

ACCOUNTING
& REPORTING

Independent Examination of Charity Accounts: Examiners' Guide



The Charity Commission

The Charity Commission is the independent regulator of charities in England and Wales. Its aim is to provide the best possible regulation of charities in England and Wales in order to increase charities' effectiveness and public confidence and trust. Most charities must register with the Commission, although some special types of charity do not have to register. There are over 160,000 registered charities in England and Wales. In Scotland the framework is different, and the Commission does not regulate Scottish charities.

The Commission provides a wide range of advice and guidance to charities and their trustees, and can often help with problems. Registered charities with an annual income over £10,000 must provide annual information to the Commission. The Commission has wide powers to intervene in the affairs of a charity where things have gone wrong.

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A Introduction

A1. What is this guidance about?

This guidance has been written specifically for independent examiners and explains their role and duties in examining the accounts of a charity and the matters which must be included in their report to the charity trustees which accompanies the accounts. This publication also sets out the Commission's Directions to independent examiners which must be followed in any examination.

A2. 'Must' and 'should': what we mean

In this guidance, where we use '**must**', we mean it is a specific legal or regulatory requirement affecting the independent examiner. Independent examiners must comply with these requirements. To help you easily identify those sections which contain a legal or regulatory requirement we have used the **L** symbol next to the short answer in that section.

We use '**should**' for items we regard as minimum good practice, but for which there is no specific legal requirement. Examiners should follow the good practice guidance unless there's a good reason not to.

We also offer less formal advice and recommendations which examiners may find helpful in organising and planning the examination of their charity's accounts.

A3. Previous guidance

This guidance updates our previous publication for the Charities Act 2011 and the consequent changes in statutory references. The guidance and Directions are applicable to all independent examinations where the examiner's report is issued on or after 14 March 2012. Separate guidance is available to charity trustees who are responsible for appointing their charity's independent examiner in our publication *Independent Examination of Charity Accounts: Trustees' Guide (CC31)*.

A4. Scope of this guidance

The guidance is intended to provide the examiner with a clear understanding of what is involved in an independent examination and identify which charities can opt for an examination in place of an audit. The guidance also explains who may undertake an independent examination and sets out the Commission's Directions, which provide the procedural basis for an examination that must be followed in any examination.

In addition the guidance also explains the statutory duty placed on examiners of both company and non-company charities to separately report matters of material significance to the Commission's regulatory functions that are identified by them whilst acting as an examiner.

This guidance is written for independent examiners of all types of charities eligible for independent examination, whether they are companies, trusts or associations.

A5. Using this guidance

The key to a successful independent examination is an understanding of the respective responsibilities of the examiner and the trustees in relation to the scrutiny, preparation and filing of accounts. A successful examination will be dependent on understanding what an examination involves, who may undertake it and the examiner having the relevant skills and experience to undertake a competent examination.

Reading section B (which gives an 'at a glance' summary) will provide the examiner with a general understanding of the requirements for independent examination and the framework in which the examination takes place. Section C of this guidance explains in more detail what examiners need to know about independent examination, their eligibility to undertake an examination and the matters to be included in their report. Section D contains some recommendations to help make the examination process efficient and effective.

Section E contains the Commission's Directions to independent examiners. These Directions set out the procedures that must be followed by the examiner. Guidance is provided following each Direction that sets out how the requirements of the Directions may be met in practice. Section F sets out the new duty to report matters of material significance to the Charity Commission where these matters relate to the potential use of the Commission's inquiry powers. Additional information is provided in the appendices for reference where needed, including advice for charities also registered with the Office of the Scottish Charity Regulator (Appendix 3) and example examiner reports (Appendix 4).

All references to 'sections' of the Charities Act 2011 in the Directions and guidance are to sections of the 2011 Act. The references provided to company law are to sections of the Companies Act 2006 as they applied from 6 April 2008.

A6. Terms and definitions

The guidance and Directions use a number of terms that will be familiar to accountants. Examiners, particularly those that do not have a professional accountancy background, may on occasions need to refer to the glossary (Appendix 6) where an accountancy or technical term is used.

The examiner's work involves exercising judgement in carrying out their work and in accessing the information obtained when preparing their report. In exercising this judgement the terms material, significant and material significance are important terms for the examiner to understand as these terms will inform an examiner's judgement as to the relevance of a matter to their reporting duties.

Material/materiality: Materiality is the judgement by the examiner as to whether any information omitted or misstated would affect the reader's understanding of the accounts. Materiality depends on the size, amount or importance of the item, error or misstatement. An accounting policy is sometimes described as material where the effect is material as to how an item or transaction is recognised, measured or disclosed in accounts. Where a policy does not conform with the SORP, the examiner has to consider whether the effect of that policy when applied to transactions or items in the accounts is so material as to affect the presentation or understanding of the accounts.

In this guidance materiality is used in connection with Direction 10 (examiner's report) and accruals accounts (Direction 8 accounting policies, estimates and judgements) and requires the examiner to look at the underlying judgements, accountancy policies, or basis, for amounts that are material in the context of the accounts.

Significant: This is a term that is used in this guidance in connection with the keeping of accounting records (Direction 4), the analytical review (Direction 6) carried out by the examiner and in describing the considerations that affect the examiner's report (Direction 10). With respect to accounting records, significance is the extent to which the records found are not complete or the extent to which missing information creates doubt about the adequacy of record keeping. Regarding the analytical review, it requires the examiner to think about whether a matter or an amount is significant in terms of its size or importance to require explanation. For the report, it is whether a finding that the examiner has made in their review is significant enough to need inclusion in the examiner's report. Small amounts or minor matters will not be significant but can become significant if their occurrence is frequent or pervasive. Often significance can only be assessed when the examiner has either carried out the analytical review or has finished their work and is reflecting about what has been found and is preparing their report. A matter can be significant even if it's not material in term of its amount alone.

Material significance: This is a particular term used in the statutory definition of the duty to report matters of material significance to the Commission. This requires an understanding of those matters that are of material significance to the regulatory functions of the Commission. Those matters that the Commission always consider to be of material significance are listed in section F of this guidance with further advice provided in Appendix 5.

B Independent examination at a glance

To maintain public confidence in the work of charities, charity law requires most charities to have an external scrutiny of their accounts. Provided a charity is not required by law or its governing document to have an audit then trustees may choose a simpler and less expensive form of external scrutiny called an independent examination.

For financial years ending on or after 1 April 2009, the trustees may opt for an independent examination provided the charity's gross income threshold is £500,000 or less and where the charity's gross income exceeds £250,000 its gross assets are £3.26 million or less.

Independent examination was originally introduced by Part 6 of the 1993 Act, and Section 43 of the 1993 Act. This is now Part 8 and sections 145 and 152 of the 2011 Act which allow trustees of smaller charities to opt for this simpler form of external scrutiny in place of an audit.

An independent examination is a simpler form of scrutiny than an audit but it still provides trustees, funders, beneficiaries, stakeholders and the public with an assurance that the accounts of the charity have been reviewed by an independent person.

Since 1 April 2008, independent examination has also been an option for eligible small charitable companies which are not required to have an audit.

An independent examination provides an external check on the accounts and can be carried out by any person with the relevant ability and experience, except where the gross income exceeds £250,000, when only members of one of the bodies listed in the 2011 Act (see section C2) can undertake the examination. An examination is a less onerous form of scrutiny than an audit and provides less assurance in terms of the depth of work which is to be carried out. What the examiner must do is set out in the Directions made by the Commission and the content of the examiner's report is set out in the 2008 Regulations. The 2008 Regulations and Directions are mandatory and apply to examinations of both registered charities and those charities currently excepted from registration.

An examiner, in their report, is only required to confirm that no evidence has been found that suggests certain things have not been done by the charity. This form of 'negative assurance' is a more limited form of scrutiny. The examiner is not acting as an auditor and so is not required to plan their work to identify material fraud or to test the internal financial controls operating in the charity.

An examination involves a review of the accounting records kept by the charity and a comparison of the accounts presented with those records. It also involves a review of the accounts and the consideration of any unusual items or disclosures identified. It is important to note that verification and vouching procedures, where an item in the accounts is checked against an original document such as an invoice or a receipt, only become necessary where significant concerns are identified from the work of the examiner, or where satisfactory explanations cannot be obtained from the trustees.

In the examiner's report, the examiner is only required to provide a statement on specific matters that have come to their attention as a result of the examination procedures specified in the Directions made by the Commission. This is a simpler requirement than that of an audit. An auditor is required to build up a body of evidence to support a positive statement of opinion on the accounts. In particular, an auditor is required to form an opinion as to whether the accounts show a 'true and fair view'.

The examiner's role is an important one and their report provides assurance about certain specific matters and also gives the examiner an opportunity to draw the attention of the reader of the accounts any matters of concern. It is important that examiners understand the nature of their role and are satisfied before they start their work that they have the necessary ability and experience to undertake a competent examination.

The purpose of this guidance is to help examiners understand what is involved in undertaking an examination, what they have to do and what they have to report. It is recommended that examiners take some time to read this guidance and the Directions before starting an independent examination.

Where a significant concern relating to the accounts, which the examiner considers important to the understanding of the accounts, remains unresolved or other matters arise that must be included in the examiner's report come to the examiner's attention, then consideration will be needed as to how this is reported. If a matter is identified which is of material significance to the Commission's regulatory functions, where we are likely to consider using our enquiry powers, then the examiner also has to make a separate report on that matter to the Commission in addition to the examiner's report attached to the accounts.

C. Which charities can be independently examined and by whom?

This section explains which charities can opt for independent examination in place of an audit. It explains who can undertake an examination and what must be included in the examiner's report to the trustees on the accounts.

C1. Which charities can opt for an independent examination?

The short answer **L**

For financial years ending on or after 1 April 2009 charities with a gross income of £25,000 or less are not required to have an external scrutiny.

For financial years ending on or after 1 April 2009, charities with a gross income of £500,000 or less may choose to have an independent examination in place of an audit unless both their gross assets exceed £3.26 million and their gross income exceeds £250,000.

In more detail

The thresholds that now apply are set out below. Gross income should be calculated in accordance with the Commission's guidance, as set out in Appendix 1. For charities with financial years commencing on or after 1 April 2009 the thresholds for statutory audit are:

- gross income of more than £500,000; or
- gross assets of more than £3.26 million and gross income is more than £250,000 in the financial year.

Unless gross income exceeds £250,000 then the gross asset threshold of £3.26 million does not apply.

The flow chart in Appendix 2 sets out the steps for determining whether an individual charity is eligible for independent examination.

The option of independent examination also applied to small charitable companies for accounting periods commencing on or after 1 April 2008 provided they are not required to have a statutory audit. Although charitable companies which are eligible for audit exemption under company law may opt for an independent examination in place of a charity audit on the same basis as non-company charities, their duty to maintain accounting records, and the form and contents of their accounts still remains subject to company law.

Charities below these thresholds for audit may normally opt for an independent examination unless the charity's governing document requires otherwise. For financial years ending on or after 1 April 2009, there is normally no requirement for any independent scrutiny where the gross income for the year in question is £25,000 or less.

