GUIDANCE
Independent examination of charity accounts: guidance for trustees (CC31)

August 2019
1. What this guidance is about

This 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

The trustees of all registered charities must produce a trustees’ annual report and accounts each year. For information on the reporting requirements and on what the accounting terms used in this guidance mean, please refer to Charity reporting and accounting: the essentials (CC15d).

Where a charity’s annual income is over £25,000, the trustees must also arrange for an independent person or accountancy firm to carry out either an audit or an independent examination of their charity’s accounts. The purpose of this is to give the charity’s trustees, supporters, beneficiaries and the wider public, some independent assurance that the charity’s money has been properly accounted for and accounting records kept. The trustees of most charities are able to choose to have an independent examination instead of an audit. Independent examination is a ‘light touch’ scrutiny involving the examiner checking for specific matters only. Because it is narrowly defined and does not involve forming an opinion as to whether the accounts are ‘true and fair’, it usually costs less than an audit. The Institute of Chartered Accountants In England and Wales has produced a guide that explains the differences between audit and independent examination Choice between audit and independent examination (ICAEW).

The rules on independent examination also apply to excepted charities. These are charities that are regulated by the Commission but are not required to register with us. They do not apply to charities that are exempt from regulation by the Commission. Exempt charities include most universities in England, academy trusts and some of the national museums and art galleries. You can find more information in our guidance Exempt charities (CC23).

This guidance is for the trustees of charities registered in England and Wales. If your charity is also registered in Scotland then different or additional requirements may apply. You can find the guidance on independent examination produced by the Scottish Charity Regulator at Independent examination: a guide for charity trustees (OSCR). There are currently no additional external scrutiny requirements for charities registered in England and Wales that operate in Northern Ireland.
2. How to check whether your charity can choose to have its accounts independently examined instead of audited

The trustees will usually be able to choose an independent examination instead of an audit if your charity’s gross income is:

- more than £25,000, but not more than £1 million, provided that
- if its gross income is more than £250,000, its gross assets (fixed assets plus current assets) are £3.26 million or less

Guidance on how to calculate gross income is provided in Appendix 2 of Independent examination of charity accounts: examiners (CC32).

The trustees will not be able to choose an independent examination if the charity’s governing document, a funder or the Commission requires an audit to be carried out.

If your charity’s governing document requires an audit, the trustees may wish to amend the governing document to remove this provision so that they can choose an independent examination. For guidance on how to do this, see Changing your charity’s governing document (CC36). If your charity’s governing document is dated before 1 March 1992, unless reference is explicitly made to an audit by a ‘qualified auditor’ or audit by a ‘qualified accountant’ (for example audit by a chartered accountant), then the term ‘audit’ may be taken to simply mean the requirement for some form of an independent scrutiny. This means that you can choose an independent examination.

The trustees of charities with gross incomes of £25,000 or less do not usually have to arrange for any scrutiny of their charity’s accounts. However, you should check whether your charity is subject to additional external scrutiny requirements. A particular example is Parochial Church Councils. You can find guidance on the requirements for this type of charity at Church Accounting Regulations 2006.

The trustees of charities with gross incomes of more than £1 million (or more than £250,000 and with gross assets of more than £3.26 million) must arrange for their charity’s accounts to be audited. They may not choose an independent examination. The only exception is where the Commission has approved an independent examination of a particular year’s accounts instead of an audit. The Commission must be satisfied that there are exceptional circumstances and that the nature of the funds otherwise subject to audit are such that there is a reduced risk to the charity to justify a lower standard of external scrutiny. If the Commission grants the approval, the trustees must provide the examiner with a copy of it. The Commission cannot approve an independent examination in place of an audit if your charity is subject to audit under the Companies Act 2006. For more information, see Audit exemptions for charities and the Commission’s Operational guidance. To request a dispensation from the audit requirement, please complete our online Enquiry form.

You may find the flowchart in Appendix 1 of Independent examination of charity accounts: examiners (CC32) helpful in summarising the independent examination requirements.
3. How to appoint a suitable person to carry out the independent examination

The trustees have a legal duty under the Charities Act 2011 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’. These requirements are discussed below.

‘An independent person’

The examiner must be independent of the charity. Independence means that the examiner must not be influenced, or could not be perceived to be influenced, by their relationships with the charity and its trustees. Therefore, the examiner cannot be a trustee of the charity. Independence is not the same as having no connection with the charity. An examiner can be a supporter of the charity, provided that they do not have a close relationship with the charity or its trustees and they are not involved in the day to day administration of the charity. Examples of situations that would call an examiner’s independence into question are where they:

- are an employee of the charity or its book-keeper
- serve on a sub-committee overseeing the charity’s finances
- are a major donor to, or beneficiary of, the charity
- have a significant financial or commercial relationship with the charity or its trustees
- have a close relationship with the trustees or any other related parties. Direction 2 of Independent examination of charity accounts: examiners (CC32) provides guidance on the persons classed as related parties

If the trustees are unsure whether their proposed examiner is independent, they should ask the examiner to explain in writing why they consider that they meet the independence criteria. The trustees should then consider whether they are satisfied with the explanations given.

