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Independent Examination

“update on Good Practice”

acie

Association
of charity
independent
examiners



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Overview

- Knowledge – competence/independence
- Statutory requirements for IE – limits
- IE report – trustee annual report/accounts
- Requirements for examination – directions
- Q & A

What is an Independent Examination

- Independent external scrutiny of accounts
- Provides assurance about certain specific matters:
 - Review of the accounting records kept by the charity
 - Comparison of accounts with the accounting records
 - Consideration of unusual items or disclosures in the accounts
- Gives the examiner opportunity to draw to the attention of the reader any matters of concern

Can you be an Independent Examiner

Section 145(1)(a) of the Charities Act 2011:

An independent examiner is an

- “**Independent person** reasonably believed by the trustees to have the **requisite ability** and **practical experience** to carry out a **competent examination** of the accounts”



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An independent person

- Not connected to the Trustees
- Not involved in the day to day decision making or administration of the charity
- May be a member of the charity

Requisite ability and practical experience

All types of accounts

- Familiarity with basic principles such as types of income, role of the governing document, responsibilities of trustees
- Financial awareness and numeracy skills

Accounts prepared on accruals basis

- Understanding of accountancy principles and standards
- Knowledge of SORP

Income greater than £250,000 per annum

- Member of a body listed in Charities Act 2011 and allowed by the rules of the body to undertake IE



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Member of a specified body

Institute of Chartered Accountants in England & Wales

Institute of Chartered Accountants of 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 *

* Added by statutory instrument 2015

Allowed by the rules to undertake IE

IMPORTANT:

Members of any of the listed bodies should ensure that they have checked with their professional body on the requirements to hold a practising certificate if undertaking an Independent Examination

Failure to hold a practising certificate where required can result in disciplinary action.

Fees for independent examination

- Anyone charging a fee for independent examination (whether or not a member of a professional body) should be conversant with and comply with the Money Laundering Regulations and the Proceeds of Crime Act 2002
- Professional indemnity insurance



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Statutory requirements for IE

- Thresholds for types of accounts
- Formats of accounts
- Format of Independent Examiner's report
- Charity Commission directions

1. Examination and accounting thresholds

The examiner shall carry out such specific procedures as are considered necessary to provide a reasonable basis on which to conclude:

- a) that an examination is required under s145(1) of the Charities Act 2011 and that s144(1) (audit) does not apply to the charity; and
- b) where the charity is a small company, that it is exempt from audit in accordance with s477 of the Companies Act 2006; and
- c) where the accounts are prepared on a receipts and payments basis under s133 of the Charities Act 2011, that the charity trustees may properly elect to prepare accounts under this subsection.



Thresholds

GROSS INCOME	TOTAL ASSETS	FORMAT	EXAMINATION
> £1m	Not relevant	Accruals	Audit
> £250k, < £500k	> £3.26 million	Accruals	Audit
> £250k, < £1m	< £3.26 million	Accruals	IE
> £25k, < £250k	Not relevant	Receipts*	IE
< £25k	Not relevant	Receipts*	None

Gross income:

Accruals – total income excluding endowments, including transfers from endowments for expenditure

Receipts and payments – total receipts excluding endowments

* Note that if charity is a company then accruals apply to all thresholds



Thresholds – exceptions?

dispensation from audit

- Write to Charity Commission
- If dispensation granted Independent examiner's report must include a statement to this effect
- Independent examiner would need to be a member of a professional body for that year

Very limited circumstances in which this might be granted



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Cross border charities - Thresholds (Scotland)

GROSS INCOME	TOTAL ASSETS	FORMAT	EXAMINATION
> £500k	Not relevant	Accruals	Audit
Not relevant	> £3.26 million	Accruals	Audit
		R & P	IE
> £250k < £500k	< £3.26 million	Accruals	IE
> £250k	< £3.26 million	R & P*	IE

If a charity is also registered in Scotland then it must apply the rules with the lower thresholds in order to fully comply.

* Note that if charity is a company then accruals apply.