Where the gross income of the charity exceeds £250,000 and the charity is not subject to statutory audit, the examiner has to be a member of a listed body. These bodies are listed in the 2011 Act and are also set out in section C2 of this guidance.

C2. Who can carry out an independent examination?

The short answer **L**

Before accepting an appointment as the independent examiner of a charity, the examiner should be satisfied they have the **requisite ability** and **practical experience** to carry out a **competent examination**.

In more detail

An independent examiner was described in section 43(3)(a) of the 1993 Act as “an **independent person** who is reasonably believed by the charity trustees to have the **requisite ability** and **practical experience** to carry out a **competent examination** of the accounts”. Once a charity’s gross income exceeds £250,000, the examiner must be a person who is a member of one of the following bodies listed in the 2011 Act and should be allowed by the rules of that body to undertake the role of independent examiner:

- Institute of Chartered Accountants in England and Wales
- Institute of Chartered Accountants of Scotland
- Institute of Chartered Accountants in Ireland
- Association of Chartered Certified Accountants
- Association of Authorised Public Accountants
- Association of Accounting Technicians
- Association of International Accountants
- Chartered Institute of Management Accountants
- Institute of Chartered Secretaries and Administrators
- Chartered Institute of Public Finance and Accountancy
- Fellow of the Association of Charity Independent Examiners

Independent examiners are entitled to receive reasonable remuneration for their services although many examiners provide their services on a voluntary basis.

Members of professional bodies are recommended to check whether they are required to hold a practising certificate to accept the appointment, whether charging a fee or acting as a volunteer. The requirements of each professional body may differ in its requirements for a practising certificate and professional indemnity insurance.

When charging a fee, examiners should also be aware that they are considered to be providing accountancy services and so must be conversant with, and where required by law comply with the Money Laundering Regulations and the provisions of the Proceeds of Crime Act 2002. These provisions normally apply to anyone who carries out accountancy services for a fee, whether a member of a professional body or not. The Commission is not the regulator for this area of law; for further sources of information, refer to Appendix 7.

C3. Who is an independent person?

The short answer

An examiner must be independent of the charity whose accounts are being reviewed. Independence means that the examiner is not influenced, or perceived to be, by either close personal relationships with the trustees of the charity or by a day to day involvement in the administration of the charity being examined.

In more detail

For an examiner to be independent that individual should have no connection with the charity trustees which might inhibit the impartial conduct of the examination. An examiner cannot independently review his or her own work and so the person who is the charity's book-keeper cannot be the charity's examiner. However, this does not mean an examiner cannot be a member or supporter of the charity and often some involvement brings an added quality of personal enthusiasm and familiarity to the role of examiner.

Where a potential independent examiner is a member of the charity, for example a member of a church congregation, provided they have not been involved in the day-to-day decision making or administration of the charity, for example by serving on a committee or sub-committee convened by the charity, and are not connected with the charity trustees, then normally they may act as an examiner, subject to their having the necessary ability, experience and qualification required. Also the right to take part or attend as a member in an annual general meeting (AGM) would not preclude the examiner from conducting an independent examination although active participation in the administration of the charity would, for example through tabling resolutions at an AGM.

Whether a connection with the charity affects independence will depend upon the particular circumstances but the following persons will not normally be considered to be independent:

- a) the charity trustees or anyone else who is closely involved in the administration of the charity;
- b) a major donor to or major beneficiary of the charity; or
- c) a child, parent, grandchild, grandparent, brother or sister, spouse, civil partner, business partner or employee of any person who falls within sub-paragraph (a) or (b) above.

C4. What skills does the examiner need?

The short answer

The appointment of an independent examiner is made by the trustees who must reasonably believe that the person selected has the requisite ability and practical experience to carry out a competent examination of the accounts.

In more detail

In the House of Lords' debate on the Charities Bill which led to the 1993 Act, it was stated that "an independent examiner must obviously be competent for the task that he is to do and he must be familiar with accounting methods, but he need not be a practising accountant. We have in mind ... people such as bank or building society managers, local authority treasurers or retired accountants. They would all be suitable as independent examiners".

The skills required of an examiner will depend on whether accounts are prepared on a receipts and payments basis or an accruals basis, and the size and nature of the charity's transactions.

We recommend to trustees that when their accounts are prepared on an accruals basis they should consider selecting a person who is a member of one of the accountancy bodies listed in the 2011 Act (see section C2), or a similarly skilled person, who demonstrates a good understanding of accountancy principles, accounting standards and knowledge of the SORP. An examiner should be satisfied they have the requisite ability with the necessary skills before undertaking the examination of accounts prepared on the accruals basis.

The majority of charities have a gross income below the threshold at which accruals must be prepared and, unless constituted as a company under company law, are able to prepare simple receipts and payments accounts. This form of accounting is very straightforward and provides a simple alternative to accruals accounts that fully meets the legal requirements of smaller charities. Knowledge of accounting standards and the SORP is not required to examine receipts and payments accounts.

While previous experience will be very helpful where receipts and payments accounts are prepared, any person with financial awareness and numeracy skills should have the requisite ability to act as an independent examiner for receipts and payments accounts. All examiners must have read and understood this guidance and the Directions and apply them when examining a set of accounts.

Whether receipts and payments accounts or accruals accounts are prepared, the examiner needs some familiarity with certain basic principles including the different types of income funds (unrestricted and restricted) and capital funds (permanent and expendable endowment), the nature of trusts, the responsibilities of trustees, and the role of the charity's governing document. For more information about the duties of trustees refer to our publication *The Essential Trustee: What you need to know (CC3)* concerning the duties of trustees.

Having the requisite ability is important to ensure that the examiner undertakes a competent examination. A **competent examination** is one conducted with reasonable skill and care in accordance with the Directions for independent examination.

Prospective examiners also need to have practical experience relevant to the charity in question which might include the examiner having:

- an involvement in the financial administration of a charity of a similar nature; or
- acted successfully as an independent examiner on previous occasions for such charities; or
- relevant practical experience in accountancy or commerce.

C5. What is included in the examiner's report?

The short answer **L**

The examiner's report, which is addressed to the trustees, must contain all the information required by law.

In more detail

The examiner's report must meet all the requirements of the 2008 Regulations. The example examiner's reports provided in Appendix 4 are not mandatory and the examiner can develop their own wording provided the report covers all the requirements of the 2008 Regulations. The specific reporting duties of the independent examiner are set out in Regulation 31 of the 2008 Regulations. Direction 10 and related guidance sets out what needs to be considered when making a report.

The independent examination report for a charitable company incorporated under company law is different to that of a non-company charity because it must also consider the accounting requirements of the Companies Act 2006. The examiner of a charitable company will therefore need some understanding of the additional accounting requirements of small companies.

The first part of the examiner's report confirms a number of factual matters that assure the reader that the charity is eligible for independent examination and that the examiner has followed the Directions. In particular:

- the name of the charity and period covered by the accounts;
- eligibility of the charity for an independent examination as opposed to an audit;
- that the examiner has followed the Directions;
- the examiner's responsibility to note if particular matters set out in the 2008 Regulations have come to their attention;
- the basis of the examiner's report, which helps the reader of the report to understand what the examination involved;
- where the trustees have obtained a dispensation to have an independent examination instead of an audit, the examiner refers to this fact; and
- the examiner's name, address and any relevant professional qualification held and, if the charity's gross income exceeds £250,000, the qualification held which enables them to act as the examiner.

The second part of the report confirms whether or not particular matters were identified during the examination. Unlike an audit there is no opinion given on whether the accounts give a 'true and fair' view; rather the examiner confirms whether or not anything has come to their attention to indicate that:

- sufficient accounting records have not been kept, or in the case of a charitable company that adequate accounting records have not been kept;
- the accounts do not accord with such records;

- where accounts are prepared on an accruals basis, whether they fail to comply with relevant accounting requirements under the 2008 Regulations or, if a charitable company, with section 396 of the Companies Act 2006, or are not consistent with the SORP; and
- any matter which the examiner believes should be drawn to the attention of the reader to gain a proper understanding of the accounts.

Matters that the examiner must report include:

- material expenditure or action contrary to the trusts of the charity;
- failure by trustees to provide information and explanations to which the examiner is entitled; and
- evidence that accounts prepared on an accruals basis are materially inconsistent with the Trustees' Annual Report and in the case of a charitable company the directors' report.

The examiner's report must be signed by the examiner in their own name. Whilst the name of a partnership or company may be added, the appointment of an examiner relates to the individual rather than the partnership or company. Where an electronic submission is made to the Commission, it may be an image of the original or be a copy with a typed signature.

Some charities based in England and Wales also operate in Scotland and may also need to register with the Office of the Scottish Charity Regulator (OSCR). In such cases the examiner's report will also need to meet the requirements of Scottish law. Further guidance for the examiner of the accounts of cross-border charities is provided in Appendix 3 together with example reports.

C6. Can group accounts be independently examined?

The short answer **L**

Where group accounts, consolidating the accounts of a charity and any subsidiaries, are prepared because they are required by law then they must be audited.

In more detail

Some charities have a trading subsidiary which is often registered as a company under company law and carries out commercial trading in order that any profits made can be Gift Aided to the charity. Unless the aggregate gross income of the group, ie the gross income of the charity together with that of any subsidiaries (after eliminating intra group transactions), exceed the statutory threshold of £500,000 there is no requirement to prepare group accounts. Where the aggregate gross income exceeds £500,000 the group accounts must be prepared and audited.

If group accounts were prepared below this threshold then they would be non-statutory accounts and any examination of these group accounts would be on a voluntary basis although the principles set out in the Directions made by the Commission could be applied by a contractual arrangement between the charity and the examiner. If the trustees wish to file group accounts prepared on a voluntary basis as their statutory accounts with the Commission, then the group accounts should comply with the requirements of the 2011 Act, the 2008 Regulations and the SORP. If the parent charity is a company, it is recommended that the group accounts also comply with company law, particularly if the accounts are to be used for filing purposes at Companies House. Any voluntary examination of group accounts requires a high level of accountancy skill including an understanding of accounting standards and consolidation principles.

A parent charity's accounts, if they exceed the threshold for independent examination or audit, must be examined or audited in line with threshold requirements when they are included in group accounts to be filed with the Commission. This requirement applies even if the group accounts are prepared on a voluntary basis for filing with us.

Although section 152 provides for the Commission to give guidance on the independent examination of smaller groups, there is no legal requirement to prepare group accounts unless gross income Exceeds £500,000. The Commission has decided not issue Directions for the independent examination of smaller groups. For more information on group accounts please refer to the relevant section of the SORP.

D. How to prepare for an independent examination

To ensure an efficient and effective examination some preparation is necessary. Independent examiners need to understand their duties and rights as explained in this guidance and Directions. The examiner and trustees of a charity should liaise and plan a timetable for the examination and have a clear understanding of their respective responsibilities in relation to the examination and the preparation and filing of the charity's accounts and report.

