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Shaping Scottish government policy on the audit and independent examination of Scottish charities

ICAS survey of member firms

Findings

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About ICAS

The Institute of Chartered Accountants of Scotland (ICAS) is a global, professional membership organisation and business network for Chartered Accountants. It's also an educator, regulator, examiner and a professional awarding body.

ICAS' diverse membership is made up of over 24,000 world class business professionals who work in the UK and in more than 80 countries around the globe. Members of ICAS are also known by the letters CA, an exclusive professional designation in the UK.

ICAS members operate at the forefront of ethical and sustainable business. Educated, regulated, and led by the highest standards of ethical leadership since 1854, they are at the top of their game. They are trusted professionals, who transform business and support one another for the greater good.

Acting in the public interest is the guiding principle of all that ICAS does and we continually work to maintain trust in the accountancy profession. That ethos is enshrined in the ICAS Code of Ethics – which applies to all members, students and member firms, and is underpinned by our Royal Charter commitment.

ICAS is a member of the Chartered Accountants Worldwide Network, a global family that brings together the members of 15 leading institutes to create a community of over 1.8 million Chartered Accountants and students in more than 190 countries.

Any enquiries should be addressed to Christine Scott, ICAS Head of Charities and Reporting via connect@icas.com.

About the survey

ICAS has been calling for an increase in the Scottish charity audit threshold, and in support of this call, we asked 28 of our member firms to undertake a short survey to establish whether they would be willing to provide independent examination services to Scottish charities falling outside of the audit regime, in the event that the income criterion of the audit threshold was increased to income of £1,000,000 or more (currently income of £500,000 or more).

The survey was targeted towards firms across Scotland who provide audit and/ or independent examination services to Scottish charities. While many of our firms with offices in Scotland provide services to charities, we took a decision to approach firms we know for certain provide services to charities, on the basis that their perspective on the survey questions would deliver the most reliable results.

The survey ran from Monday 20 January to Monday 3 February. We received 20 responses, a response rate of 71%.

The survey results were gathered anonymously.

The survey was accompanied by notes explaining its purpose and setting out the current audit threshold for Scottish charities. The notes are included in the Appendix.

Summary of findings and conclusions

The key finding from the survey is that respondents indicated that their firm was likely to offer independent examination services to charities with an income of between £500,000 and £999,999 per annum, in the event that the income criterion for audit was increased to income of £1,000,000 or more.

No respondents to the survey said that they would not consider providing independent examination services to charities with an income in this range.

Our findings therefore indicate that ICAS member firms who currently provide services to charities are likely to provide independent examination services to charities requiring an independent examination rather than an audit, as a consequence of an increase in the charity audit threshold.

We received written comments from 82% of respondents. These comments indicate that our members are supportive of reforms to the audit threshold, including an increase in the income criterion. Some respondents referred to the absence of a year's grace from a one-off breach of the audit threshold, indicating a preference for this aspect of the threshold to be reformed too.

Responses to survey questions

How many Partners are there in your firm?

75% of respondents are from firms with between two and four partners. However, respondents represent firms of different sizes from the sole practitioner to five partners or more.

	% of respondents
Five or more partners	30%
Two to four partners	75%
Sole practitioner	5%

Is your firm registered to undertake audit work?

85% of respondents are registered to undertake audit work, 15% are not.

Do you provide audit services to Scottish charities?

100% of respondents registered to undertake audit work provide audit services to Scottish charities.

Do you provide independent examination services to Scottish charities?

100% of respondents provide independent examination services to Scottish charities.

If the Scottish charity audit threshold was raised to include gross annual income of £1,000,000 or more from the current gross annual income of £500,000 or more, how likely would your firm be to offer independent examination services to charities which would no longer require an audit?

95% of respondents indicated that that they are 'very likely' to offer independent examination services to charities in the event of the audit threshold being raised, the remaining 5% responded as being 'somewhat likely'.

