CHARITY COMMISSION
FOR ENGLAND AND WALES

A benchmark for the external scrutiny of charity accounts

Why set a benchmark?

The trustees of registered charities and charities excepted from registration are required to have an external scrutiny of the charity's accounts if the charity has a gross annual income of over £25,000 in the reporting period (financial year). The external scrutiny is either an independent examination or an audit.

The independent examiner or auditor plays an important role in underpinning public confidence in charities because their work involves a review of the charity's accounts. The auditor gives an opinion as to whether the accounts are 'true and fair' whereas the independent examiner undertakes a limited check of certain specific matters.

Trustees and the reader or user of those charity accounts will expect that the external scrutiny was done properly. However, the evidence from our thematic research on charity reports and accounts has shown that too many independent examiners and auditors appear to lack the necessary understanding of the external scrutiny framework for charities and of their reporting duties.

Our aim is that all external scrutinies meet a minimum standard thereby assuring the public that they can read the accounts with confidence. By setting a benchmark we can give trustees and the reader and user of charity accounts a way of checking that the basics will have been covered.

Will having a benchmark make a difference?

We anticipate that in publishing this benchmark, by working with the accounting profession and the charity sector, and by following through on our research findings that we will see the standard of external scrutiny improve.

Having a benchmark helps because it will:

- check that a minimum standard of work has been done and so the basics will be right
- enable trustees to assess whether their independent examiner or auditor obviously lacked the necessary understanding of charity independent examination or charity audit requirements
- enable us to work with the accountancy profession to tackle shortcomings in the work of professionals where these are identified
- enable us to identify and take action if the independent examiner or auditor have not reported a matter of material significance to us

- provide a basis for us to advise or direct trustees to change their independent examiner or auditor and/ or to have the external scrutiny redone because it failed the benchmark
- facilitate our regulatory case work by identifying those external scrutinies that fail the benchmark

What is the external scrutiny benchmark?

The benchmark is proportionate to the size and legal form of the charity being reviewed, with more expected where the accounts are prepared on an accruals basis under the Charities Statement of Recommended Practice (SORP).

The benchmark comprises 15 criteria, 9 of which apply irrespective of whether the external scrutiny is of receipts and payments or accruals accounts. The other 6 criteria apply only to the external scrutiny of accruals accounts.

Criteria that apply to the external scrutiny of receipts and payments and accruals accounts

Trustees' annual report
For registered charities, there is a trustees' annual report or, if a company, a combined trustees' annual report and directors' report
External scrutiny report
There is an independent examination report or audit report
There is an audit report if an audit is required by the charity's size
The external scrutiny report is worded correctly with reference made to the correct legislation
The accounts
There is a receipts and payments account or a statement of financial activities
There is a statement of assets and liabilities or a balance sheet
The accounts are internally consistent, i.e. the closing funds balance within the receipts and payments accounts or statement of financial activities is consistent with the statement of assets and liabilities or balance sheet
The accounts add up correctly
Unrestricted and restricted funds are clearly identified

Criteria that apply to the external scrutiny of accruals accounts only

The accounts
The accounts have been prepared on an accruals basis, if required by the charity's size or because it is a company
The accounting policies note states that the accounts have been prepared under the correct Charities SORP
The notes disclose all of the required related party transactions as required by the Charities SORP
The statement of financial activities either incorporates an income and expenditure account or there is a separate income and expenditure account, if the charity is a company
Consolidated accounts have been prepared if applicable and required by the charity's size
There is a cash flow statement, if required by the charity's size

The responsibility for the preparation of the trustees' annual report and accounts is with the trustees. If the independent examiner or auditor has flagged any failings as concerns in the independent examiner's report or as matters for attention in their audit opinion the scrutiny may not fail the benchmark.

What is the basis for setting the benchmark?

The benchmark covers the vast majority of charities but does not cover Common Investment Funds and Common Deposit Funds or educational or housing charities that do not prepare their accounts in accordance with the Charities SORP.