D1. What are the expectations of the Commission of the examiner?

The short answer

The Commission expects all examiners to have read this guidance and followed the Directions to the best of their ability and to make their examiner's report honestly.

In more detail

The Commission is aware that volunteer examiners, who are not charging a fee, are giving their time freely for the benefit of the charity sector. In the event of a concern arising about the adequacy of an independent examination carried out by a volunteer, the Commission will take into account the nature of the voluntary role and be proportionate in our approach when considering any failure in the examination process, provided the examiner has acted honestly. This stance is consistent with the view the Courts take of volunteers who act as trustees who do not have particular professional skills.

Where the examiner is charging a fee or receiving payment they are providing accountancy services and we expect those services to be provided to a professional standard and our expectation is that a paid examiner:

- will demonstrate appropriate technical knowledge, including familiarity with the SORP where accruals accounts are prepared;
- carry out their work fully in accordance with the Directions; and
- will be well placed, by virtue of their ability and experience, to fulfil their statutory duty to report matters of material significance to the Commission.

For charities with a gross income exceeding £250,000 in England and Wales the examiner must be a member of a body listed in the 2011 Act (see Section C2). In setting this threshold Parliament recognised the higher level of skill and experience required in examining these larger charities. Consequently whether paid or not, the Commission expects the examination of these larger charities to have been carried out to a professional standard meeting the criteria set out above.

The Commission expects the examiner when carrying out their work to be alert to any matters of material significance which they are also under a duty to report.

D2. What accounting records must be available to the examiner?

The short answer **L**

All charities must keep accounting records and these must be up to date and made available to the independent examiner.

In more detail

All charities must keep accounting records. These records (eg cash books, invoices, receipts, Gift Aid records etc) must be retained for at least 6 years (or at least 3 years in the case of charitable companies). Where Gift Aid payments are received then records will need to be maintained for 6 years with details of any substantial donors maintained in accordance with HM Revenue and Customs guidance.

The accounting records must be sufficient to allow accounts to be prepared, identifying transactions including their amount and date, and to identify the amounts and nature of a charity's assets and liabilities.

D3. What information can the examiner ask for?

The short answer **L**

The examiner is entitled to ask for any information and explanations from past or present charity trustees, officers or employees of the charity that the examiner considers necessary for the examination.

In more detail

The examiner has a right of access to any books, documents and other records (however kept) which are related to the charity and considered by the examiner to be necessary to inspect for the purposes of the examination.

During the course of an examination it is very likely that the examiner will need to ask some questions or clarify matters that arise and past or present charity trustees, officers or employees of the charity are required by law to assist. The examiner is entitled to seek information and explanations on any matter that is considered by the examiner to be necessary for the purposes of carrying out the examination.

D4. Who must prepare the Annual Report and accounts?

The short answer **L**

It is the responsibility of the charity trustees to prepare a Trustees Annual Report and accounts although an independent examiner may help a charity prepare them.

In more detail

The publication [CC15b - Charity Reporting and Accounting: The Essentials](#) - explains the requirements for a Trustees' Annual Report and options for preparing accounts.

Small charities, which are not charitable companies registered with Companies House, can prepare either receipts and payments accounts or accruals accounts provided their gross income does not exceed the relevant gross income threshold for their preparation. Receipts and payments accounts offer a simple and flexible alternative to more complex accruals accounts. Receipts and payments accounts are simply an analysed record of the cash received and spent in the financial year reconciling cash and bank balances held at the beginning and end of the year together with a schedule of any other assets or liabilities at the year end known as a 'Statement of Assets and Liabilities'. Our publication [Receipts and Payments Accounts Pack \(CC16\)](#) provides a pro forma layout for the Trustees' Annual Report, the receipts and payments accounts, the statement of assets and liabilities and the examiner's report. There is also a worked example based on a Youth Club using the pack on our website at: www.charitycommission.gov.uk/investigations/sorp/sorp05exraa.asp

All charitable companies must prepare accruals accounts. Non-company charities with financial years ending on or after 1 April 2009 must prepare accrual accounts if their gross income exceeds £250,000. Charities preparing accruals accounts must generally do so in accordance with the SORP. However, registered social landlords and higher and further education bodies have their own SORP and should use that instead, but the size of these organisations is usually such that they are unlikely to be eligible for independent examination.

Accruals accounts are not simply a form of cash accounts plus debtors (money owed to the charity but not received by the year end) and creditors (money owed by the charity but not paid by the year end) because they must also include the cost or valuation of assets, depreciation of fixed assets, provisions, the market valuation of investments, the impairment of functional assets and other accounting adjustments and disclosures, for example, accounting for pension arrangements. Accruals accounting is a much more complex form of accounting than receipts and payments and follows the accounting rules set out by the Accounting Standards Board in accounting standards and interpreted by the SORP for the charity sector. Charitable companies must also comply with the accounting requirements of the Companies Act 2006.

For charities not requiring a statutory audit, the SORP offers a number of concessions and to assist smaller non-company charities our publication [Accruals Accounts Pack \(CC17\)](#) provides pro forma layout for the accounts, Trustees' Annual Report and examiner's report which when completed fully meet the legal requirements.

D5. Who should file the Trustees' Annual Report and accounts and when?

The short answer **L**

It is the responsibility of the charity trustees to file their charity's accounts with the Commission within 10 months of the financial year end.

In more detail

For financial years ending on or after 1 April 2009 where a charity's gross income exceeds £25,000 they must file their report and accounts with us. The trustees are responsible for ensuring that their Trustees' Annual Report and accounts, together with the independent examiner's report is submitted to the Commission within 10 months of the financial year end. Trustees of charitable companies should note that filing with Companies House is required within 9 months of the financial year end and they may find it convenient to file with the Commission at the same time.

The trustees should agree a timescale for completion of the examination with the examiner. The Trustees' Annual Report, accounts and supporting records and information should be provided to the examiner early enough to allow the examination to be completed and for the accounts to be approved by the trustees before the filing deadline.

If the trustees want the independent examiner to deal with filing then this should be agreed in writing with the examiner as part of the engagement. If the filing is likely to be late the trustees should alert the Commission before the deadline for filing expires, setting out the circumstances, the action the trustees are taking and the likely date by which filing will be made.

D6. What else can the examiner do to ensure a competent examination?

The short answer

Following the guidance and Directions in this publication is essential and as well as following the legal requirements, planning and preparation are important.

In more detail

Preparing for the examination is important. Careful planning is the key to a successful examination. Many of the steps necessary have already been explained in this guidance - the key points to bear in mind include:

- liaising with the trustees to ensure the accounting records are up to date and available;
- agreeing a timetable with the trustees for preparing the accounts and Trustees' Annual Report;
- agreeing responsibilities with the trustees, for example, who will prepare the accounts and file them with the Commission;
- agreeing a timetable for the examination with the trustees; and
- ensuring the examination takes place at a time when trustees and key staff are available to answer any questions that may arise.

E. The Charity Commission's Directions

The Charity Commission's Directions provide the procedural basis or framework to define how the reporting duties of the examiner must be met. The Directions are made by the Charity Commission under powers given in the 2011 Act and set out the areas of work that must be covered in any examination.

There are 10 specific Directions that the examiner must address in carrying out an examination of accrual accounts and 7 Directions applying to the examination of receipts and payments accounts. In addition, all examiners should consider if matters of material significance have come to their attention which give rise to a legal duty to report to the Commission (see section F).

Direction	Applicable to receipts and payments	Applicable to accruals accounts	Applicable to charitable companies
1. Examination and accounting thresholds	✓	✓	✓
2. Documentation	✓	✓	✓
3. Understanding the charity	✓	✓	✓
4. Accounting records	✓	✓	✓
5. Comparison with accounting records	✓	✓	✓
6. Analytical procedures	✓	✓	✓
7. Form and contents of accounts		✓	✓
8. Accounting policies, estimates and judgments		✓	✓
9. Trustees' Annual Report		✓	✓
10. Examiner's report	✓	✓	✓
Statutory duty to report certain matters of material significance to the Charity Commission	✓	✓	✓

Although only examiners of accounts prepared on an accruals basis are required to review the Trustees' Annual Report for consistency with the accounts, examiners of receipts and payments accounts may still find the Trustees' Annual Report helpful in undertaking their examination.

This section sets out:

- an explanation of the objective of each of the 10 Directions; and
- guidance on operational procedures and methods which will help examiners to meet the requirements of the Directions.

The Directions (which must be followed) are reproduced in bold print, with explanatory guidance set out in light print below. The guidance that follows each Direction is not mandatory but is recommended to help ensure examiners meet the requirements of the Directions. As with any guidance, the examples given and procedures suggested cannot meet all circumstances that may arise in the course of examination and judgment will need to be exercised by all examiners in the context of their work.

The charity law references are to 'sections' of the Charities Act 2011 and the Directions. The references provided to company law are to sections of the Companies Act 2006 as they apply from 6 April 2008.

Guidance on the circumstances which give rise to a legal duty to make a report to the Commission of a matter of material significance is set out in section F.

Direction 1

Examination and accounting thresholds

The examiner shall carry out such specific procedures as are considered necessary to provide a reasonable basis on which to conclude:

- (i) that an examination is required under section 145(1) of the Charities Act 2011, and that section 144(1) (audit) of the Charities Act 2011 does not apply to the charity; and
- (ii) where the charity is a small company charity, that it is exempt from audit in accordance with section 477 of the Companies Act 2006; and
- (iii) where accounts are prepared on a receipts and payments basis under section 133 of the Charities Act 2011, that the charity trustees may properly elect to prepare accounts under this sub-section.

Guidance

- 1.1 Trustees may elect for independent examination (under section 145(1)) and, for non-company charities only, if their charity is eligible elect for the preparation of receipts and payments accounts (under section 133). For either election to be valid, the charity must be within the relevant income bands specified by legislation.

The examiner should take reasonable steps to confirm:

- The charity's gross income for the financial year or aggregate value of assets does not exceed the threshold for independent examination. For financial years ending on or after 1 April 2009 an audit is required if gross income exceeds £500,000 or gross income exceeds £250,000 and the aggregate value of assets (before deduction of liabilities) exceeds £3.26 million.
- Where the charity is a parent charity with one or more subsidiaries (eg a trading company) that the aggregate gross income of the parent charity and its subsidiaries after consolidation adjustments does not exceed £500,000 as above this threshold group accounts must be prepared which will require an audit.
- Where the charity operates branches and these branches are part of the charity (and are not separately registered charities) that any income received by the branches has been included in the gross income of the charity.
 - If receipts and payments are being prepared, that the charity is not a company incorporated under company law and for financial years ending on or after 1 April 2009, the gross income is £250,000 or less.
 - Where the gross income for financial years ending on or after 1 April 2009 exceeds £25,000 an independent examination is required.

Below these thresholds no examination is required by law.

- Whether the charity's governing document requires any form of professional audit.
- Whether any grant condition demands an audit of the accounts.