The trustees must respect the examiner’s independence and must not act in a way that might undermine it. Accordingly, the trustees must not state or imply that awarding the work is conditional on the examiner agreeing to:

- provide personal payments or benefits to the trustees, or provide donations of money, benefits in kind or services to the charity (other than the conduct of the independent examination itself), or
- accept particular accounting policies or accounting treatments

The Commission views such behaviour as unethical. It may also constitute an offence under the Bribery Act 2010 (see Law on bribery), or of a breach of duty or other misconduct or mismanagement in the administration of your charity. For a trustee who is a member of a professional body it may also be a breach of their professional body’s ethical standards.
‘The requisite ability and practical experience to carry out a competent examination’

The examiner must have the skills and experience needed to carry out his or her responsibilities. The starting point for all independent examiners is an understanding of their responsibilities, as explained in *Independent examination of charity accounts: examiners (CC32)*. All examiners must also understand the key governance and reporting requirements that are specific to charities.

These include the responsibilities of trustees and the requirements to produce a trustees’ annual report and to account for the different types of charitable funds. Whatever their skills and professional qualifications, new examiners who are not familiar with the charity sector will need to gain this background knowledge before starting their examination.

An examiner must also have sufficient accounting skills to carry out an independent examination. The extent of the skills required depends upon the charity’s gross income and the complexity of its accounts:

- **income over £250,000.** The trustees must appoint an examiner who is a member of one of the accountancy bodies listed in the Charities Act 2011, as amended by Orders. The appendix lists the accountancy bodies and provides links to their websites and member search tools.
- **income £250,000 or less and your charity prepares accruals accounts.** The trustees are not required to appoint an examiner who is a member of one of the accountancy bodies listed in the appendix. However, the examiner will need an understanding of accounting principles, accounting standards and the Charities SORP and so we recommend that the trustees select an examiner who is a member of one of the accountancy bodies listed in the appendix.
- **income £250,000 or less and your charity has opted to prepare receipts and payments accounts.** The trustees are not required to appoint an examiner who is a member of one of the accountancy bodies listed in the appendix. The examiner will need to demonstrate sufficient financial awareness, numeracy skills and relevant experience to carry out the work and make the judgements required.

The trustees may find it helpful to draw up a set of questions to ask their proposed examiner to help them check that the person has the skills and experience needed. You should ask:

- **all examiners,** to confirm that they have read and understood the Commission’s Directions and guidance.
- **professional examiners,** to provide proof of membership of one of the professional bodies listed in the appendix and that they meet that body’s requirements for acting as an independent examiner. In particular, the examiner is likely to need a practising certificate or licence, although if he or she is not charging a fee to carry out the independent examination this may not be necessary. This check can be done using each body’s on-line member search tool, or directly if the body does not have this facility.
- **non-professional examiners,** to explain their skills and experience and why this makes them competent to carry out the work. For example, the examiner may work in a role that involves financial management, such as setting and managing budgets and reviewing financial reports, or that requires knowledge of accounting systems, such as maintaining financial records and internal controls.
The trustees’ decision to appoint a person to act as the charity’s examiner should be in writing and recorded in the charity’s minutes. The examiner should confirm their appointment and this can be done by an exchange of emails. Professional examiners may issue a letter of engagement, setting out the terms of their appointment including their fee.

The process of finding and appointing an examiner can take time and so should not be left until the trustees’ annual report and accounts are due for filing.

Each year, check that the independent examiner remains independent and has the ability and experience needed

Before confirming the examiner’s appointment for the following year’s accounts, the trustees should confirm that their examiner remains independent and has the skills and experience needed. Factors that the trustees should consider include whether:

- there have been significant changes in the charity’s income and/or gross assets. For example, if the charity’s income increases to over £250,000 then the trustees must check whether the charity is still eligible to choose an independent examination and, if so, whether their examiner is a member of one of the accountancy bodies listed in the appendix
- they have concerns that the examiner has not carried out previous examinations in accordance with the Commission’s Directions and guidance. If the Commission advises the trustees that their examiner has not performed to the required standard, the trustees should cease to use that examiner and appoint someone else who is appropriately qualified. This is also true were the Commission to find that an auditor has not performed to the required standard. If the trustees do not follow the Commission’s advice, this can be evidence of breach of duty or other misconduct or mismanagement on the trustees’ part which may cause the Commission to take regulatory action to protect the charity
4. How to prepare for the independent examination

This section explains the key steps in the independent examination process and provides guidance on how the trustees should prepare for the examination.

