



**CHARITY COMMISSION
FOR ENGLAND AND WALES**

Accounts monitoring review: Auditors' and independent examiners' compliance with their responsibilities

Why are we reviewing the work of auditors and independent examiners?

The auditors and independent examiners of charity accounts are our second line of defence, after the trustees, against mismanagement in charities. We rely on them to scrutinise the accounts that the trustees have appointed them to audit or examine and to report to us any significant concerns that they identify in the course of their work. However, the results of our annual surveys of the quality of charity accounts show that some auditors and examiners are failing to identify significant failings in the accounts that they are reviewing. For more information, see [Accounts Monitoring Review: Public reporting by charities in their trustees' annual report and accounts](#).

In August 2019, the Commission published a benchmark of the minimum standards it expects in an external scrutiny of a charity's accounts. We based the criteria that make up the benchmark on the Charities Act 2011, the Charities Statement of Recommended Practice (SORP), auditing standards and the Commission's Directions for independent examiners. You can find details of the benchmark at [A benchmark for the external scrutiny of charity accounts](#).

What are the requirements for audit and independent examination?

The trustees of the approximately 64,000 charities on our register with incomes over £25,000 must arrange for either an audit or an independent examination of their charity's accounts. Charities with incomes over £1 million (and those with incomes over £250,000 and gross assets over £3.26 million) must have an audit. Most other charities can opt for an independent examination, unless an audit is required for another reason, such as by the charity's governing document.

How did we carry out the review?

We reviewed the 2017 sets of accounts filed by 296 charities to assess whether they met the benchmark. The charities were drawn from three random samples, chosen to reflect the different accounting and scrutiny requirements that apply.

What did we find?

The percentage of accounts meeting the external scrutiny benchmark

Three quarters of charities with incomes over £1 million met the external scrutiny benchmark. This fell to half or less of the charities in our two lower income samples.

Charity income	% of accounts meeting the external scrutiny benchmark
£25,000 - £250,000	37% (of 100 charities)
£250,000 - £1 million	51% (of 100 charities)
£1 million and greater	76% (of 96 charities)

The Commission is concerned that so many accounts submissions did not meet our benchmark. Whilst the trustees are responsible for their charity's accounts, our findings also raise concerns about the work done by the auditors and examiners who scrutinised these accounts.

We looked in more detail at the results for each of the three documents that make up a set of charity accounts. All of the charities in the two largest income samples provided a trustees' annual report and nearly all of them filed an audit or independent examination report with the required wording, as did the vast majority of charities in the lowest income sample. However, compliance with the accounts criteria was much lower in all three samples. The benchmark focusses on the content of the accounts, since this reflects the scope of an audit or examination.

Income/ % of accounts meeting criteria	Trustees' annual report	External scrutiny report	Accounts	All 3 documents
£25,000 - £250,000	90%	74%	44%	37%
£250,000 - £1 million	100%	96%	51%	51%
£1 million and greater	100%	99%	76%	76%

We then considered the results for the individual criteria that make up the benchmark for each document.

Trustees' annual report

As previously discussed, all of the charities in the two largest income samples provided a trustees' annual report. However, one charity in our lowest income sample did not file a narrative report and another 9% provided notes of an annual general meeting or a Chair's report instead of a trustees' annual report, even after we gave the trustees the opportunity to make good an incomplete submission.

External scrutiny report

Once again, there was a high level of compliance from the charities in the two largest income samples. The exceptions included one charity that did not file a scrutiny report and another that filed an independent examination report when an audit was required. Four charities in our lowest income sample also did not file a scrutiny report, even after we gave the trustees the opportunity to make good an incomplete submission. The main failing, however, was that the external scrutiny report did not have the correct wording, such as referring to the repealed Charities Act 1993.