- 1.2 Carrying out these procedures at an early stage should prevent the work of the examiner being duplicated by professional audit which would add to the expense for the charity. Where the charity is not eligible for independent examination the accounts should be referred back to the trustees to appoint an auditor where the threshold is exceeded or to consider a voluntary examination where the charity's gross income is below the threshold at which external scrutiny is required by law.
- 1.3 Gross income for threshold purposes should be calculated in accordance with the methods set out in Appendix 1. If accounts are prepared on the accruals basis then the level of income should be considered on the accruals basis. Where accounts are prepared on the receipts and payments basis then the level of income should be considered on the basis of money actually received.
- 1.4 The examiner should consider at an early stage of the examination the level of income disclosed by the accounting records and by the trial balance. The examiner does, however, need to remain alert to any additional information which may come to attention during the course of the examination which indicates that an income threshold has been crossed.
- 1.5 The reasonable steps taken to confirm the income of the charity and the outcome of that research should be documented in accordance with Direction 2.
- 1.6 Where the trustees have requested and obtained in advance from the Commission approval for an independent examination instead of an audit, the examiner should obtain a copy of the approval letter from the Commission and make reference to it in the examiner's report.
- 1.7 The thresholds for audit, independent examination and for receipts and payments accounts are kept under review. It is therefore recommended that prior to the independent examination taking place that the thresholds are confirmed. Details of all current thresholds can be found by viewing the accounting or publication pages on the Commission's web site - www.charitycommission.gov.uk.
- 1.8 The trustees of a company charity electing for an independent examination must also ensure that the audit exemption statement required by section 475 of the Companies Act 2006 is provided.

Direction 2

Documentation

The examiner shall record the examination procedures carried out and any matters which are important to support conclusions reached or statements provided in the examiner's report.

Guidance

- 2.1 The examiner's working papers should provide details of the work undertaken and support any conclusions reached, and record any matters of judgment (where accruals accounts are prepared see Direction 8) which may arise. Working papers should normally be retained by the examiner for six years from the end of the financial year to which they relate, and would include:
- a communication with the trustees which confirms their appointment as the independent examiner. Independent examiners charging a fee or receiving any form of payment should prepare a letter of engagement;
 - a letter of engagement, where appropriate, from the independent examiner to the trustees, together with evidence that this has been accepted by the trustees (for example, a copy of the engagement letter signed by a representative of the trustees);
 - relevant information extracted or obtained from the governing document, trustees' meeting minutes and a record of discussions with the charity's trustees and the charity's staff;
 - notes as to how any areas of concern identified have been resolved, including meetings with trustees and charity staff, together with details of any verification procedures used;
 - where verification procedures have been used, details of checks or vouching carried out during the examination, the conclusions reached and any areas of concern identified;
 - where items are added together as a single entry in the accounts, schedules showing the breakdown of accounting items that have been aggregated for accounts disclosure purposes;
 - copies of any trial balance and the accounts;
 - the Trustees' Annual Report where accruals accounts are prepared (sight of the Trustees' Annual Report is required under Direction 9 where accruals accounts are prepared, but is recommended but not required where receipts and payments accounts are prepared); and
 - in exceptional circumstances, copies of any written assurances that the examiner required of the trustees confirming amounts included within the accounts.
- 2.2 Where the examiner has cause to resign or is unable to complete their independent examination, they should consider the circumstances carefully and decide if there is a duty to report to the Commission, for example, if they have been prevented from completing the examination or have been obstructed by trustees or charity staff in carrying out their examination. Even if there is no duty to report, the examiner may decide that they have identified matters which they wish to report because they consider them to be relevant to the work of the Commission. Further guidance on reporting matters to the Commission is provided in section F and Appendix 5.

Direction 3

Understanding the charity

The examiner shall obtain an understanding of the charity's constitution, organisation, accounting systems, activities and nature of its assets, liabilities, incoming resources and application of resources in order to plan the specific examination procedures appropriate to the circumstances of the charity.

Guidance

- 3.1 For a proper examination to be carried out it is important for the examiner to have an understanding of what the charity is aiming to do and how it goes about doing it. The examiner will need to know about the operations, structure and objectives of the charity. This understanding will help the examiner to plan their independent examination by identifying major projects and important activities of the charity, possible problems or concerns and to provide background to their analytical review. The steps taken by an examiner would normally include:
- consideration of the governing document of the charity, paying particular attention to the charity's objects, powers and obligations;
 - consideration of any matters which would give rise to a statutory duty to make a report to the Commission (see section F and Appendix 5 for guidance);
 - discussions with trustees and, where appropriate, the charity's staff, to understand the activities, structure, aims and objectives by which the charity seeks to achieve its objects for the public benefit;
 - discussions with the trustees and, where appropriate, the charity's staff, about the activities of the charity in order to gain an insight into any special circumstances and problems affecting the charity;
 - reviewing the minutes of trustees' meetings to find out about details of major events, plans, decisions and any changes to the trustee body; and
 - obtaining details of the accounting records maintained and methods of recording financial transactions.
- 3.2 Normally a discussion with one of the trustees and the person who prepared the accounts should provide all the information or explanations required. However if during the independent examination a lack of formal trustee meetings, or of an absence of minute keeping or appropriate record keeping, or over-reliance on a key individual, is identified then the examiner may need to confirm or discuss significant matters with two or more of the trustees and/or members of the charity's staff to gain the necessary background information for the examination.

Direction 4

Accounting records

The examiner shall review the accounting records maintained in accordance with section 130 of the Charities Act 2011, or, in the case of a charity that is a company, the accounting records maintained in accordance with section 386 of the Companies Act 2006, in order to provide a reasonable basis for the identification of any material failure to maintain such records.

Guidance

- 4.1 The charity trustees are responsible for maintaining the accounting records. This is an important responsibility and an absence of well organised and complete accounting records gives rise to a significant risk of misstatement and loss from fraud, theft, or the misappropriation of charitable funds.
- 4.2 The examiner is required to review the accounting records with a view to identifying any material failure to maintain such records in accordance with the trustees' legal duty. A simple review should indicate whether records or vouchers (invoices, receipts, claims and similar paperwork) have been kept to support the accounts and whether they appear reasonably complete. Further evidence of the completeness of those records may come from any vouching undertaken following the analytical review. For trustees of non-company charities their duty to maintain accounting records is under section 130 of the 2011 Act. For trustees (normally the directors) of charitable companies their legal duty is under section 386 of the Companies Act 2006.
- 4.3 The review procedures are not aimed at identifying the occasional omission or insignificant error, but at identifying any significant failure to maintain records in a manner consistent with the statutory requirements.
- 4.4 Accounting records should be well organised and capable of ready retrieval and analysis. The records may take a number of forms, for example book form, loose-leaf binder or computer records.
- 4.5 The accounting records should:
 - be up to date;
 - be readily available; and
 - provide the basic information from which the financial position can be ascertained, not only at the year end, but also on any selected date.
- 4.6 The accounting records should contain:
 - details of all money received and expended, the date, and the nature of the receipt or expenditure; and
 - details of assets and liabilities.
- 4.7 Smaller charities may not have maintained nominal ledgers to record assets and liabilities, and in such instances the requirements can generally be met by maintaining a simple record of transactions and files for unpaid invoices and amounts receivable. A record of stocks and fixed assets is also generally necessary to meet the accounting requirements.

- 4.8 Charitable companies are required by section 386 of the Companies Act 2006 to maintain accounting records that contain:
- entries from day-to-day of all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; and
 - a record of the assets and liabilities of the company.
- 4.9 Charitable companies dealing in goods must also maintain stock records, the particular requirements for which are set out in section 386(4) of the Companies Act 2006.

Direction 5

Comparison with accounting records

The examiner shall compare the accounts of the charity with the charity's accounting records in sufficient detail to provide a reasonable basis on which to decide whether the accounts are in accordance with such accounting records.

Guidance

- 5.1 It is necessary to compare the accounts with the underlying accounting records to be satisfied that the accounts properly show what income the charity has received, how it has spent its charitable funds, and, where transactions relate to restricted or endowment funds, that these have been properly recorded and identified in the accounts.
- 5.2 Where accounts are prepared on the accruals basis, all balances in the accounts will need to be compared with the trial balance or any nominal ledger maintained.
- 5.3 Where accounts are prepared on the receipts and payments basis, a direct comparison with the cash records of the charity should be carried out if no nominal ledger is kept. Records for receipts and payments accounts may amount to bank statements, a file of receipts and invoices, and a simple listing of transactions in a book, or on paper, or entries in a spreadsheet of amounts paid and received with an explanation by each amount.
- 5.4 Where entries for transactions are not made directly into the nominal ledger, test checks will also be necessary of the posting of entries from books of prime entry (eg cash book, any sales or purchase ledgers or other day books recording transactions) to the trial balance itself. Similar checks are necessary even where accounting records are maintained by using computer accounting packages.
- 5.5 A review of bank reconciliations, payroll summaries and control accounts prepared will provide a useful check as to the completeness of posting from the primary accounting records where the transaction is first recorded (the books of prime entry).
- 5.6 There is no requirement for accounting entries to be checked against source documents (eg invoices, supplier statements, purchase orders, Gift Aid records etc) unless concerns arise during the course of the examination or following the analytical review (Direction 6) which cannot be resolved by seeking explanations from the trustees, or where appropriate the charity's staff, or the explanations given are insufficient.
- 5.7 Whilst the charity trustees are responsible for the preparation of accounts, on occasion the examiner may also prepare the statutory accounts on behalf of the trustees. The preparation of accounts will not generally impinge on independence provided the examiner ensures that the requirements of the Directions are met and provided that:
 - the accounting records (the books of prime entry) have been maintained by another person; and
 - the examiner has had no direct involvement in the day-to-day management or administration of the charity.

Direction 6

Analytical procedures

The examiner shall carry out analytical procedures to identify unusual items or disclosures in the accounts. Where concerns arise from these procedures, the examiner must seek an explanation from the charity trustees. If, after following such procedures, the examiner has reason to believe that in any respect the accounts may be materially misstated then additional procedures, including verification of the asset, liability, incoming resource or application, must be carried out.

Guidance

6.1 The analytical review is an important part of the independent examination. For receipts and payments accounts the analytical review involves comparing the analysis of the cash received and the cash spent in the current year with the previous year to identify any significant changes from year to year. For accruals accounts the analytical review involves both the Statement of Financial Activities and the balance sheet with the analysis comparing both the income and the expenditure and the movement in balance sheet values in the current year with the previous year. The examiner of accruals accounts will be looking for material values which require review.

6.2 It is important that the examiner looks carefully at the accounts to see if they reveal any significant or unusual items, unexpected fluctuations, or inconsistencies with other financial information. It is important that the analytical review is documented carefully in the examiner's working papers.

