

Proposed Increase in Charity Audit Threshold

In December, the Cabinet Office (the Government Department responsible for charity law in England and Wales) issued a consultation on increasing the charity audit threshold from £500,000 income to £1M income.

This would mean most charities in England & Wales between £500K and £1M income would be able to opt for an independent examination of their accounts, rather than a full audit. (As with all independent examinations over £250K income, the independent examiner would have to be professionally qualified, but this is a service we would be able to provide through Kubernesis, as Gareth Morgan is a qualified independent examiner.)

This increase was one of the recommendations of Lord Hodgson's Review of the Charities Act 2006. Of course, a charity could still continue with an audit if necessary (e.g. as a condition of funding) but for many charities this would be a useful cost saving. A properly performed independent examination is still a very effective means of scrutiny. *We believe this proposal is well worth supporting.*

Lord Hodgson also recommended getting rid of the complex and confusing rule which requires some charities with high levels of assets still to have an audit, even if their income is below the normal audit threshold, but in the consultation document the Cabinet Office is suggesting *keeping this rule* and simply adjusting the threshold, which we feel is very unhelpful when it could easily be scrapped. At present this rule applies to a charity with income in the range £250K to £500K and assets over £3.26M.

We believe this is an absurd rule which makes the system unnecessarily complex for no real reason – a charity could have over £3.26M assets but income under £250K with no requirement for audit, and in fact a charity with a valuable property over £3.26M that generated less than £25K income could have no external scrutiny at all! Moreover, the latest charity accounting legislation in the UK – in Northern Ireland has no assets test of this kind.

Many Kubernesis clients, and clients of professional advisers with whom we work, will be affected by these proposals *so we recommend responding individually to the consultation*. Responses should be sent to charities-act@cabinetoffice.gov.uk to arrive by Tuesday 27 January 2015.

If you agree with our comments above, you may want to say:

- On question 1 – That you *support* increasing the charity audit threshold from £500,000 to £1M income
- On question 3 – That you *do not support any of the options* for retaining the assets threshold for audit and that you recommend the Government to *remove* this rule, as recommended in Lord Hodgson's Review.

For the full consultation document see www.gov.uk/government/consultations/charities-audit-and-independent-examination - however, we suggest a response to the above questions will address the main issues.

This Bulletin is prepared primarily for charities and professional advisers who belong to the *Kubernesis Charity Advice Service* – but may be used by others on an "as is" basis.

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- If your organisation or firm belongs to the *Kubernesis Charity Advice Service* (KCAS) and you have any queries on the points mentioned – including issues for your own charity – please contact us at the special e-mail address for this purpose (see covering e-mail). There is no charge for responding to reasonable queries if you belong to the KCAS.
- If you are not currently in KCAS it is possible to register online (see www.kubernesis.uk/advice-service) and then queries can be raised immediately subject to the terms of the scheme. For other enquires, please e-mail info@kubernesis.uk.

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