Note that if governance document requires audit then either amend or have audit

9. Trustees' annual report (accruals only)

When accounts are prepared under section 132 of the Charities Act 2011, or in the case of a charity which is a company, prepared under section 396 of the Companies Act 2006, the examiner shall compare the accounts to any financial references in the charity Trustees' Annual Report (if any); identifying any major inconsistencies and consider the significance such matters will have on a proper and accurate understanding of the charity's accounts.

9. Trustees' annual report

- objectives and activities (incl public benefit)
- achievements and performance
- financial review
- structure, governance and management
- reference and admin



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10. Examiner's report

The examiner shall review and assess all conclusions drawn from the evidence obtained from the examination and consider the implications on the report to be made under Regulation 31 of the 2008 Regulations. If the examiner has cause to make a positive statement on any matter arising from the provisions of Regulation 31(h) or 31(i) or make a statement on any matter arising from the provision of Regulation 31(j), then the examiner must ensure so far as practicable that the report gives a clear explanation of the matter and of its financial effects on the accounts presented.



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9. Trustees' annual report

Need to review and consider if:

- compliant
- inconsistencies
- misleading
- contradictory
- need to report



10. Examiner's report

- standard format
- > £250k reference to relevant qualification
- reference to audit dispensation (if applicable)
- negative assurance
 - Proper accounting records kept
 - Accounts accord with accounting records
 - Accounts prepared in accordance with SORP/ Charity law
- additional matters
 - breach of trust
 - information and explanations not provided
 - Inconsistency in trustees report



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10. Examiner's report

- considerations
 - materiality
 - additional procedures
 - duty to report



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Completion

- Subsequent events
- Going concern (accruals only)
- Examination review and conclusion

Subsequent events

Subsequent events which have a significant impact on understanding of the accounts should be reflected.

Examples:

- Income accrued which is now known not to be recoverable
- Liabilities/contingent liabilities identified since year end
- Correspondence since year end (eg legacy)

Going concern (accruals only)

Going concern:

Can continue to meet debts as they fall due for at least 12 months from the date of approval of the accounts

- Review of budgets/forecasts
- Discuss latest financial position re going concern
- Basis still appropriate?

Statutory duty to report

Sections 156 and 159 of the Charities Act 2011 place a duty upon the independent examiners of both non-company and company charities to make a report to the Charity Commission, where in the course of their examination, they identify a matter, which relates to the activities or affairs of the charity or of any connected institution or body, and which the examiner has reasonable cause to believe is likely to be of material significance for the purposes of the exercise by the Commission of its functions listed in section 156(3) of the Charities Act 2011.



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Statutory duty to report

- legal responsibility
- not actively seeking
- material significance
- report to Charity Commission
- guidance on procedure



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Matters of material significance

- dishonesty or fraud
- risk to charitable assets, funds, reputation
- internal controls
- criminal activity
- terrorism
- risk to beneficiaries
- breach of trust
- breach of Charity Commission Order/Direction



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Charity Commission Directions

	Direction	Receipts & payments	Accruals
1	Examination and accounting thresholds	Y	Y
2	Documentation	Y	Y
3	Understanding the charity	Y	Y
4	Accounting records	Y	Y
5	Comparison with accounting records	Y	Y
6	Analytical procedures	Y	Y
7	Form and content of accounts	N	Y
8	Accounting policies, estimates and judgements	N	Y
9	Trustees annual report	N	Y
10	Examiner's report	Y	Y
	Statutory duty to report certain matters of material significance to the Charity Commission	Y	Y

Planning

- 1) Scope of engagement/appointment
- 2) Knowledge of charity



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2. Documentation

The examiner shall record the examination procedures carried out and any matters which are important to support conclusions reached or statement provided in the examiner's report.

2. Documentation

- evidence of appointment and terms of appointment
- record of work undertaken
- summary of relevant information
- background information
- supporting documentation



3. Understanding the charity

The examiner shall obtain an understanding of the charity's constitution, organisation, accounting systems, activities and nature of its assets, liabilities, incoming resources and application of resources in order to plan the specific examination procedures appropriate to the circumstances of the charity.