In carrying out the analytical review, steps taken would normally include:

- comparing the accounts with those for comparable prior periods;
- comparing the accounts with any budgets or forecasts that have been produced;
- considering whether incoming resources are consistent with known fundraising sources, for example the history of cash collections or fundraising events, grants received, income from trading, or income from the sale of donated goods;
- considering whether the spending of charitable resources is consistent with the payroll details, and the activities and the objects of the charity - it is important to have obtained a proper understanding of the nature of the charity's activities and affairs for this aspect of the review to be successful;
- considering whether the liabilities and current assets disclosed are consistent with the scale and type of activities undertaken, or in the case of receipts and payments accounts whether all significant assets and liabilities are listed;
- considering whether fixed asset investments are producing income consistent with the nature of assets held;
- considering whether any tangible fixed assets held are consistent with the scale and type of activities undertaken by the charity; and
- where accruals accounts are prepared confirming with the trustees that they are satisfied that the charity is a going concern and that there are no post balance sheet events requiring adjustments to be made to the accounts or disclosure in the notes to the accounts.

- 6.3 Where analytical review procedures identify any unusual items, unexpected fluctuation or inconsistency then explanations should be sought from the charity trustees or, where appropriate, the charity's staff.
- 6.4 Only if the explanations provided by the charity trustees, or where appropriate the charity's staff, do not satisfy the examiner, will additional procedures be necessary. It is important to document in the working papers what items the examiner has found which required further explanation or review and any additional procedures undertaken to confirm those items or matters. Such procedures may include:
- physical inspection of a tangible fixed asset;
 - verification of title to an asset;
 - inspection of third party documentary evidence (eg invoice, contract or agreement) to verify an expense or liability or to confirm an amount of income received or receivable;
 - third party certification of a bank balance, or other asset held including the custody of investment certificates; and
 - checking of a post year end receipt or payment to confirm recoverability of a debt or the amount of a liability.
- 6.5 A comprehensive list of analytical procedures, and of additional procedures where concerns arise, is beyond the scope of this publication, and will to an extent be an area in which the examiner will need to exercise judgment and to draw on experience as to what is reasonable given the size and nature of the charity's activities.

Direction 7

Form and content of accounts

The examiner shall carry out such procedures as the examiner considers necessary to provide a reasonable basis on which to decide whether or not the accounts prepared under section 132 of the Charities Act 2011 comply with the form and content requirements of the 2008 Regulations including their preparation in accordance with the methods and principles set out in the Statement of Recommended Practice: Accounting and Reporting by Charities (the SORP). Or in the case of a charity that is a company, whether or not the accounts are prepared in accordance with sections 396 of the Companies Act 2006, and are prepared in accordance with the methods and principles of the SORP.

Guidance

- 7.1 By far the majority of non-company charities have a gross income of £250,000 or less and may be eligible to prepare receipts and payments accounts. Non-company charities must prepare accruals accounts if their gross income exceeds £250,000. The minority of charities that exceed these thresholds, and all charitable companies irrespective of their income, must prepare accruals accounts in accordance with the SORP. On occasion the examiner may encounter receipts and payments accounts which are accompanied by a balance sheet instead of a Statement of Assets and Liabilities. Provided that no non-cash items have been put through the receipts and payments accounts the examiner should treat those accounts as receipts and payments accounts, otherwise the accounts should be regarded as accruals accounts and should be examined accordingly.
- 7.2 The 2008 Regulations draw heavily on the recommendations of the SORP. Where accruals accounts are prepared the examiner will require access to the SORP and an understanding of its principles to ensure compliance with the 2008 Regulations.
- 7.3 Where accounts are prepared under section 132 (the accruals basis), the 2008 Regulations require the accounts to be prepared in accordance with the method and principles of the SORP. The SORP requires all charities preparing accruals accounts to prepare a Statement of Financial Activities, balance sheet, and accompanying notes to the accounts. Charities eligible for independent examination enjoy greater flexibility and Appendix 5 of the SORP details all the concessions that are available for smaller charities preparing accruals accounts.
- 7.4 The 2008 Regulations concerning the content of accounts do not apply to the accounts of charitable companies. The accounts of charitable companies must be prepared in accordance with section 396 of the Companies Act 2006. The trustees of a charitable company must prepare accounts to give a 'true and fair' and this will generally involve compliance with accounting standards and the SORP. Financial Reporting Standard 18, Accounting Policies, requires particular disclosures to be made and explanations to be provided where a SORP has not been followed.
- 7.5 The examiner should review accruals accounts in sufficient detail to be able identify any significant non-compliance with the 2008 Regulations and the methods and principles of the SORP. This will involve a review of the format of the Statement of Financial Activities and Balance Sheet and the inclusion of necessary notes to the accounts. These review procedures should be sufficiently detailed to enable the examiner to decide whether or not any non-compliance with the 2008 Regulations or the SORP should be identified in the examiner's report.

- 7.6 A set of compliant accounts in the SORP format is available for non-company charities in our [Accruals Accounts Pack \(CC17\)](#).

Form and content of accounts

- 7.7 For charitable companies, section 396 of the Companies Act 2006 requires the preparation of individual accounts. In the case of not-for-profit undertakings, including charities, the Companies Act 2006 section 474(2) substitutes an income and expenditure account for the profit and loss account. In addition a balance sheet is required and additional information is to be provided in the notes. The SORP requires all charities preparing accruals accounts to prepare a Statement of Financial Activities, balance sheet, and accompanying notes to the accounts. A charitable company will therefore usually submit a Statement of Financial Activities that incorporates an income and expenditure account, it may however opt to submit both an income and expenditure account and a Statement of Financial Activities. In such cases the examiner will review the two statements for consistency.
- 7.8 The 2008 Regulations do not specify the form and content of accounts prepared on a receipts and payments basis. The Commission does provide pro forma layout for such accounts in our [Receipts and Payments Accounts Pack \(CC16\)](#).
- 7.9 It is recommended that readers refer to the Charity Commission website to confirm the thresholds that apply.

Direction 8

Accounting policies, estimates and judgments

When accounts are prepared under section 132 of the Charities Act 2011, or in the case of a charity which is a company, prepared under section 396 of the Companies Act 2006, the examiner shall review the accounting policies adopted and consider their consistency with the Statement of Recommended Practice: Accounting and Reporting by Charities (the SORP) and their appropriateness to the activities of the charity. The examiner must also consider and review any significant estimate or judgment that has been made in preparing the accounts.

Guidance

- 8.1 Receipts and payments accounts report cash book transactions in the period and so are not affected by this Direction. If accounts are prepared on the receipts and payments basis under section 42(3), the only fundamental accounting concept which applies is that of consistency of presentation within the accounts. Accounting policies and judgmental issues have less relevance since the receipts and payments account is simply a factual record of money actually received and spent. The statement of assets and liabilities is a simple schedule of information.
- 8.2 Further guidance as to the form and content of receipts and payments accounts can be found in the notes included in our [Receipts and Payments Accounts Pack \(CC16\)](#).
- 8.3 Accounts prepared on an accruals basis involve the use of accounting policies that determine how transactions and events are reflected in accounts and estimates. Judgement may be necessary to arrive at monetary values to be included in accounts, for example the length of time over which an asset is to be depreciated.
- 8.4 Where accounts are prepared under section 132 (the accruals basis) or under the Companies Act 2006 section 396 the trustees prepare accounts to give a 'true and fair' view. The accounting policies adopted, and also any estimates or judgments made in preparing the accounts, may have a material effect on both the financial activities and state of affairs disclosed by those accounts. Such matters therefore require careful consideration by the examiner although the examiner does not have to form an opinion on whether the accounts give a 'true and fair' view.
- 8.5 The examiner should be satisfied that accounts are prepared on a basis consistent with the going concern assumption and accruals concept, and evaluate the accounting policies adopted and applied for appropriateness to the activities of the charity and consistency with the SORP. The accounting policies adopted should ensure a relevant, reliable, comparable and understandable accounts presentation.
- 8.6 Where the accounts are not prepared on a going concern basis, the examiner should consider the alternative basis upon which they are prepared and ensure that the basis of preparation is adequately disclosed in the accounting policies section of the notes to the accounts.
- 8.7 The examiner should evaluate whether the accounting policies adopted are consistent with the methods and principles set out in SORP. Where the accounting policies are not consistent with the SORP this should be drawn to the attention of the charity trustees and if the effect on the accounts is material, the matter should be reported in the examiner's report unless corrected.

- 8.8 Where accounts are produced under the Companies Act the trustees must prepare the accounts to give a 'true and fair' view, however, the examiner is not required to provide an opinion as to whether the accounts give a 'true and fair' view. Where accounting policies are not consistent with the SORP, this should be drawn to the attention of the charity trustees by the examiner, and the item(s) in question, if the inconsistency is material, should be reported in the examiner's report unless corrected.
- 8.9 The SORP requires a departure from its recommendations to be explained in the notes to the accounts of both company and non-company charities. A departure is only justifiable if it is necessary in order to give a 'true and fair' view and such circumstances will be rare. In the case of a departure the examiner will need to check that the explanation required by the SORP has been provided. Where a material departure has not been adequately justified or explained, the examiner should make a comment in their report.
- 8.10 The examiner must evaluate the reasonableness of any estimates or judgments made in preparing the accounts where these are material to the accounts. Matters that may require consideration include:
- transfers to or from restricted fund accounts;
 - valuation of gifts in kind;
 - valuation of fixed asset investments where no market prices exist;
 - estimates resulting from transactions not being fully recorded in the accounting records; and
 - where an activity based approach has been adopted, the allocation of costs between the various expenditure categories of the Statement of Financial Activities.

Direction 9

Trustees' Annual Report

When accounts are prepared under section 132 of the Charities Act 2011, or in the case of a charity which is a company, prepared under section 396 of the Companies Act 2006, the examiner shall compare the accounts to any financial references in the charity Trustees' Annual Report (if any); identifying any major inconsistencies and consider the significance such matters will have on a proper and accurate understanding of the charity's accounts.

Guidance

- 9.1 If accounts are prepared on the receipts and payments basis under section 42(3) there is no requirement placed on the examiner to consider the Trustees' Annual Report. The examiner may, nevertheless, find the Annual Report a useful guide to the activities of the charity.
- 9.2 The Trustees' Annual Report (or for a charitable company the combined trustees' and directors' report) provides a report of the charity's activities during the financial year. Our CC15b publication - *Charity Reporting and Accounts: The Essentials* - sets out the information that should be contained in the Trustees' Annual Report for relevant financial years. The legal requirements concerning the Trustees' Annual Report that apply to both company and non-company charities are set out in the 2008 Regulations.
- 9.3 Procedures should be directed at identifying inconsistencies between the Trustees' Annual Report and the accounts which are misleading or which contradict the financial information contained in the accounts. For example, a review should identify where amounts stated in the Annual Report are not consistent with those in the accounts or the nature or scale of activities described are inconsistent with the level of activity disclosed in the accounts. The level of reserves stated in the Annual Report should be consistent with amounts disclosed in the charity's balance sheet.
- 9.4 Where inconsistencies are identified which are significant, this should be drawn to the attention of the charity trustees. If no appropriate amendment is made to the Annual Report then details of the matter should be provided in the examiner's report.