In setting this benchmark our focus has been on having objective criteria based on charity law in England and Wales and, where appropriate, the Directions for independent examiners and International Standards of Auditing applicable in the UK. Please refer to the annex for the cross references to these requirements.

The legal requirements for the external scrutiny of reports and accounts are extensive and this benchmark is only a minimum intended to identify those external scrutinies that clearly fall short of what is required.

Help is available to independent examiners in the form of accounts templates for smaller charities on our web site and in the Guidance for independent examiners (CC32). Auditors should refer to their professional body for assistance.

How is the Commission working with professional accountancy bodies to raise standards?

As a regulator, the Commission is concerned with making sure that charities offer accurate, up-to-date and relevant information about themselves, enhancing their accountability to donors, beneficiaries and the general public.

Where an audit or independent examination is carried out by a person who is a member of a professional body we may draw to the attention of their professional body any non-compliance with the benchmark. We would do this to help professional bodies understand the training needs of the person concerned and the incidence of a lack of competence across their membership so that they can take action to help their members perform well and drive up standards.

The response of professional bodies to this information will also provide evidence as to the degree to which these bodies are seeking to ensure that their members, whether volunteering as trustees or working as practitioners, are equipped and supported in understanding charity filing and scrutiny requirements.

The Commission may also choose to use non-compliance with the benchmark either alone, or in combination with other issues that we have identified regarding the conduct or work of an independent examiner or auditor, as the basis to raise a formal complaint with that person's professional body. We may do this whether or not we have an active case involving the charity.

Effective date of application

This benchmark is applied by the Accountancy Services Team from 1 September 2019.

Annex: basis for the benchmark for an external scrutiny (audit or independent examination)

In addition to the relevant charity law requirement, reference is made to the applicable Direction(s) for independent examination and to relevant auditing standards and guidance.

Key assessment criteria	Source of requirement	Impact/rationale	ISA/PN11/ IE Direction reference(s)
Independent examination (IE) undertaken when an audit was required; or wrong wording of audit report; or IE report missing the required elements or the presence of an accountant's report	Charities Act 2011 section144 and 145 Regulations 20 to 36	The wrong scrutiny means that the requisite independent review has not been carried out and this reduces the assurance that the accounts are 'true and fair' (accruals) or complete (receipts & payments). It indicates poor trustee governance and the scrutineer's lack of competence. Publication CC32 clearly sets out scrutiny levels as does CC15d. Where the scrutiny report is incorrectly worded or missing required elements then this casts doubt on the competence of the practitioner and their awareness of legislative requirements. For chartable companies if an audit is required under company law, charity law references are still required.	Re IE scrutiny: Directions 1 and 13 Re audit opinion wording: ISA 700 (2) with FRC Bulletin 2010/2
The right format of accounts for the type and size of charity are prepared. The wrong form of accounts are: filing of receipts and payments accounts where SORP accounts are required or the submission of abridged or micro-entity accounts as these are not permitted.	Charities Act 2011 sections 132 and 133	Charities opting for receipts and payments accounts when SORP based accounts are required show a lack of awareness of the accounting thresholds. Submission of abbreviated or abridged or micro-entity accounts show an ignorance of the legal framework and the applicable regulations. All these are indicative of a lack of competence. Publication CC32 clearly sets out the account format options as does CC15d. (Micro entity and abridged accounts are not acceptable for charities– see regulations made under Companies Act 2006)	ISA 700 (8) Directions 1 and 10

