

CHARITIES: THE INDEPENDENT EXAMINATION

(Lecture A617 – 4.43 minutes)

On 4 September 2017, the Charity Commission issued updated guidance for independent examiners in the form of *Independent examination of charity accounts: Directions and guidance for examiners* (CC32). The guidance includes three new directions concerning conflicts of interest, related parties and the charity's financial circumstances as follows:

- Direction 2: Check for any conflict of interest that prevents the examiner from carrying out their independent examination.
- Direction 7: If the accounts are prepared on an accruals basis and one or more related party transactions took place the examiner must check if these were properly disclosed in the notes to the accounts.
- Direction 9: The examiner must check whether the trustees have considered the financial circumstances of the charity at the end of the reporting period and, if the accounts are prepared on an accruals basis, check whether the trustees have made an assessment of the charity's position as a going concern when approving the accounts.

1.1 Guidance supporting the regulations

The Charity Commission has also made amendments to the guidance supporting the regulations to include phrases such as 'must', 'should', 'recommended' or 'may'. The word 'must' means that something is a legal or regulatory requirement or duty which the independent examiner must comply with or follow when carrying out their examination. 'Should' means that guidance is best practice which the Charity Commission expects the independent examiner to consider when undertaking their examination. 'Recommended' and 'may' is used where the Charity Commission believe that the independent examiner will find useful when carrying out their work although the independent examiner will have to exercise their own judgement where a recommendation or practice is concerned.

The updated guidance and Directions must be followed by independent examiners when carrying out their independent examination of the charity's accounts. Where the independent examiner's report is dated on or after 1 December 2017, the new Directions and guidance must have been followed. The Charity Commission encouraged examiners to follow the new Directions and guidance straight away, rather than wait until the mandatory date of 1 December 2017, but the Charity Commission will accept independent examiner's reports based on the old Directions and guidance provided these are signed on or before 30 November 2017.

It is important to emphasise that if the independent examiner has not followed the new Directions and guidance from 1 December 2017, the Charity Commission state that the examiner will not have carried out their independent examination properly.

1.2 Who qualifies to be an independent examiner?

An independent examination can be carried out by any person that is independent, has the necessary knowledge and experience and provided that the gross income of the charity is £250,000 or less. Charities are required to have an audit for financial years ending on or after 31 March 2015 if either its gross income exceeds £1m, or its gross income exceeds £250,000 and the gross assets exceeds £3.26m. The governing document may also require an audit to be carried out if these thresholds are not met so the examiner must also check this document and ask the trustees whether an audit may be required for another reason.

If the gross income for the year is £25,000 or less, an independent examination is not required, but the trustees may choose to have one, if they wish.

For an examiner to be independent, they must have no connection with the charity's trustees which may impact on impartiality. This does not mean that the examiner cannot be a member or supporter of the charity, but they should not be a material donor.

CC32 states that the term 'independence' means that the examiner is not influenced, or perceived to be influenced, by either close personal relationships with the trustees or by a day-to-day involvement in the administration of the charity being examined. Whether a connection with the charity amounts to a close personal relationship with the trustees which will have an impact on independence must be judged in light of the particular circumstances.

Examiners cannot independently review their own work; hence this will preclude the charity's book-keeper from being the examiner. In practice, many charities appoint the services of a professional accountancy firm to carry out the independent examination.

1.3 Directions

The revised Directions contained in CC32 have been reproduced as an Appendix to this section of the notes.

1.4 Reporting

Appendix 4 in CC32 contains 12 illustrative examiner's reports. There are two kinds of examiner's report; one for non-company charities and another for charitable companies. Most charities are non-company charities, but where a charity is set up under the Companies Act, these are regarded as charitable companies. The wording of an unqualified report for a non-company charity preparing accruals accounts, with a gross income of £250,000 or less is as follows:

Independent examiner's report to the trustees of XYZ Charity

I report to the trustees on my examination of the accounts of XYZ Charity (the Charity) for the year ended 31 December 2017.

Responsibilities and basis of report

As the charity trustees of the Charity you are responsible for the preparation of the accounts in accordance with the requirements of the Charities Act 2011 ('the Act').

I report in respect of my examination of the Charity's accounts carried out under section 145 of the 2011 Act and in carrying out my examination I have followed all the applicable Directions given by the Charity Commission under section 145(5)(b) of the Act.

Independent examiner's statement

I have completed by examination. I confirm that no material matters have come to my attention in connection with the examination giving me cause to believe that in any material respect:

1. accounting records were not kept in respect of the Charity as required by section 130 of the Act; or
2. the accounts do not accord with those records; or
3. the accounts do not comply with the applicable requirements concerning the form and content of accounts set out in the Charities (Accounts and Reports) Regulations 2008 other than any requirement that the accounts give a true and fair view which is not a matter considered as part of an independent examination.

I have no concerns and have come across no other matters in connection with the examination to which attention should be drawn in this report in order to enable a proper understanding of the accounts to be reached.

Signed:

Name:

Relevant professional qualification or membership of professional bodies (if any):

Address:

Date:

1.5 Relevant professional bodies

Once a charity's gross income exceeds £250,000, the examiner has to be a person who is a member of one of the following bodies. The examiner must also ensure that they comply with their relevant professional body's rules when undertaking the role of examiner. The listed bodies are:

- Institute of Chartered Accountants in England and Wales
- Institute of Chartered Accountants in Scotland
- Institute of Chartered Accountants in Ireland
- Association of Chartered Certified Accountants
- Association of Authorised Public Accountants
- Association of Accounting Technicians
- Association of International Accountants
- Chartered Institute of Management Accountants
- Institute of Chartered Secretaries and Administrators
- Chartered Institute of Public Finance and Accountancy
- Fellow of the Association of Charity Independent Examiners
- Institute of Financial Accountants
- Certified Public Accountants Association

1.6 Appendix: Schedule of Directions

Direction	Direction heading (first line only)	Applicable to receipts and payments	Applicable to accruals accounts
1	Check whether the charity is eligible to have an independent examination	✓	✓
2	Check for any conflict of interest that prevents the examiner from carrying out their independent examination	✓	✓
3	Record your independent examination	✓	✓
4	Plan the independent examination	✓	✓
5	Check that accounting records are kept to the required standard	✓	✓
6	Check that the accounts are consistent with the accounting records	✓	✓
7	If the accounts are prepared on an accruals basis and one or more related party transactions took place the examiner must check if these were properly disclosed in the notes to the accounts	-	✓
8	Check the reasonableness of the significant estimates and judgments and accounting policies used in accounting for the types of fund held and in the preparation of the accounts	Part	✓
9	The examiner must check whether the trustees have considered the financial circumstances of the charity at the end of the reporting period and, if the accounts are prepared on an accruals basis, check whether the trustees have made an assessment of the charity's position as a going concern when approving the accounts	Part	✓
10	Check the form and content of the accounts	✓	✓
11	Identify items from the analytical review of the accounts that need to be followed up for further explanation or evidence	✓	✓
12	Compare the trustees' annual report with the accounts	✓	✓
13	Write and sign the independent examination report	✓	✓
-	Statutory duty to report matters of material significance to the Commission	✓	✓
-	Examiner's discretion to report relevant matters to the Commission	✓	✓