The accounts

There were two main reasons why charities in the two largest income samples failed to meet the benchmark:

- incomplete reporting of related party transactions. 34% of the accounts in the £250,000 - £1 million income sample and 14% of the accounts in the over £1 million income sample did not meet this requirement. We have produced a separate report in which our findings are discussed in more detail. For further information, see [Accounts monitoring review: reporting of related party transactions in charity accounts](#)
- not providing a separate summary income and expenditure account, or not stating that it was included in the Statement of Financial Activities (SOFA). This criteria applies only to charitable companies, but approximately 70% of the charities in each of the two larger income samples are companies. 21% of the companies in the £250,000 - £1 million income sample and 12% of the accounts in the over £1 million income sample did not meet this requirement

The charities in our lowest income sample performed even more poorly on these criteria. However, the criteria are less relevant because 34 of the charities opted to prepare receipts and payments accounts, where there is no requirement to disclose related party transactions, and only 30 of the charities in this sample were companies.

Whilst all of the charities in this sample filed accounts, more than a quarter of them (28%) did not meet a basic integrity standard, with incorrectly labelled or missing statements and without any information on the types of funds held.

The results of our assessments of each sample against all of the benchmark criteria are provided in the Appendix.

The relative performance of auditors and independent examiners

The section of our samples with the highest percentage of charities meeting the benchmark is those with an income over £1 million, all of which must be audited. The audited charities in the other two samples did not reach the same standard, but a higher percentage met the benchmark than the accounts that had been independently examined.

Charity income/ Type of scrutiny	% of accounts meeting the external scrutiny benchmark	
	Independent examination	Audit
£25,000 - £250,000	38% (of 92 charities)	50% (of 4 charities)
£250,000 - £1 million	48% (of 67 charities)	59% (of 32 charities)
£1 million and greater	0% (of 1 charity)	77% (of 95 charities)

The trustees of charities with incomes less than £250,000 who opt for independent examination are not required to appoint a person who is a member of a recognised accountancy body. However, the trustees of 70 of the 92 charities in our sample that opted for independent examination appointed qualified examiners. The qualified examiners

performed significantly better than the unqualified examiners, with 44% of the accounts that they reviewed meeting the benchmark, compared with only 18% for the unqualified examiners.

What action are we taking?

We are working with the accountancy profession

For each of the accounts in our samples, we recorded the accountancy body, if any, that the charity's auditor or independent examiner stated they were a member of. We then checked the membership of each auditor and examiner using the accountancy bodies' online member search tools. Firms or individuals regulated by the Institute of Chartered Accountants in England and Wales (ICAEW) and the Association of Chartered Certified Accountants (ACCA) issued the vast majority of audit or independent examination reports.

Body/ report	Number of external scrutiny reports	Number of accounts not meeting criteria
ICAEW	203	69
ACCA	47	30
Other Charities Act 2011 listed body	18	12
No qualification stated	23	19
No scrutiny report filed	5	5
Total	296	135

We are working with ICAEW and ACCA to improve their members' awareness of charity reporting and accounting requirements, and to identify the necessary improvements to the learning and resources available to their students and members. Both ICAEW and ACCA have provided statements to this report.

As part of our collaborative approach to improvement, we are providing details to these professional bodies of their members who had audited or examined sets of accounts that did not meet our benchmark. We intend to initiate similar arrangements with the other bodies listed in the Charities Act 2011.

We have updated our guidance for trustees on independent examination

The trustees of most charities can opt for an independent examination of their charity's accounts. We have updated our guidance for trustees on independent examination. For further information, see [Independent examination of charity accounts: guidance for trustees \(CC31\)](#). The guidance gives trustees the information they need to:

- check whether their charity can have its accounts independently examined instead of audited
- appoint a suitable person to carry out the independent examination, and
- prepare for the independent examination

We have provided guidance to the trustees of individual charities

We have contacted the trustees of the 135 charities that filed trustees' annual reports, external scrutiny reports and/or accounts that failed our benchmark. We have provided guidance to help them improve the quality of their future trustees' annual reports and accounts. We have also required the trustees of 10 of these charities to address additional specific concerns that we identified:

- one charity that did not file any form of trustees' annual report
- five charities that did not file any form of external scrutiny report
- three charities that did not comply with one of the accounting or external scrutiny thresholds, including one charity that had appointed an examiner who did not hold the required professional qualifications
- one charity that had appointed one of the trustees as its independent examiner, in clear breach of both the trustees' and the examiner's duty to ensure that the person carrying out the examination is independent of the charity

What are the lessons for other charities?

