

**Social Justice and Social Security Committee  
Charities (Regulation and Administration) (Scotland)  
Bill Correspondence from Keith Macpherson, ICAS  
Charities Panel Date received: 14 March 2023**

On behalf of ICAS, I'd like to thank the Committee for the opportunity to give oral evidence on the Charities (Regulation and Administration) (Scotland) Bill at its meeting of 09 March 2023, and for the invitation to provide a follow up submission.

We recognise that the first panel session of the day ran over time, understandably given the representation on that panel, and so certain questions where we would like to have added to our written submission were not necessarily covered in as much detail, or at all, in the second session.

In our response to the first consultation conducted by the Scottish Government as part of the current reform agenda, we highlighted changes of substance and some technical changes we would like to see relating to charity accounts and their external scrutiny, including amendments to the Charities Accounts (Scotland) Regulations 2006. From our consideration of the Bill, there are several matters relating to our first consultation response which still need to be addressed at some point.

Furthermore, in our written evidence to the Committee, submitted on 3 February 2023 and in our evidence given informally, to the Committee on 1 March 2023, we highlighted an emerging issue around charity auditor availability as we have become increasingly aware that charities are finding it difficult to appoint an auditor.

While our evidence for this is not based on detailed surveys, it is supported by:

- Reports from ICAS Members in public practice that they are not able to offer audit services to charities due to an increased demand for their services from other sectors or that they are withdrawing from the audit market altogether. For example, an ICAS registered firm in rural Scotland has confirmed to us they are giving up their audit registration and is taking steps to resign from its remaining portfolio of charity audit clients.
- Discussions at the ICAS Charities Panel, which includes members from public practice and also from the charity sector.
- Our knowledge that the number of registered audit firms in the UK has dropped substantially in the time period since the Charities and Trustee Investment (Scotland) Act 2005 and the 2006 Regulations were passed, resulting in substantial loss of capacity.

We believe consideration should be given to reviewing the audit threshold's gross income condition, which for charities in Scotland, has not changed since 2005 when it was set at £500,000. During this period, the equivalent threshold in England & Wales has been revised upwards, where currently sits at £1 million. We also believe that consideration should be given to reviewing the audit threshold's gross assets condition of £3.26 million, which was increased from £2.8 million in 2011.

The audit supply side issues combined with the increased regulatory focus on audit quality has resulted in a general increase in audit fees by all audit firms in recent years.

While only impacting a relatively small number of charities around the current gross income condition, the regulatory burden on the sector is one of increased cost, but also likely time and resource in responding to more demanding auditing standards.

The independent examination regime is the backbone of scrutiny in the charity sector, with 94%<sup>1</sup> of charities in Scotland having gross income of less than £500,000 and therefore most likely to be subject to this regime<sup>2</sup>. In reviewing the audit threshold's gross income condition, it may be appropriate to consider how the independent examination regime may be further strengthened.

OSCR gave evidence in the first panel session on 9 March 2023 that 11% of charities were currently late with their accounts and that this was higher than the historic average. It could be that the impact of the pandemic is still hampering the ability of charities to submit their accounts on time but, while we cannot say for sure without further analysis, this could be an indication that charities are having difficulty finding an auditor. It is possible that an uplift in the audit threshold may become a matter of urgency should evidence continue to emerge that finding an auditor is becoming a common reason for the late filing of accounts with OSCR.

While the audit threshold is currently dealt with in secondary legislation, we believe the current Bill may provide an opportunity to consider this matter with the level of scrutiny and debate that would be appropriate.

We have indicated to the Scottish Government that we are willing to assist in any way we can with a consultation on amending the 2006 Regulations and we would be happy to engage directly with any members of the Committee who would like to explore this issue with us further.

Yours

sincerely,

Keith

Macpherson

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<sup>1</sup> SPICe Briefing Charities (Regulation and Administration) (Scotland) Bill, Figure 2

<sup>2</sup> We recognise that some charities below the income threshold are still subject to audit based on the audit threshold's gross assets condition but this figure provides a good approximate position.