will also receive exposure on our website and that of the Charity Commission. A series of road-show events will give further exposure to these proposals as will publicity in the sector and accounting press.

15.2.3 The consultation is compliant with the Cabinet Office's code of practice on consultation. In addition, the Charity Commission will be consulting widely as part of their work in development of guidance on the public benefit requirement. At this stage the Charity Commission are consulting on their draft guidance on public benefit. This work will include:

- placing their consultation on their web-site (www.charitycommission.gov.uk);
- placing an article in the latest edition of its latest newsletter CC News;
- including a direct link to the consultation from Charity Commission Direct email correspondence (Charity Commission Direct is the first point of contact for correspondence and queries at the Charity Commission);
- launching an on-line survey about its public benefit consultation; and
- engaging with various different types of charity about their public benefit.

15.2.4 Following this first-stage consultation, the Commission plans to carry out further consultations on the effect of the principles of public benefit for specific types of charity, starting with the following sub-sectors:

- Charities for the prevention and relief of poverty;
- Charities for the advancement of education;
- Charities for the advancement of religion; and
- Fee-charging charities.

16. Reducing the burden of forms

- 16.1 The proposals minimise additional paperwork by using existing reporting mechanisms and by giving a legislative framework to support current sector practice.
- 16.2 We will update this regulatory impact assessment in light of the consultation responses and any other relevant information that we receive.

17. Summary and recommendation

- 17.1 The proposed Regulations relating to group accounts, their audit and an extended group annual report reflect current sector practice and create a workable framework for the implementation of the legislative changes introduced by the 2006 Act.
- 17.2 Similarly, the proposed Regulations in relation to auditor's and independent examiner's reporting duty on the accounts of company charities create a framework for reporting necessary for the implementation of the legislative changes introduced by the 2006 Act.
- 17.3 The public benefit requirement is central to the purposes of all charities and the proportionate approach to reporting this requirement through the trustees' annual report, as proposed by these Regulations, offers a practical and cost effective means of reporting a matter that is central to the activities of all charities.
- 17.4 The costed options considered for each proposal and the underlying assumptions are set out in the cost calculations section of this RIA (see section 10). Option 2 – implementation of the proposed Regulations – is the preferred option in each case. For each of the proposals, the year-on-year (recurring) cost of the preferred option, excluding business as usual costs, is set out in the table below:

Proposal	Regulatory recurring cost of preferred option
-----------------	--

Framework for preparation of group accounts and related notes to the accounts	£118,150
Audit of group accounts	£259,930
Annual report on group accounts	£324,912
External scrutiny of small company charities' accounts	£ 51,840
Reporting public benefit reporting	£756,000
Total	£1,510,832

18. Declaration

I have read the Regulatory Impact Assessment and I am satisfied that the benefits justify the costs.

Signed.....

Date.....

This declaration is completed only as part of the full regulatory impact assessment, once consultation is completed, and the assessment updated.

19. Contact point

Enquiries regarding the contents of this partial Regulatory Impact Assessment should be made to:

Ben Harrison
Office of the Third Sector
Cabinet Office
35 Great Smith Street
London SW1P 3BQ

Tel. 020 7276 6029

e-mail: ben.harrison@cabinet-office.x.gsi.gov.uk