Arranging for your charity's accounts to be subject to external scrutiny, either an audit or independent examination, is an important part of providing assurance to the trustees and others with an interest in the charity's activities about the content and accuracy of those accounts. However, our review has highlighted that the trustees of a significant number of charities have appointed auditors or examiners whose work does not meet our external scrutiny benchmark.

The trustees of most charities can opt for an independent examination. We have updated our guidance about independent examination to help trustees fulfil their legal duty to appoint 'an independent person who is reasonably believed by the trustees to have the requisite ability and practical experience to carry out a competent examination of the accounts'. For further information, see [Independent examination of charity accounts: trustees \(CC31\)](#).

The trustees may delegate aspects of accounts preparation to charity staff or their independent examiner or auditor. However, the trustees remain responsible for approving those accounts and for preparing the trustees' annual report. You may find it helpful to use our accounts packs, since they provide a structure for producing a trustees' annual report and accounts that meet our requirements.

You can find the accounts packs and more information about your responsibilities for preparing the trustees' annual report and accounts on [GOV.UK](#).

Appendix: the results of our assessments of each sample against each of the benchmark criteria

Criteria/ sample	Income: £25,000 - £250,000 (100 charities)	Income: £250,000 - £1 million (100 charities)	Income: Over £1 million (96 charities)
Trustees' annual report			
Trustees' annual report or Directors' report	90%	100%	100%
External scrutiny report			
Audit or examination report	89%	99%	100%
Audit report if required by income and assets	n/a	100% (of 7 charities)	99%
Refers to Charities Act 2011/ Companies Act 2006 as required	76%	96%	100%
Accounts			
A basic integrity check that applies to both forms of accounts			
Receipts and payments account or SOFA	81%	97%	100%
Statement of assets and liabilities or balance sheet	85%	99%	100%
Statements internally consistent	93%	100%	100%
Statements add up	92%	100%	100%
Charitable funds accounted for	79%	97%	100%
Additional criteria that apply only to accruals (SORP) accounts			
Accruals if required by income or a company	100% (of 30 charities)	99%	100%
Prepared under current Charities SORP	73% (of 66 charities)	90%	98%
Related party transactions disclosed	55% (of 66 charities)	66%	86%
Further criteria that apply to some accruals (SORP accounts)			
Income and expenditure account included if a company	50% (of 30 charities)	79% (of 68 charities)	88% (of 69 charities)
Cash flow statement included if required by income	n/a	71% (of 38 charities)	95%
Consolidated accounts prepared if applies and required by income	n/a	n/a	100% (of 44 charities)

Annex: ICAEW and ACCA statements on the Charity Commission report

ICAEW

While ICAEW auditors and independent examiners fared better than others, the number of accounts not meeting the external scrutiny benchmark is still disappointing. We have asked the Charity Commission for more details and we have agreed a plan with them to improve the quality of work of ICAEW members in this important area. The results of the review also send a clear message to Trustees in terms of the choices they make when they appoint auditors and independent examiners, particularly where unqualified advisors are under consideration.

ACCA

We welcome this report and for the opportunity to include this short statement.

This is an important accounting monitoring review of Auditors' and independent examiners' compliance with their responsibilities from the Charity Commission, with findings on which ACCA will be taking action.

We believe this action is necessary because of our Royal Charter and our work to protect the public interest, promote responsible and ethical business and support economic performance. It's vital that the charity sector delivers timely and trustworthy information to the Charity Commission, as accountancy professionals working in the charity sector act in the public interest.

The accountancy profession is often the first line of defence for important financial and regulatory issues identifying significant failings in accounts being reviewed. There is a responsibility on the profession to uphold the highest of standards, regardless of the sector.

As a result of this review and its findings, we are working closely with the Commission and our members to ensure the value of audit and all reporting for the charity sector remains a top priority. It is important for anyone involved in the charity sector, especially trustees, auditors, independent examiners, internal auditors and professional bodies, to take appropriate action.