

# An overview of charity Independent Examination

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# Today's Presentation

- Charitable status
- Audit v Independent Examination
- Who can be an independent examiner?
- Independent Examination overview
- Accruals v Receipts & Payments accounts
- Trustees' responsibilities
- Adding value
- Reference material

# Charitable Status

## England & Wales

- A charitable body established in EW must register with CCEW unless:
  - it is exempt from registration;
  - it is excepted from registration; or
  - it has income of  $\leq$  £5,000 and it is not a CIO

# Charitable Status

## England & Wales

- **Exempt charities:** Mainly most universities in England, academy trusts and some of the national museums and art galleries. Currently includes Charitable Community Benefit Societies, although that is expected to change. Not registered with, or regulated by, CCEW. Not eligible for IE.
- **Excepted charities:** Mainly certain churches, scout & guide groups, armed forces charities, some educational charities, student unions. Income less than £100k. Regulated by CCEW but not registered. The Charities Act 2011, excluding registration and filing requirements, applies.

# Charitable Status

## Northern Ireland

- A charitable body established in NI must register with CCNI, unless it is on the awaiting registration list.
- Charities awaiting registration can describe themselves as “recognised for tax purposes”, but not as “registered charities”. No filing requirements other than charitable companies, which must file with Co-Ho.

## Scotland

- A charitable body established in SC is not required to register with OSCR, but cannot describe itself as a charity, if it is not registered.

# Charitable Status

## Registered in:

- NI or SC
- EW or SC
- EW or NI

## Starting up in:

- EW
- NI
- SC

## Registration in new jurisdiction?

- No, but may choose to register
- Not until the s167 register is in place
- Yes, in most cases

## Note:

- A charity registered in more than one jurisdiction (a cross-border charity) must comply with legislation in each one in which it is registered. **In the event of a 'conflict', the strictest rule applies.**

# Audit v Independent Examination

## Audit

- A very detailed process requiring considerable professional knowledge
- Must be carried out in accordance with ISAs (UK) by a registered auditor
- Auditor expresses an opinion (positive assurance) that the accounts:
  - give a true and fair view; and
  - have been properly prepared in accordance with UK GAAP and applicable legislation
- Not a proportionate form of scrutiny for most small charities

# Audit v Independent Examination

## Independent examination

- Less detailed than audit; usually lower fee and may be pro bono
- Must be carried out in accordance with regulator's Directions (EW & NI)
- OSCR's guidance is not a legal requirement but should be followed (SC)
- Provides negative assurance, **but only on specific matters**
- Available for more than 90% of charities
- Examiner does **not** express an opinion on the accounts
- Examiner may be involved with accounts preparation



# When is an audit required?

## England & Wales

- Income > £1M; or
- Gross assets > £3.26M and income > £250k

## Northern Ireland

- Income > £500k [Note: No asset test]

## Scotland

- Income  $\geq$  £500k; or
- Gross assets > £3.26M and accruals accounts prepared

# When is an audit required?

## Other circumstances requiring audit:

- A provision in the charity's governing document. In EW this may not apply if the governing document is older than 1992.
- A condition of a funder or a donor.
- A direction from CCEW or CCNI (but not OSCAR) that the accounts be audited.
- Trustees may elect to have an audit, instead of an IE, but should have a good reason for doing so, given the higher cost.

# When is an audit required?

## Exemption from Audit

- CCEW and CCNI (but not OSCAR) have the power to grant exemption from the applicable Charities Act audit in exceptional circumstances. However, the trustees must apply for the exemption before the financial year-end.
- No power to grant exemption from a Companies Act audit.

## Charities registered with more than one regulator (X-Border charities)

- Where there is a 'conflict' in regulation, **the strictest rule applies.**

# When is an IE required?

## England & Wales

- **Registered and excepted charities** with income > £25k must have an IE unless the accounts are audited. Optional below £25k, unless condition of governing document, funder or donor requires an IE.
- If the charity is eligible for IE, the trustees must elect to have an audit, or elect to have an IE. There is no default option.

# When is an IE required?

## Northern Ireland

- **Registered charities** must have an IE unless the accounts are audited. Optional for charities awaiting registration.
- If the charity is eligible for IE, the trustees must elect to have an audit, or elect to have an IE. There is no default option.

## Scotland

- **All charities** must have an IE unless the accounts are audited.