Key assessment criteria	Source of requirement	Impact/rationale	ISA/PN11/ IE Direction reference(s)
One or more required primary financial statements missing. If SORP accounts: Statement of Financial Activities (and where a company either includes a summary Income Expenditure Account or presence of a separate I&E Statement), Balance Sheet and, where applicable, Statement of Cash-flows. If receipts and payments accounts: Receipts and payments Account and Statement of Assets and Liabilities	Accruals- Charities Act 2011 sections 132 and 133 Regulations 8 and 15 and 16 and applicable SORP module 4 Receipts & Payments – Charities Act 2011 part 8	Incomplete statements lead to a lack of transparency and indicate a lack of competence. Although the duty to file lies with the trustees, we anticipate a responsible practitioner will check that the filing that was made to which their scrutiny report is appended is the correct one, for example not a draft set of accounts or a partial filing, and so all required primary financial statements will be present and if not present the scrutineer's report will make reference to the omission(s).	ISA 700 (8) Direction 10
One or more of the primary financial statements do not add up or are not internally consistent by a material amount or the relevant Statement of Financial Activities totals do not agree with the balance sheet	Regulation 8	Whist rounding in accounts preparation is understandable, material basic errors imply a lack of competence or anomalies that should have been addressed and resolved as part of the external scrutiny between the accounting records and financial statements. In applying this criterion, the Commission considers materiality for identifying arithmetic error will be taken as that measure most relevant to the item. Examples are errors exceeding 1% of total income, 1% of total expenditure or 1% of total closing fund balances.	ISA 700 (8) Direction 10
Fund accounting is missing or incomplete	Applicable SORP module 2	Fund accounting is fundamental to stewardship to stakeholders and charity accounting. The absence of an analysis of funds is indicative of governance problems and the potential for breach of trust. Donors are keen to know how their funds	PN11 paragraph 79 Direction 8

Key assessment criteria	Source of requirement	Impact/rationale	ISA/PN11/ IE Direction reference(s)
		were used and not reporting on the use of restricted funds is detrimental to donor confidence.	
In the case of registered charities, the trustees' annual report missing or incorrect documents submitted in its place eg. minutes/chairman's report	Charities Act 2011 Part 8	Auditors and examiners are required to consider the trustees' annual report for consistency with the accounts and so should note the absence of that report. If not noted then this is indicative of a lack of understanding of audit or independent examination requirements. Although the duty to file lies with the trustees, we anticipate a responsible practitioner will check that the filing that was made to which their scrutiny report is appended is the correct one, for example not a draft set of accounts or a partial filing, and so a trustees' annual report will be present and if not present the scrutineer's report will have made reference to the omission(s).	ISA 700 (21) and PN11 paragraphs 218 or 219 Direction 12
Wrong SORP used (after allowing a transition period of an accounting year after a new SORP came into effect - effective for financial years beginning on or after 1 January 2016)	FRS 100 paragraph 5	For financial years beginning on or after 1 January 2016 only the Charities SORP (FRS 102) is valid and so continued use of SORP 2005 or the FRSSE SORP is incorrect. In not using the FRS 102 SORP, it means that the accounts may not give a 'true and fair' view in accordance with extant generally accepted accountancy practice (GAAP). It indicates a lack of competence. Also continuation with the FRSSE SORP post 1 January 2016 indicates that the practitioner is unaware of changes in GAAP. Non-application of a more specific SORP (Housing or FEHE or Investment) or inappropriate application also indicates a lack of awareness of FRS 100.	ISA 700 (8) and ISA 540 (8) Direction 8

Key assessment criteria	Source of requirement	Impact/rationale	ISA/PN11/ IE Direction reference(s)
Accounts that are prepared under the Charities SORP do not include a related party note (trustee remuneration, trustee expenses and transactions involving related parties) or the note is incomplete in its disclosure	Applicable SORP module 9	The proper disclosure of related party transactions is essential to public confidence and transparency. Missing (whether details omitted or a failure to confirm none took place) or incomplete disclosure damages public confidence and is indicative of poor governance and a lack of accountability to stakeholders. It is also reportable to the regulator by the auditor or independent examiner as a matter of material significance.	ISA 550 (3) Direction 8 Guidance on reporting matters of material significance
Consolidated (group) accounts were not prepared where required by charity law	Charities Act 2011 sections 138 139 and 142	Thresholds are defined by regulation and correct accounts preparation is essential to transparency. CC15d sets out the requirements.	Audit only ISA 700 (8) IE see section C6