Direction 10

Examiner's report

The examiner shall review and assess all conclusions drawn from the evidence obtained from the examination and consider the implications on the report to be made under Regulation 31 of the 2008 Regulations. If the examiner has cause to make a positive statement on any matter arising from the provisions of Regulation 31(h) or 31(i), or to make a statement on any matter arising from the provisions of Regulation 31(j), then the examiner must ensure so far as practicable that the report gives a clear explanation of the matter and of its financial effects on the accounts presented.

Guidance

- 10.1 The examiner's report is the outcome of an independent examination and is addressed to the trustees. It either confirms that all the matters the examiner is required to review as set out by the 2008 Regulations have been met, or identifies which requirements have not been met, together with any matters that need reporting for the benefit of the reader's understanding of the charity's accounts. The examiner needs to consider carefully the conclusions drawn from their examination, and the impact of these conclusions on their report. Appendix 4 provides illustrative examples of independent examiner's reports.
- 10.2 The 2008 Regulations set out the legal requirements for an independent examiner's report. An independent examination is not an audit and the examiner is required to consider a limited number of specified matters in their report and to confirm that nothing has come to their attention in the course of their examination which leads them to conclude that certain requirements have not been met. The report provides 'negative' assurance requiring the examiner to give an opinion only on a matter where they have found that a requirement has not been met. The matters to be reported on are listed in paragraph 10.4.
- 10.3 The first part of the examiner's report is a factual statement. In their examiner's report the examiner must state:
- the examiner's name and address and the name of the charity concerned;
 - the financial year in respect of which the accounts to which the report relates have been prepared, and where the charity is a charitable company, that the accounts do not require an audit in accordance with Part 16 of the Companies Act 2006;
 - if the gross income exceeds £250,000, the qualification which enables him or her to act as an independent examiner;
 - any relevant professional qualification the examiner holds;
 - in the event of the independent examination being allowed by dispensation in place of an audit, the date when the Commission dispensed with the requirement for an audit;
 - that the report provided relates to an independent examination carried out under section 145 of the 2011 Act and that the examination has been conducted in accordance with the Directions given by the Commission.

- 10.4 After making these statements, the examiner must then state whether or not any matter has come to their attention, in connection with the examination, which gives reasonable cause to believe that in any material respect:
- accounting records for non-company charities have not been kept in accordance with section 130 of the Charities Act 2011; or
 - where the charity is a charitable company, the accounting records have not been kept in accordance with section 386 of the Companies Act 2006; or
 - the accounts do not accord with the accounting records; or
 - where the accounts are prepared on an accruals basis for a non-company charity under section 132 of the Act 2011 and those accounts do not comply with the requirements of the 2008 Regulations setting out the form and content of charity accounts; (a charity's accounts consist of a Statement of Financial Activities and balance sheet and notes and are prepared in accordance with the methods and principles set out in the Statement of Recommended Practice); or
 - where the accounts are prepared for a charitable company, the accounts do not comply with section 396 of the Companies Act and the methods and principles of the SORP.
- 10.5 Where any of the above matters have been identified, and the failure is considered material, there should be a clear explanation of the nature of the failure and, where it can be estimated its financial effects on the accounts.
- 10.6 Where the concern relates to non-compliance to the form and content of the accounts or material inconsistency with the SORP, the matter should be raised first with the charity trustees to seek the necessary amendment to the accounts.
- 10.7 The examiner in the second part of the report is also required to state whether or not any matter has come to their attention in connection with the examination to which, in the examiner's opinion, attention should be drawn in the report to enable a proper understanding of the accounts to be reached. It is expected that only significant matters will be reported. Where accruals accounts are prepared attention is drawn to matters which are material to the accounts. These matters should be brought to the attention of the charity trustees first with a view to seeking an amendment or adjustment to the accounts but if concerns remain the matter should be addressed in the examiner's report. Where reported the matter concerned should be fully explained together with the financial effects on the accounts.
- 10.8 There is also a requirement to provide a statement if the following specific matters have become apparent to the examiner during the course of the examination:
- any material expenditure or action which appears not to be in accordance with the trusts of the charity;
 - any failure to be provided with information and explanation by any past or present trustee, officer or employee that is considered necessary for the examination; and
 - in the case of accruals accounts any material inconsistency between the accounts and the Trustees' Annual Report, and in the case of a charitable company with the director's report.
- 10.9 The examiner must sign and date the trustees' copy of their examiner's report. When filing the report, accounts and examiner's report electronically typed signatures are accepted by the Charity Commission.

- 10.10 In order to identify any material expenditure or activities undertaken outside the objects of the charity, an understanding of the stated objects of the charity, as set out in its governing document, is necessary. Small or immaterial levels of expenditure on purposes outside of the objects of the charity will not generally be included in the examiner's report. Material expenditure, or significant actions, contrary to the trusts of the charity would be a significant concern and details should be included on the examiner's report. The examiner need not carry out specific checks or procedures to identify such breaches, but such matters when identified must be included in the examiner's report. The examiner will also need to consider whether a separate report of the matter needs to be sent to the Commission. This separate duty is explained fully in section F of this guidance.
- 10.11 Any failure to be provided with information and explanations may seriously hamper an examination. If information and explanations requested are not provided to the examiner's satisfaction this fact must be included in the examiner's report. A refusal to provide information or explanations is a serious matter and a separate report to the Commission may be necessary (see section F of this guidance).
- 10.12 In the case of accounts prepared on an accruals basis any major inconsistency between the accounts and the Trustees' Annual Report may give rise to misunderstanding. This should be brought to the attention of the charity trustees with a view to the amendment of the discrepancy. If the trustees decline to agree to change their Annual Report or where concerns still exist this must be stated in the examiner's report.
- 10.13 For NHS charities independently examined by an examiner appointed by the Audit Commission or the Auditor General for Wales, the examiner has equivalent reporting duties that are set out in sections 149 and 150 of the Charities Act 2011 and Regulation 32 of the 2008 Regulations.

F Statutory duty to report to the Charity Commission

Sections 156 and 159 of the Charities Act 2011 place a duty upon the independent examiners of both non-company and company charities to make a report to the Charity Commission, where in the course of their examination, they identify a matter, which relates to the activities or affairs of the charity or of any connected institution or body, and which the examiner has reasonable cause to believe is likely to be of material significance for the purposes of the exercise by the Commission of its functions listed in section 156(3) of the Charities Act 2011.

Guidance

- 11.1 In addition to undertaking an examination report on the accounts, the examiner has a separate legal responsibility to report to the Charity Commission if a matter of material significance to the regulatory functions of the Commission is identified. This duty applies to both company and non-company charities which are registered with the Commission and to charities which are currently excepted from registration with the Commission.
- 11.2 It is important to emphasise that there is neither a legal duty nor an expectation that the examiner will actively go looking for matters of material significance that need to be reported. However, where the examiner comes across such matters as part of their work, they must make a report to the Commission. Normally the matter will relate to the year the examiner is reporting upon and the examiner is not required to review the previous year's accounts and records. However, where a matter comes to light relating to a previous financial year which would give rise to a duty to report, then the examiner should still make a report.
- 11.3 The Commission and The Office of the Scottish Charity Regulator (OSCR) have agreed a shared list of 8 matters of material significance that should always be reported by an independent examiner. These matters of material significance are set out below:
- Matters suggesting dishonesty or fraud involving a significant loss of, or a major risk to, charitable funds or assets.
 - Failure(s) of internal controls, including failure(s) in charity governance, that resulted in a significant loss or misappropriation of charitable funds, or which leads to significant charitable funds being put at major risk.
 - Matters leading to the knowledge or suspicion that the charity or charitable funds have been used for money laundering or such funds are the proceeds of serious organised crime or that the charity is a conduit for criminal activity.
 - Matters leading to belief or suspicion that the charity, its trustees, employees or assets, have been involved in or used to support terrorism or proscribed organisations in the UK or outside of the UK.
 - Evidence suggesting that in the way the charity carries out its work relating to the care and welfare of beneficiaries, the charity's beneficiaries have been or were put at significant risk of abuse or mistreatment.
 - Significant or recurring breach(es) of either a legislative requirement or of the charity's trusts.

- A deliberate or significant breach of an Order or Direction made by a charity regulator under statutory powers including suspending a charity trustee, prohibiting a particular transaction or activity or granting consent on particular terms involving significant charitable assets or liabilities.
 - Any notification or matter reported to the trustees on resigning as independent examiner or matter that the examiner is aware of on resignation or ceasing to act that falls within the categories of reportable matters set out above.
- 11.4 Volunteer independent examiners may not encounter these situations very often when reviewing the accounts of charities and so to help them, and to help all examiners, some illustrative examples are provided in Appendix 5 of matters of material significance and where they may be identified in the course of the examiner's work.
- 11.5 The examiner must make a report to the Commission only if in the course of their independent examination they identify a matter which they have reasonable cause to believe is likely to be of material significance for the purposes of the exercise by the Commission of its formal inquiry powers under sections 46, 47 and 50 of the Charities Act 2011.
- 11.6 The duty to report relates to information or evidence obtained from the examiner's work undertaken in following the Commission's Directions or whilst acting in the capacity of the examiner of a charity. A reporting requirement would not arise from minor breaches of trustees' obligations, or isolated administrative errors that are unlikely to jeopardise the charity's assets or amount to misconduct or mismanagement.
- 11.7 The duty to report applies to the examiner who must make a report whether or not the matter has already been notified to other regulators or agencies and whether or not the trustees have already advised the Commission, for example, by making a serious incident report. In any event the examiner must keep the particular matters of material significance in mind as they carry out their examination.
- 11.8 Where the matter to be reported concerns terrorism then the matter must be immediately reported to the Police before the examiner makes their report to the Commission.
- 11.9 Where the matter to be reported concerns money laundering, those examiners who are charging a fee are providing an accountancy service and so are governed by the Money Laundering Regulations and should advise the Serious Organised Crime Agency in the first instance. However, it is not expected that notifying the Commission, itself a regulator, will give rise to a 'tipping off' offence.
- 11.10 In preparing to make their report to the Commission of a matter of material significance, the examiner should gather together the relevant information or evidence about the matter and make a note of the significant concern(s) identified. The examiner may find it helpful to discuss the matter first with the trustees unless the matter concerns the honesty or integrity of the trustees. In particular, matters that involve terrorism or money laundering must always be immediately reported to the police or Serious Organised Crime Agency and care exercised to ensure risks of 'tipping off' do not arise.