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3. Understanding the charity

- governing document (objects and powers)
- main activities
- any projects
- sources of income, nature of expenditure
- accounting procedures and responsibilities
- any particular problems or concerns

4. Accounting records

The examiner shall review the accounting records maintained in accordance with section 130 of the Charities Act 2011, or, in the case of a charity that is a company, the accounting records maintained in accordance with section 386 of the Companies Act 2006, in order to provide a reasonable basis for the identification of any material failure to maintain such records.



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4. Accounting records

- up to date and readily available
- basic records sufficient to determine the financial position at any point in the year
- cash payments and receipts supported by invoices/receipts
- records of assets and liabilities

5. Comparison with accounting records

The examiner shall compare the accounts of the charity with the charity's accounting records in sufficient detail to provide a reasonable basis on which to decide whether the accounts are in accordance with such accounting records.

5. Comparison with accounting records

If charity prepares the accounts

- accounts to the trial balance (accruals) or cash book (receipts and payments)
- trial balance to source entry
- restricted funds

There is no requirement to check to originating documents (invoices etc) unless particular concerns

If accounts prepared by IE

- books of prime entry must be kept by another
- IE has no involvement in day to day admin



6. Analytical procedures

The examiner shall carry out analytical procedures to identify unusual items or disclosures in the accounts. Where concerns arise from these procedures, the examiner must seek an explanation from the charity trustees. If, after following such procedures, the examiner has reason to believe that in any respect the accounts may be materially misstated then additional procedures, including verification of the asset, liability, incoming resource or application, must be carried out.



6. Analytical procedures

- build an expectation from knowledge and information
- compare current year figures against the prior year (and budget if available)
- identify significant variations
- seek explanation



6. Analytical procedures

- document considerations and explanations
- consider context of activities and knowledge
- significant or unusual fluctuations or inconsistencies with other financial information
- undertake additional work if necessary

EXAMPLES



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7. Form and content of accounts

The examiner shall carry out such procedures as the examiner considers necessary to provide a reasonable basis on which to decide whether or not the accounts prepared under section 132 of the Charities Act 2011 comply with the form and content requirements of the 2008 Regulations including their preparation in accordance with Accounting and Reporting by Charities (SORP). Or in the case of a charity that is a company, whether or not the accounts are prepared in accordance with sections 396 of the Companies Act 2006, and are prepared in accordance with the methods and principles of the SORP.



7. Form and content of accounts

Receipts and payments accounts

- Receipts and payments account
- Statement of assets and liabilities
- Trustees annual report

Accruals accounts

- Statement of Financial Activities (SOFA)
- Balance sheet
- Notes to the accounts
- Trustees annual report

7. Form and content of accounts (accruals)

- knowledge of SORP
- awareness of 2008 regulations
- refer to supplementary sub-sector guidance (eg church denominations etc)
- identify non-compliance with disclosures



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8. Accounting policies, estimates and judgments (accruals only)

When accounts are prepared under section 132 of the Charities Act 2011, or in the case of a charity which is a company, prepared under section 396 of the Companies Act 2006, the examiner shall review the accounting policies adopted and consider their consistency with the Statement of Recommended Practice: Accounting and Reporting by Charities (the SORP) and their appropriateness to the activities of the charity. The examiner must also consider and review any significant estimate or judgment that has been made in preparing the accounts.

8. Accounting policies, estimates and judgments

- accruals only
- going concern
- SORP
- comparable, relevant, reliable and understandable
- need to report
- ***Receipts and payments*** - must clearly state that basis



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Completion

- Was plan appropriate?
- Work documented
- Decisions documented
- Accounts reviewed
- All relevant matters reflected and disclosed
- Matters reported



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Useful resources

Charity Commission

(www.charitycommission.gov.uk)

- CC31 Independent Examination: A Trustees Guide
- CC32 Independent Examination: An Independent Examiners Guide

Association of Charity Independent Examiners

(www.acie.org.uk)

Association of Church Accountants and Treasurers

(www.acat.uk.com)