# Who can be an Independent Examiner?

- “An independent person whom the trustees reasonably believe to have the requisite ability and practical experience to carry out a competent examination of the accounts”.
- An independent examiner:
  - is always an individual, and acts in a personal capacity;
  - takes personal responsibility for the examination; and
  - signs the IE report in their own name.
- This may have implications for practising certificates, AML registration and PII cover.

# Who can be an Independent Examiner?

## Key knowledge and understanding:

- Charity accounting, particularly fund accounting
- Charity regulation in applicable jurisdiction(s)
- Charity regulator(s)' Directions &/or Guidance
- FRS102 / SORP(FRS102) for accruals accounts
- Companies Act 2006 for charitable companies
- (if fee charging), Anti-Money Laundering Regulations and GDPR
- Reporting to the regulator(s) and other statutory bodies

# Is a professional qualification required for IE?

For the purposes of IE, a “professional qualification” means:

- being a member of one of the bodies listed in charity legislation in the relevant jurisdiction(s), and
- being permitted by that body to undertake the role of independent examiner, even if acting pro bono, including complying with that body’s requirements in respect of practising certificates, PII cover, CPD etc.
- **Note:** An examiner, who is a member of more than one professional body, must comply with the requirements of each one. **In the event of a ‘conflict’, the strictest rule applies.**



# Is a professional qualification required for IE?

## England & Wales

- Yes, if income > £250k [CCEW recommend it for all accruals accounts]

## Northern Ireland

- Yes, if income > £250k [CCNI recommend it for all accruals accounts]

## Scotland

- Yes, if accruals accounts prepared [regardless of income]

## Other requirements

- Governing document, funder, donor or trustee choice

# Independent Examination

## CCEW Directions (CC32)

1. Thresholds / Eligibility
2. Independence / Eligibility
3. Recording
4. Planning
5. Adequate accounting records
6. Accounts consistent with accounting records
7. Related party transactions
8. Estimates and judgements
9. Going concern
10. Form and content of accounts
11. Analytical review
12. Comparison of TAR to Accounts
13. IE Report

# Independent Examination

## Examiner's Records

- Must record the work that the examiner has carried out, including working papers, relevant evidence obtained, conclusions reached and be sufficient to support the examiner's report.
- Must be sufficient to allow an experienced third party, unconnected with the work, to conclude that the examiner has followed the Directions (EW & NI) &/or OSCR guidance (SC).
- Must be retained for at least 6 years from the end of the year to which they relate.

# Independent Examiner's Report

## Negative assurance statement regarding whether:

- adequate accounting records have been kept
- the accounts agree with the accounting records
- the accounts are in the correct format (Accruals or R&P)

## A statement regarding whether or not:

- there are any matters that the examiner considers need to be disclosed to enable a proper understanding of the accounts.

# Independent Examiner's Report

## Positive statement (but only if required):

- inconsistency between Trustees' Report & the Accounts
- funds used outside the purposes of the charity
- records or information not provided to the examiner

# Independent Examiner's Reporting Duty

## Mandatory duty

- 9 matters of material significance which an examiner must report to the charity regulator(s) and potentially other agencies
- Reporting duty is immediate
- **Note:** this includes a qualified IE report

## Discretion to report

- Examiners have the discretion to report matters that they consider are likely to be relevant to the regulator(s) in the exercise of their functions.

# Accruals v Receipts & Payments accounts

## Accruals Accounts

- Income > £250k      England & Wales / Northern Ireland
- Income  $\geq$  £250k      Scotland
- All charitable companies registered at Companies House
- Condition of governing document, donor or funder / trustee choice
- Must comply with UK GAAP, FRS102, the SORP (FRS102) and give a “true & fair” view

# Accruals v Receipts & Payments accounts

## Accruals Accounts

- Trustees' Annual Report (inc Directors' Report – Companies only)
- Independent Examiner's (or Auditor's) Report
- Statement of Financial Activities (inc I&E account – Companies only)
- Statement of Financial Position (Balance Sheet)
- Statement of Cash Flows (if income > £500k / otherwise optional)
- Notes to the Financial Statements



# Accruals v Receipts & Payments accounts

## Receipts & Payments Accounts

- Whenever accruals are not required/prepared.
- Not deemed to provide a “true & fair” view, but are recommended for most small non-company charities, including CIOs and SCIOs.
- In EW or NI, if the charity is eligible to prepare R&P accounts, the trustees must elect to do so, or elect to prepare accruals accounts. There is no default option.
- In SC, there is no requirement to elect to prepare R&P accounts, if the charity is eligible to do so.