- 11.11 There should not be a delay in sending a report to the Commission as the duty to report is immediate. However, the Commission recognises that the examiner will need some time to consider the information or evidence identified and where appropriate to seek clarification or further explanation from the trustees. Where the trustees wish to explain the actions they have taken or propose to take this may be appended to the examiner's report.
- 11.12 Where a reporting duty arises the examiner should report the matter by e-mail to Whistleblowing@charitycommission.gsi.gov.uk. The e-mail should be headed 'Independent Examiner reporting a matter of material significance' and should provide the following information:
- the examiner's name and contact address, telephone number and/or e-mail address;
 - the charity's name and registration number (if applicable);
 - a statement that the report is made in accordance with section 156 of the 2011 Act;
 - under which of the eight headings of reportable matters (see paragraph 11.3) the report is being made;
 - describe the matter giving rise to concern and the information available on the matter reported and, where possible, provide an estimate of the financial implications;
 - where the trustees are attempting to deal with the situation, a brief description of any steps being taken by trustees of which the examiner has been made aware;
 - if the report concerns terrorist, money laundering or other criminal activity whether you have notified the Serious Organised Crime Agency and/or Police as appropriate; and
 - if the report concerns the abuse of vulnerable beneficiaries whether you have informed the Police and/or Social Services.
- 11.13 Section 156 of the 2011 Act also provides a discretionary power or right for the examiner to make a report to the Commission where the examiner becomes aware of a matter, where there is reasonable cause to believe the matter is likely to be relevant to the exercise of any of the Commission's functions. This is a very broad right and enables the examiner to advise the Commission of any matters that may be relevant to the Commission's functions but where the matter does not fall clearly within the category of being of material significance. This right might be used by an examiner, for example, where a matter has been identified that the examiner believes the Commission's input is necessary for its resolution.
- 11.14 It is not appropriate to give a list of issues where this discretionary power might be used because it is widely drawn and there is no obligation on the examiner to make a report. Examiners are encouraged not to report small or insignificant matters, particularly where such matters have been satisfactorily resolved internally or the matter can be resolved by the examiner through discussion with the trustees in the first instance.
- 11.15 Where the examiner is exercising their discretion to report a matter, the examiner should report by e-mail to Whistleblowing@charitycommission.gsi.gov.uk. The examiner should:
- state the charity's name and registration number (if applicable);
 - state the examiner's name and contact address, telephone number and/ or e-mail address;

- state that the report is made using the examiner's power of discretion to report a matter relevant to the work of the Commission in accordance with section 156 of the 2011 Act;
- describe the matter and the examiner's view of its relevance to the work of the Commission, and, where possible, provide an estimate of the financial implications; and
- where the trustees are attempting to deal with the situation, give a brief description of any steps being taken by the trustees of which the examiner is aware.

11.16 Appendix 5 provides further advice, particularly for volunteer examiners, on matters of material significance that may be reportable to the Commission. It also provides examples of how a letter to the Commission might be set out where a reportable matter is identified or where the examiner chooses to exercise their discretionary power or right to report a matter. Where a report is made to the Commission under these provisions, the examiner cannot be held to be in breach of any duty to the trustees or the charity, for example, breach of confidence. The examiner enjoys legal protection in relation to the information or opinions contained in the report made to the Commission.

Appendix 1: Calculation of gross income

Section 353 of the 2011 Act states that a reference to the gross income of a charity: “means its gross recorded income from all sources including special trusts”. This broad definition is interpreted for administrative purposes by the Commission when setting the Annual Return requirements and making the Annual Return regulations under section 169 of the 2011 Act. This administrative definition of gross income is reviewed annually in preparation for the Annual Return process.

The definition of gross income for a charity

Where accounts are prepared on the **accruals basis** ‘gross income’ should be calculated as:

- the total incoming resources as shown in the Statement of Financial Activities (prepared in accordance with the SORP) for all funds but excluding any endowment; and
- including any amount transferred from endowment funds to income funds during the year so as to be available for expenditure.

(Note that the SORP excludes from total incoming resources gains on revaluation of fixed assets or gains on investments which do not form part of ‘gross income’ for these purposes.)

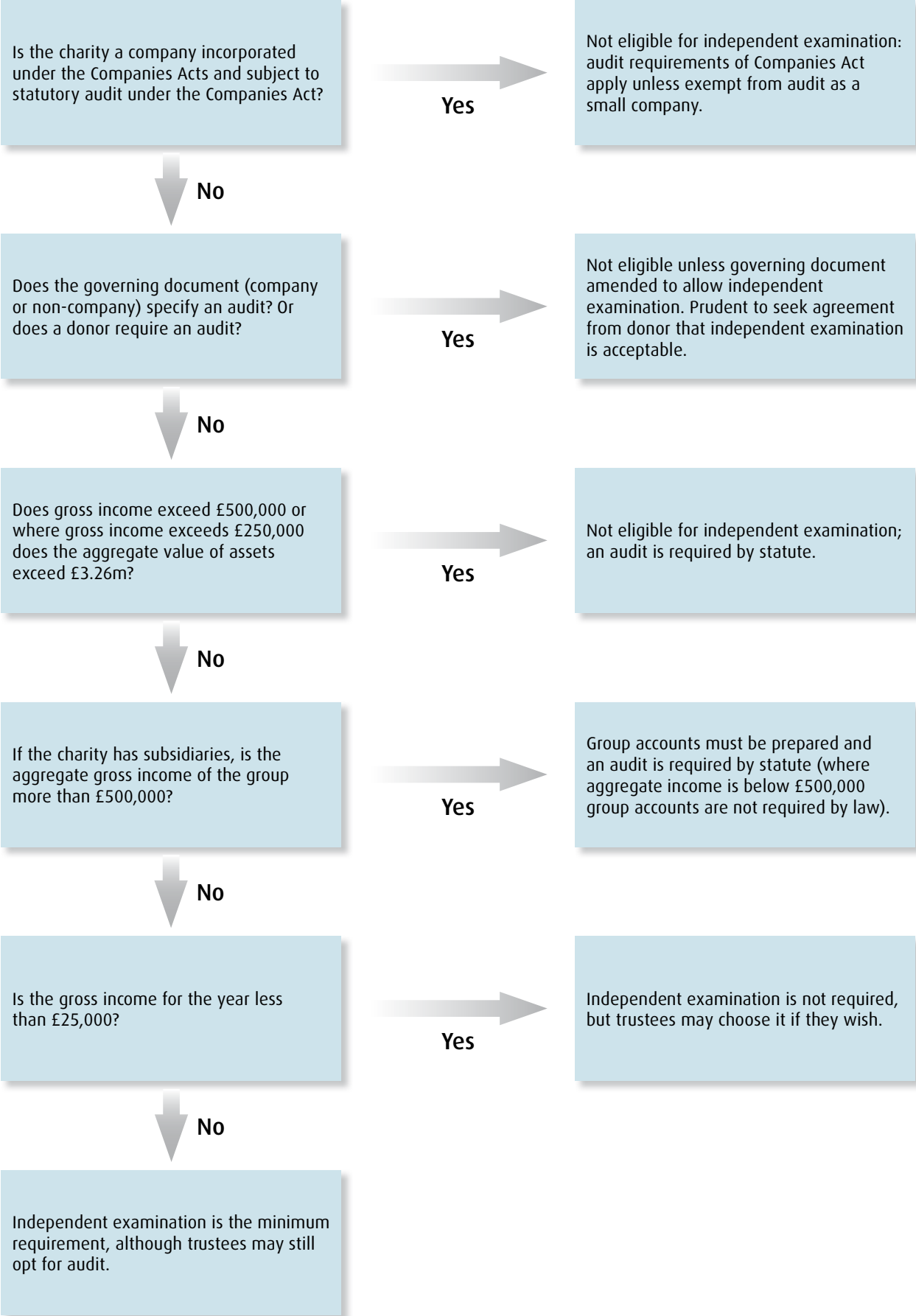
Where accounts are prepared on the **receipts and payments basis** ‘gross income’ is the total receipts recorded in the statement of accounts excluding endowments, loans and proceeds from sale of investments or fixed assets.

The definition of gross income for a group

The 2008 Regulations set out the calculation of the gross income threshold for a group which is:

- the gross income of the group net of intra group transactions exceeds £500,000; where
- gross income means, in relation to a non-charitable subsidiary undertaking, the amount of income that would be construed as its gross income were it a charity (refer to the SORP for more information about what constitutes income for a charity); and
- intra group transactions are those transactions between the parent charity and its subsidiary or between the subsidiary and its parent charity which are netted off as part of the consolidation adjustments when preparing the group accounts.

Appendix 2: Flowchart: Eligibility requirements for independent examination



Appendix 3: Charities based in England and Wales also operating in Scotland

Since the introduction of the Charities and Trustee Investment (Scotland) Act 2005, some charities based in England and Wales which also operate in Scotland may now also need to register with the Office of the Scottish Charity Regulator (OSCR). Examiners of charities also operating in Scotland, which are registered with OSCR, should be familiar with the guidance on the accounting framework issued by OSCR.

Examiners should also note that where a matter of material significance (see section F and Appendix 5) is identified the report made to the charity regulator should be forwarded to both the Commission and OSCR who will determine jointly which regulator takes the matter forward.

OSCR does not insist on separate Scottish accounts where accruals accounts are prepared under the SORP. Accounts prepared under the SORP will be accepted for filing in both jurisdictions provided some narrative in the Trustees' Annual Report addresses activities in Scotland.

For cross-border charities that prepare receipts and payments accounts there are some additional requirements that need to be met. The main difference is that a 'Statement of Balances' is prepared instead of a 'Statement of Assets and Liabilities' and certain notes to the accounts are required. Further guidance on Scottish accounting requirements is available on OSCR's website at:

www.oscr.org.uk/ScottishCharityAccounting.stm

The Commission will accept receipts and payments accounts that meet Scottish requirements for the accounts and the Trustees' Annual Report. The 'Statement of Balances' should however be titled 'Statement of Balances (including a Statement of Assets and Liabilities)' for filing with the Commission. No additional changes are needed because the Scottish requirements meet or exceed the requirements for charities in England and Wales preparing receipts and payments accounts.

OSCR produce a '*Receipts and Payments Work Pack*' which can be downloaded at:

www.oscr.org.uk/managing-your-charity/charity-accounting/receipts-and-payments

Trustees and examiners acting for charities which are also registered in Scotland are strongly recommended to view OSCR's website. In particular trustees should ensure that the examiner meets the requirements of Scottish charity law and note that in all cases where accruals accounts are prepared by a charity registered with OSCR, the examination must be undertaken by a 'qualified independent examiner' as defined in the Charities Accounts (Scotland) Regulations 2006. In addition the accounts of charities registered in Scotland must be filed with OSCR within 9 months of the end of an accounting year.

Examiners should be aware that in Scotland the examiner is always required to review the Annual Report when making their report and state in their report if there is a material difference between the accounts and the Annual Report prepared by the charity trustees.

The examiner may prepare a combined examination report that satisfies the requirements of both jurisdictions. Example reports are provided in this Appendix for both company and non-company charities that operate in England and Wales and Scotland. The references to the Charities Act 2011 must be used for any examiner's report signed on or after 14 March 2012.

EXAMPLE 3.1: EXAMINER'S UNQUALIFIED REPORT (FOR A NON-COMPANY CHARITY ALSO REGISTERED WITH THE OFFICE OF THE SCOTTISH CHARITY REGULATOR PREPARING ACCRUED ACCOUNTS)

Independent examiner's report to the trustees of "ABC" Trust

I report on the accounts of the Trust for the year ended 30 April 2012, which are set out on pages 00 to 00.

