



PUBLIC CONSULTATION ON THE DRAFT ACCOUNTING AND REPORTING REGULATIONS

Regulation 3 – Interpretation

Q1. Do you agree with the definition of “gross income”? The term “gross income” would need to include a number of material items which are currently treated differently by organisations, capital loan/grant amortisation and pension contribution. In some cases these items are not reported on the I&E; in other cases they are netted against expenditure in contravention of reporting rules. “Transfers from endowment funds” is excessively limiting as a caption.

If not, how do you think “gross income” should be defined?

“Gross income” means all the income of a charitable organisation, together with any amortisation of capital loans or grants. All income, including for example government pension contributions or insurance claims, should flow through income rather than being netted against expenditure.

Regulation 4 – Application

Q2. Do you agree with the exemption threshold level of €10,000 in relation to the preparation and audit/examination of annual statement of accounts? Yes

If not, set out your proposed threshold level (It should be noted that proposed threshold levels should be confined to a level allowable under Section 48 6 c of the Charities Act i.e. between €10,000 and €50,000).

Regulation 5 – Financial Year

Q3. Do you agree with the limit on the number of changes to the financial year duration, in the absence of consent from the Authority, to one change in any three year period?

For consistency with other regulators, we would recommend that the Charities Regulator set the same limit as s.284 of Companies Act 2014 which is to permit one change in any five year period

Regulation 6 – Consolidated Accounts

Q4. Do you agree that the regulations dealing with the methods and principals for the preparation of group accounts are better addressed by reference to financial reporting standards and the applicable statement of recommended practice, rather than by detailed scheduling of methods and principals for consolidation in the Regulations? **Yes, the existing SORP and financial reporting standards are preferred. It would be useful to require clarity concerning the term “control” in the case of group/subsidiary or related entities.**

Regulation 8 – Simplified Accounts

Q5. Are you satisfied regulation 8 (including Schedule 1) provides a sufficient and proportionate framework for preparing ‘simplified accounts’? **We would not support cash accounting/simplified accounts for the following reasons:**

- 1) **Accrual accounting gives a more accurate reflection of the financial position, even in the case of charities with a small financial turnover**
- 2) **any entity with CHY status from Revenue is required to prepare full accrual accounts with no threshold.**
- 3) **any entity that is in receipt of government funding is required under D/PER Circular 13 2014 to prepare accrual-based accounts. There is no threshold. These accounts also have to be audited.**

If not, what additional requirements are needed? If cash accounting were to be pursued some of the wording would need to change, then Schedule 1 par 3 should read “the following receipts” rather than “the following income” and “the following payments” rather than the “the following expenditure”.

Regulation 9 – Annual audit of statement of accounts

Q6. Do you agree with the threshold level of €100,000 in relation in the requirements for a statutory audit?

From the analysis done by Benefacts of 2014 financial statements on more than 3,000 charities that are companies, we believe the threshold for full audit should be raised to €150,000. Of the income of those 3,000 charities totalling €5.2billion, 44% of the entities have a turnover under €150,000 and their net turnover in aggregate amounts to 1.26% of the total aggregate value of income of all charities.

We would recommend also that a threshold of €500,000 of net assets be used together with the income or expenditure of more than €150,000. Only about 2% of charities with large asset bases (mostly housing) and income/expenditure fall below this threshold.

If not, set out your proposed threshold level (It should be noted that proposed threshold levels should be confined to a level allowable under Section 50 2 of the Charities Act i.e. no greater than €500,000).

Regulation 10 – Examination of annual statement of accounts by an independent reviewer

Q.7 Are you satisfied regulation 10 provides a sufficient and proportionate framework for an examination of annual statement of accounts by a reviewer?

If not, what additional requirements are needed?

We believe that the idea of nominating an “independent” person for cash accounting is not practical. Regulation 10 paragraph 2 suggests that the Charities Regulator would approve these individuals; given the lack of qualification or regulation, we are concerned that this could result in inappropriate or unqualified individuals being appointed.

The “independent reviewer” definition in Regulation 10 paragraph 3 needs

- 1) to specify that the individuals would be regulated by their professional body. The readers of the accounts and trustees would be in danger of assuming that this was the case and that these individuals were subject to monitoring. If a person is signing their name as a professional under their professional body, there are likely to be professional requirements and standards and sanctions for non-performance. In this regard, we would note the following:
 - a. the Association of Charity Independent Examiners does not regulate its members
 - b. accounting technicians are generally not supposed to issue “assurance”
 - c. The Chartered Institute of Internal Auditors do not generally report on external organisations
 - d. It is not clear to us that the Association of International Accountants and the Institute of Financial Accountants have any members in Ireland, or that they are regulated
- 2) More detail is also required on “materiality” and the detail of the report required.
- 3) More detail is required on the type of review required as many individuals may not be willing to do this work without knowing the level of detail required.

Regulation 13 – Annual Report

Q.8 Are you satisfied regulation 13 provides a sufficient and proportionate framework for annual reporting?

If not, what additional requirements are needed?

SORP is the ideal reporting framework but insofar as the Charities Regulator is not able to set a reporting standard for companies, this creates a significant “double standard”.

Clarity around the last few items on Schedule 2 would be useful namely

- “Net current assets/liabilities”- is this current assets net of current and long term liabilities
- “Cash Resources” – is this detail of cash balances

Deferred Grants are often large amounts on some charities and can have a significant impact on the interpretation of the balance sheet and financial position. We would recommend that these balances are also provided.

Additional Comments (100 words)

Q9. If you have any additional feedback on the draft regulations that was not relevant to questions 1-8 above please set out that feedback, in no more than 100 words in the space below. Please try to be as specific as possible.

We welcome Regulation 13 Schedule 2 which encourages a move to more reporting in line with the Charities SORP requirements. However, in our view, the ideal situation would be that the Charity Regulator would receive the same full audited financial statements as are required to be provided to the government funders. Abridgement should not be permitted.

End.