# Accruals v Receipts & Payments accounts

## Receipts & Payments Accounts

- Trustees' Annual Report (may not be required by regulation in EW, but probably required by the charity's governing document)
- Independent Examiner's Report or (very rarely) Auditor's Report
- Statement of Receipts & Payments
- Statement of Assets & Liabilities [EW & NI]
- Statement of Balances [SC]
- Notes to the Financial Statements (if required EW & NI, required SC)

# Trustees' responsibilities

## The trustees are responsible for:

- Complying with the governing document and all applicable legislation
- Managing the finances of the charity
- Maintaining proper accounting records and appropriate financial controls
- Preparing and approving an annual report and accounts
- Appointing a suitable independent examiner (or auditor)
- Arranging for the report and accounts to be examined (or audited). May not be required in EW if income < £25k

# Trustees' responsibilities

The trustees are responsible for:

- Holding an AGM (if required)
- Complying with all regulatory reporting requirements, including:
  - Reporting “Serious Incidents” to the regulator [EW & NI]
  - Reporting “Notifiable Events” to the regulator [SC]
  - **Note:** X-Border charities must report such matters to all applicable charity regulators

# Trustees' responsibilities

Charities registered with CCEW must file within 10 months of year end:

- Income up to £10k: Annual Return (income and spending figures only)
- Income up to £25k: Annual Return (no accounts)
- Income > £25k: Annual Return / TAR / Audit or IE Report / Accounts
- All CIOs: Annual Return / TAR / Audit or IE Report / Accounts

Charities registered with CCNI must file within 10 months of year end:

- All charities: Annual Return / TAR / Audit or IE Report / Accounts

# Trustees' responsibilities

Charities registered with OSCR must file within 9 months of year end:

- All charities: Annual Return / TAR / Audit or IE Report / Accounts

Charitable companies registered at Co-Ho must file within 9 months of y/end:

- All charities: Trustees'/Directors' Report / Audit or IE Report / Accounts
- **Note:** Accounts filed with Co-Ho must be the full Trustees'/Directors' Report, Audit or IE Report, Accounts as filed with the charity regulator(s).  
The use of abridged, filleted and micro accounts is prohibited.

# Adding Value

## Governance:

- Recruitment of trustees / skills audit / succession planning
- Review / update the charity's governing document
- Change of legal form
- Improve the TAR and/or the financial statements
- Change the annual reporting date timetable for annual reporting
- Use of trading subsidiaries
- Merging / winding up

# Adding Value

## Operational

- Review of accounting systems / processes / retention of records
- Review of financial controls / use of cash / online banking
- Outsourcing
- Change of bank
- Tax reliefs
- VAT registration
- Preparing for the IE/audit



# Reference

## England & Wales

- Charities Act 2011
- Charities (Reports & Accounts) Regulations 2008
- Charities (Exception from Registration) Regulations 1996 & 2008
- Charitable Incorporated Organisations (General) Regulations 2012
- CCEW CC15d Charity reporting and accounting: The essentials
- CCEW CC32 Directions and guidance for examiners
- [www.gov.uk/government/organisations/charity-commission](http://www.gov.uk/government/organisations/charity-commission)

# Reference

## Northern Ireland

- Charities Act (Northern Ireland) 2008
- Charities (Reports & Accounts) Regulations (Northern Ireland) 2015
- CCNI ARR07 Independent examination: examiner's guide and supporting document (IE Reports)
- [www.charitycommissionni.org.uk](http://www.charitycommissionni.org.uk)

# Reference

## Scotland

- Charities & Trustee Investment (Scotland) Act 2005
- Public Services Reform (Scotland) Act 2010: Part 9 - Charities
- Charities Accounts (Scotland) Regulations 2006
- Scottish Charitable Incorporated Organisation Regulations 2011
- Independent examination: A guide for independent examiners
- [www.oscr.org.uk](http://www.oscr.org.uk)

# Reference

## UK wide:

- Companies Act 2006 (charitable companies only)
- FRS102 (accruals accounts)
- Charities SORP (FRS102) (second edition / accruals accounts)
- Reporting matters of material significance (CCNI EG058)
- [www.charitySORP.org](http://www.charitySORP.org)
- [www.icaew.com/technical/tas-helpsheets/ethics/can-i-undertake-an-independent-examination-of-a-charity](http://www.icaew.com/technical/tas-helpsheets/ethics/can-i-undertake-an-independent-examination-of-a-charity)

Thank you for listening!

Q&A

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