**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)** |
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| 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 145Regulations 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 13Re 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 |
| 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 andStatement of Assets and Liabilities | Accruals- Charities Act 2011 sections 132 and 133 Regulations 8 and 15 and 16 and applicable SORP module 4Receipts & 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 were used and not reporting on the use of restricted funds is detrimental to donor confidence. | PN11 paragraph 79Direction 8 |
| 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 |
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| 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 |
| 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 8Guidance 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 onlyISA 700 (8)IE see section C6 |