We also asked respondents if they had any comments to share about the current independent scrutiny regime for Scottish charities or any changes in relation to charity accounting matters they would like to see.

85% of respondents provided written comments, covering the following topics:

- **The current audit threshold**

82% of respondents who provided written comments referred to the audit threshold being too low.

Where respondents expressed a preference for raising the income criterion, several expressed support for an increase in the income criterion from income of £500,000 or more to income of £1,000,000. This was sometimes expressed with reference to alignment with England and Wales being desirable, although one respondent viewed an increase in the criterion as the minimum increase that should be considered while another respondent favoured alignment with the company audit threshold.

The company audit threshold is significantly higher than the Scottish charity audit threshold. For example, the income criterion which forms part of the company audit threshold is turnover of more than £10,200,000. This criterion is set to rise to turnover of more than £15,000,000 for reporting periods beginning on or after 6 April 2025.

36% of respondents who referred to the audit threshold being too low linked this point to the affordability of audit fees by charities or the economic viability of the engagement to the firm. Most respondents represented here mentioned both of these perspectives.

One respondent said that they would be willing to assist with the development of a strengthened independent examination regime for charities with an income between £500,000 and £1,000,000.

- **The affordability of audit services to charities**

29% of respondents who provided written comments expressed concerns about charities' ability to afford an audit, with an audit being viewed as an unnecessary regulatory burden, for example, for charities with an income of less than £1,000,000.

One respondent referred to the compliance burden of audit relative to independent examination, highlighting, that in their view, a rigorous independent examination would provide better value to a charity. Another specifically highlighted that charity funds could be better spent on a charity's objects.

These comments were given in the context of the existing 'low' audit threshold and should not be construed as comments on the value of audit to larger charities or more generally.

- **The cost to firms of providing audit services**

29% of respondents who provided written comments expressed concern that the cost of providing charity audit services can exceed the fees that their firm can charge. Some firms therefore appear to be making losses on some charity audit engagements.

One respondent stated that their firm doesn't accept charity audit engagements where the charity cannot meet the firm's minimum fee.

- **The impact of one-off items of income resulting in a breach of the audit threshold**

18% of respondents who gave written comments expressed concern about the impact on charities of exceeding the audit threshold in a single year, for example, due to the receipt of legacy income or funding for a single large project.

One respondent specifically referred to the difficulties this causes charities in finding an auditor, another respondent specifically recommended that a year's grace should be made available for a one-off breach of the income criterion.

- **The complexity of charity accounts**

One respondent highlighted that charities and their funders find charity accounts difficult to understand, stating that simplifying the accounts requirements for smaller charities would lead to greater understanding and therefore greater accountability.

Notes for members firms accompanying the survey

Help us shape Scottish government policy on charity audit and independent examination

The Scottish government has asked us to provide evidence of the likelihood that our member firms would provide independent examination services to Scottish charities who would no longer require an audit, following an increase in the audit threshold. Therefore, the results of this survey could influence government policy.

We are therefore asking a small number of ICAS member firms to complete a survey on whether they would consider providing independent examination services to Scottish charities with a gross annual income of between £500,000 and £999,999. The survey should take no longer than 5 minutes to complete.

Scottish charities of this size are currently required to have an audit. However, the Scottish government has announced plans to consult on increasing the audit threshold and, in the event of an increase, we envisage that a rise to gross annual income of £1,000,000 or more is the most likely outcome.

Under the Charities Accounts (Scotland) (Regulations) 2006, a charity must currently receive an audit by a registered auditor if in any financial year:

- It has gross income of £500,000 or more, or
- the aggregate value of its assets (before deduction of liabilities) at the end of the financial year exceeds £3,260,000, or
- it is required to do so by the constitution of the charity, any other enactment, or on the instruction of its trustees.

If another person within your firm would be better placed to complete the survey, please do forward the survey to them.

Thank you in advance for your support.



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