Understand what is involved in an independent examination

The starting point is for the trustees to understand what an independent examination involves. You may find it helpful to refer to Independent examination of charity accounts: examiners (CC32), since this sets out the work that examiners must carry out and the records and information that they are likely to ask the trustees to provide. In summary, the examiner will review the records kept by the charity and compare the accounts with those records. The examiner will also review the accounts and consider any unusual items and/or disclosures identified.

The outcome of an independent examination is a report from the examiner to the trustees. The examiner must report on whether he or she has reasonable cause to believe that in any material respect:

- proper accounting records were not kept
- the accounts do not accord with the accounting records
- if accruals accounts were prepared, they do not comply with the legal requirements and the applicable SORP, other than the requirement that the accounts give a ‘true and fair view’ which is not a matter considered as part of an independent examination

If the examiner identifies any other significant concerns, then he or she must include them in the report to the trustees. As an example, the examiner’s report may state that there has been material expenditure that is not consistent with the terms of the charity’s governing document.

The examiner must also report to the Commission directly (and the other UK charity regulators if applicable) if he or she identifies any matter of material significance. The Commission and other UK charity regulators have published joint guidance that describes the matters that examiners must always report. These include dishonesty and fraud, money laundering and criminal activity, and failure to manage significant conflicts of interest appropriately. The examiner may also choose to report any concerns that he or she has reasonable cause to believe are relevant to the work of the Commission. Further information is provided in Sections 5 and 6 of Independent examination of charity accounts: examiners (CC32).

Agree arrangements for preparing the accounts and a timetable for the examination

The trustees are responsible for preparing their charity’s trustees’ annual report and accounts. The trustees may find it helpful to engage their examiner to assist them, as well as carrying out the examination. This is permitted, provided that the examiner is not involved in maintaining the charity’s accounting records or in the day-to-day management of the charity. The trustees must retain oversight of their trustees’ annual report and accounts and request any amendments that they consider necessary.

The trustees should agree a timetable with the examiner that will enable the examination to be completed in time for the trustees to review and approve the accounts and trustees’ annual report and for them to be filed with the Commission within 10 months of the charity’s year end. Company charities also have to file with Companies House within nine months of the charity’s year end. The key dates to agree are when the trustees will provide the draft accounts/ accounting records and trustees’ annual report to the examiner and when the examination will take place.
If the charity has subsidiaries and the trustees decide to prepare group accounts on a voluntary basis then they should inform the examiner in advance, since the examiner is required to carry out additional procedures (see Section 4 of Independent examination of charity accounts: examiners (CC32)).

Make the charity’s accounting records, documents, trustees and key staff available to the examiner

The trustees must keep the charity’s accounting and other key records up to date and make them available to the examiner. The trustees and any employees of the charity must also assist the examiner.

The accounting records must provide at least the basic information from which accounts can be prepared. These records should contain details of all money received, all payments made and of the charity’s assets and liabilities at the end of the financial year. Other key records include the charity’s governing document and the minutes of trustees’ meetings. The examiner will need to ask the trustees and any staff questions about the charity, its accounts and the supporting records, so the examination should take place a time when they are available.

Agree any changes to the trustees’ annual report and accounts

At the conclusion of the examination, the examiner may ask the trustees to amend the trustees’ annual report and/ or accounts to correct errors or omissions that they have identified. The examiner may also request written confirmation of explanations given during the examination. Once the final versions of the trustees’ annual report and accounts are agreed, one or more of the trustees must sign them on behalf of the board as evidence that the trustees have reviewed and approved them.

If the examiner identifies concerns that they propose to highlight in their report and/ or report to the regulator as a matter of material significance, the trustees should work with the examiner to try and resolve these concerns, if practicable. This may involve providing additional information or evidence to the examiner. Should the trustees not be able to resolve the examiner’s concerns, for example if they had not kept appropriate records, such as bills, to support their expenditure, then the trustees should take action to put things right for the future.

File the independent examiner’s report with the trustees’ annual report and accounts

Once the examiner has issued their report, the trustees must file a copy with the Commission (and any other UK charity regulator, if required) alongside their charity’s trustees’ annual report and accounts. Charitable companies must also file these documents with Companies House. The trustees may ask the examiner to file on the charity’s behalf, but they remain responsible for ensuring that the final versions of all of the required documents are submitted on time.

The trustees are also responsible for updating their charity’s details on the register of charities and for completing and filing the charity’s annual return with the Commission, within 10 months of the financial year end.
Appendix: Independent examiners’ professional qualification requirements

For financial years ending on or after 31 March 2015, once a charity’s income exceeds £250,000 the examiner must be a member of one of the following bodies listed in the 2011 Charities Act, as amended. Also, the examiner must be allowed by the rules of that body to undertake the role of independent examiner. The accountancy bodies are listed below, with links to their websites and ‘find member’ search tools.

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