

Supplementary information relating to the condition of charity audit in England and Wales



WHO WE ARE

1. ICAEW is a leading professional body that supports over 200,000 chartered accountants and students worldwide. In the UK, our members in business (in finance and management) and in practice (as external advisors) guide more than three million companies - in every sector and region of the country. As trusted advisers, they are on the economic frontline, helping businesses deal with uncertainty and change.
2. ICAEW is one of the bodies whose members are authorised by statute to perform audits of charities in England and Wales and many charities subject to mandatory audit are audited by our members. Our members also provide extensive accounting and related advisory services to the sector. We are kept informed of our members' views on charity sector issues including through our Charity Committee and Charity Community. Their feedback has prompted us to write to you on this issue.

EXECUTIVE SUMMARY

3. ICAEW understands that the Department for Culture, Media and Sport intends to consult on the threshold for audit of charities in England and Wales. ICAEW would support this consultation being taken forward as soon as possible, ideally during the life of this Parliament. We suggest that consideration should be given now to updating the thresholds alongside possible longer-term approaches. We believe that this would be a proportionate approach in line with the Charity Commission's recently published strategy for 2024-2029 and we have copied this letter to the Commission for information.
4. Thresholds set with reference to fixed monetary amounts need to be kept under review and updated periodically if they are to work as intended, or if circumstances, such as inflation, dictate. Following the recent inflationary period, we understand that the audit thresholds in the sector are having a significant disproportionate impact on charities that are near the relevant size thresholds at a time when they are facing many financial and other challenges.
5. The audit profession is also facing increased demands from other sectors and the requirements of regulators and standard setters on auditors are becoming more, rather than less, onerous. It should not therefore be assumed that market discipline alone will lead to an increase in the supply of suitably skilled auditors or materially reduced audit costs for charities in the short term.

ISSUES WITH THE CURRENT CHARITY AUDIT THRESHOLD

6. The current thresholds were last updated following a consultation in 2015 and are, in summary:
 - gross annual income exceeding £1 million, or
 - gross annual income exceeding £250,000 and year end aggregate value of assets exceeding £3.26 million.

7. Most charities in England and Wales fall far below these thresholds. The Charity Commission's [overview of charities by income band](#) shows, for example, that out of a total of about 170,000 charities, some 156,000 had annual income below £500,000 and around 5,000 were in the £500,000-£1m income band.
8. Nevertheless, around 5,700 charities were in the £1m-£5m band so that, if the current thresholds were to be increased, for example by inflation on a compounded basis from 2015, a significant percentage of these (several hundred charities at least) would be removed from the requirement to have an audit.
9. While some of these might decide to continue on a voluntary basis, for the others, the resultant reduction in audit fees incurred and time spent in preparing for and participating in an audit would be welcome and the outcome would be more proportionate for the sector.
10. The accounts of charities with income between £25k and £1m are subject to an independent examination, which is another, less rigorous, form of independent scrutiny that can be performed by people who are not qualified auditors. Professional fees for performing independent examinations are typically substantially lower than fees for auditing comparable charities, as is the amount of time required by charity staff to prepare for and participate in the relevant process.
11. We appreciate that, when consulting, the Department may wish to consider the independent examination and other related thresholds as happened in the 2015 consultation. We would also welcome the opportunity to comment on more imaginative or radical approaches for reform and ways to simplify and "future proof" regulation of this nature consistent with the government's Smarter Regulation initiative and the Charity Commission's declared intention to deliver excellence in regulation.
12. However, the unadjusted audit thresholds are an immediate concern. The consultation should consider whether and how they could be addressed simply and quickly, now, pending consideration of longer-term approaches.
13. Whilst writing, we would highlight an issue that we raised with one of your predecessors in 2015, namely that the Charities (Accounts and Reports) Regulations 2008 have still not been updated to refer to the current Statement of Recommended Accounting Practice 2019 (SORP), so that preparers of relevant charity accounts still have to rely upon guidance of the Charity Commission that explains why it might be appropriate to use the current SORP in seeming conflict with the law. We understand that your department may wish to make more extensive changes to the regulations which could require time and consideration, but we would like to see the reference corrected without further delay, with any other changes to follow if necessary. Scotland long ago updated its regulations to refer to the current SORP.

FURTHER INFORMATION

As part of ICAEW's Royal Charter, we have a duty to inform policy in the public interest.

Contact details

Patrick Tettmar

ICAEW Policy & Public Affairs Manager

M +44 (0)7403 049 109

Patrick.Tettmar@icaew.com