Respective responsibilities of trustees and examiner

The charity's trustees are responsible for the preparation of the accounts. The charity's trustees consider that an audit is not required for this year under section 144(2) of the Charities Act 2011 (the 2011 Act) or under Regulation 10(1)(a) to (c) of the Charities Accounts (Scotland) Regulations 2006 (the 2006 Regulations) and that an independent examination is needed. The charity is preparing accrued accounts and I am qualified to undertake the examination by being a qualified member of [named body].

It is my responsibility to:

- examine the accounts under section 145 of the Charities Act 2011 and under section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005 (the 2005 Act);
- to follow the procedures laid down in the general Directions given by the Charity Commission under section 145(5)(b) of the 2011 Act; and
- to state whether particular matters have come to my attention.

Basis of independent examiner's report

My examination was carried out in accordance with the general Directions given by the Charity Commission and is in accordance with Regulation 11 of the Charities Accounts (Scotland) Regulations 2006. An examination includes a review of the accounting records kept by the charity and a comparison of the accounts presented with those records. It also includes consideration of any unusual items or disclosures in the accounts, and seeking explanations from you as trustees concerning any such matters. The procedures undertaken do not provide all the evidence that would be required in an audit and consequently no opinion is given as to whether the accounts present a 'true and fair view' and the report is limited to those matters set out in the statement below.

Independent examiner's statement

In connection with my examination, no matter has come to my attention:

- (1) which gives me reasonable cause to believe that in any material respect the requirements:
- to keep accounting records in accordance with section 130 of the 2011 Act and section 44(1)(a) of the 2005 Act and Regulation 4 of the 2006 Accounts Regulations; and
 - to prepare accounts which accord with the accounting records and comply with the accounting requirements of the 2011 Act and section 44(1)(b) of the 2005 Act and Regulation 8 of the 2006 Accounts Regulations
- have not been met; or

(2) to which, in my opinion, attention should be drawn in order to enable a proper understanding of the accounts to be reached.

Name:

Relevant professional qualification or body:

Address:

Date:

EXAMPLE 3.2: UNQUALIFIED REPORT (FOR A NON-COMPANY CHARITY ALSO REGISTERED WITH OSCR PREPARING RECEIPTS AND PAYMENTS ACCOUNTS)

Independent examiner's report to the trustees of "DEF" Trust

I report on the accounts of the Trust for the year ended 30 April 2012, which are set out on pages 00 to 00.

Respective responsibilities of trustees and examiner

The charity's trustees are responsible for the preparation of the accounts. The charity's trustees consider that an audit is not required for this year under section 144(2) of the Charities Act 2011 (the 2011 Act) or under Regulation 10(1)(d) of The Charities Accounts (Scotland) Regulations 2006 (the 2006 Accounts Regulations) and that an independent examination is needed.

It is my responsibility to:

- examine the accounts under section 145 of the Charities Act 2011 and section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005 (the 2005 Act);
- to follow the procedures laid down in the general Directions given by the Charity Commission under section 145(5)(b) of the 2011 Act; and
- to state whether particular matters have come to my attention.

Basis of independent examiner's report

My examination was carried out in accordance with the general Directions given by the Charity Commission and is in accordance with Regulation 11 of the Charities Accounts (Scotland) Regulations 2006. An examination includes a review of the accounting records kept by the charity and a comparison of the accounts presented with those records. It also includes consideration of any unusual items or disclosures in the accounts, and seeking explanations from you as trustees concerning any such matters. The procedures undertaken do not provide all the evidence that would be required in an audit and consequently no opinion is given as to whether the accounts present a 'true and fair view' and the report is limited to those matters set out in the statement below.

Independent examiner's statement

In connection with my examination, no matter has come to my attention:

(1) which gives me reasonable cause to believe that in any material respect the requirements:

- to keep accounting records in accordance with section 130 of the 2011 Act and section 44(1)(a) of the 2005 Act and Regulation 4 of the 2006 Accounts Regulations; and
- to prepare accounts which accord with the accounting records and comply with the accounting requirements of the 2011 Act and section 44(1)(b) of the 2005 Act and Regulation 9 of the 2006 Regulations

have not been met; or

(2) to which, in my opinion, attention should be drawn in order to enable a proper understanding of the accounts to be reached.

Name:

Relevant professional qualification or body:

Address:

Date:

EXAMPLE 3.3: EXAMINER'S UNQUALIFIED REPORT (FOR A COMPANY CHARITY ALSO REGISTERED WITH OSCR)

Independent examiner's report to the trustees of "WXY Charitable Company"

I report on the accounts of the company for the year ended 30 April 2012, which are set out on pages 00 to 00.

Respective responsibilities of trustees and examiner

The trustees (who are also the directors of the company for the purposes of company law) are responsible for the preparation of the accounts. The trustees consider that an audit is not required for this year under section 144(2) of the Charities Act 2011 (the 2011 Act) or under Regulation 10(1)(a) to (c) of The Charities Accounts (Scotland) Regulations 2006 (the 2006 Accounts Regulations) and that an independent examination is needed. The charity is required by company law to prepare accrued accounts and I am qualified to undertake the examination by being a qualified member of [named body].

Having satisfied myself that the charity is not subject to audit under company law and is eligible for independent examination, it is my responsibility to:

- examine the accounts under section 145 of the 2011 Act and section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005 (the 2005 Act);
- to follow the procedures laid down in the general Directions given by the Charity Commission under section 145(5)(b) of the 2011 Act; and
- to state whether particular matters have come to my attention.

Basis of independent examiner's report

My examination was carried out in accordance with the general Directions given by the Charity Commission and is in accordance with Regulation 11 of the Charities Accounts (Scotland) Regulations 2006. An examination includes a review of the accounting records kept by the charity and a comparison of the accounts presented with those records. It also includes consideration of any unusual items or disclosures in the accounts, and seeking explanations from you as trustees concerning any such matters. The procedures undertaken do not provide all the evidence that would be required in an audit and consequently no opinion is given as to whether the accounts present a 'true and fair view' and the report is limited to those matters set out in the statement below.

Independent examiner's statement

In connection with my examination, no matter has come to my attention:

(1) which gives me reasonable cause to believe that in any material respect the requirements

- to keep accounting records in accordance with section 386 of the Companies Act 2006 and section 44(1)(a) of the 2005 Act; and
- to prepare accounts which accord with the accounting records, comply with the accounting requirements of the Companies Act 2006, section 44(1)(b) of the 2005 Act and Regulation 8 of the 2006 Accounts Regulations; and
- which are consistent with the methods and principles of the Statement of Recommended Practice: Accounting and Reporting by Charities

have not been met; or

(2) to which, in my opinion, attention should be drawn in order to enable a proper understanding of the accounts to be reached.

Name:

Relevant professional qualification or body:

Address:

Date:

Appendix 4: Example examiner's reports

These example reports are provided to help examiners set out their reports in a way which complies with the 2008 Regulations. The examples cover a number of situations that an examiner may come across in their work. The references to the Charities Act 2011 must be used for any examiner's report signed on or after 14 March 2012.

An 'unqualified report' means that at the end of their examination the examiner is able to report that nothing has come to their attention that leads them to believe that one or more of the specific matters on which they report were not met. However where there are concerns or non-compliance with the requirements of the 2008 Regulations is reported by the examiner then the report is described as 'qualified'.

Please note the new requirement, where the charity's income is greater than £250,000, for the examiner to confirm their qualification(s) that permit them to be eligible to undertake the examination.

In exceptional circumstances, the Commission may permit an independent examination to be carried out instead of an audit. The 2008 Regulations require the examiner to disclose in their report if the examination is in place of an audit and the date of the Commission's dispensation.

By far the majority of charities are trusts or unincorporated associations and only a small number are charities incorporated under the Companies Acts. Those charities set up under the Companies Acts are termed 'company charities' or 'charitable companies' for the purposes of this guidance and because of company law the examiner's report is different to that of the majority of charities, termed 'non-company' charities in this guidance. If in doubt check the governing document of the charity, as a company charity has a memorandum and articles of association and will have been issued with a company number by Companies House.

The example examiner's reports are:

- 4.1 Unqualified report for a non-company charity (applicable to both accruals accounts and receipts and payments accounts).
- 4.2 Unqualified report for a charitable company (gross income exceeded £250,000 so the examiner had to confirm their membership of a listed body).
- 4.3 Qualified report where a non-company charity preparing receipts and payments accounts had failed to separately identify restricted funds.
- 4.4 Qualified report where a non-company charity preparing receipts and payments accounts had failed to properly maintain accounting records. (A report of a relevant matter to the Commission was made at the discretion of the examiner with the example report in Appendix 5.)
- 4.5 Qualified report where a non-company charity has made a cash payment overseas without evidence that the funds were properly spent. (A statutory duty to report to the Commission arose and was reported with the example report in Appendix 5.)
- 4.6 Qualified report where a charitable company had prepared accounts which were not consistent with the SORP.

EXAMPLE 4.1: EXAMINER'S UNQUALIFIED REPORT (FOR A NON-COMPANY CHARITY)

Independent examiner's report to the trustees of "ABZ" Trust

I report on the accounts of the Trust for the year ended 30 April 2012, which are set out on pages 00 to 00.

Respective responsibilities of trustees and examiner

The charity's trustees are responsible for the preparation of the accounts. The charity's trustees consider that an audit is not required for this year under section 144(2) of the Charities Act 2011 (the 2011 Act) and that an independent examination is needed.

It is my responsibility to:

- examine the accounts under section 145 of the 2011 Act;
- to follow the procedures laid down in the general Directions given by the Charity Commission under section 145(5)(b) of the 2011 Act; and
- to state whether particular matters have come to my attention.

Basis of independent examiner's report

My examination was carried out in accordance with the general Directions given by the Charity Commission. An examination includes a review of the accounting records kept by the charity and a comparison of the accounts presented with those records. It also includes consideration of any unusual items or disclosures in the accounts, and seeking explanations from you as trustees concerning any such matters. The procedures undertaken do not provide all the evidence that would be required in an audit and consequently no opinion is given as to whether the accounts present a 'true and fair view' and the report is limited to those matters set out in the statement below.

Independent examiner's statement

In connection with my examination, no matter has come to my attention:

(1) which gives me reasonable cause to believe that in any material respect the requirements:

- to keep accounting records in accordance with section 130 of the 2011 Act; and
- to prepare accounts which accord with the accounting records and comply with the accounting requirements of the 2011 Act

have not been met; or

(2) to which, in my opinion, attention should be drawn in order to enable a proper understanding of the accounts to be reached.

Name:

Relevant professional qualification or body:

Address:

Date:

EXAMPLE 4.2: EXAMINER'S UNQUALIFIED REPORT (FOR A COMPANY CHARITY)

Independent examiner's report to the trustees of "WXY Charitable Company"

I report on the accounts of the company for the year ended 30 April 2012, which are set out on pages 00 to 00.

Respective responsibilities of trustees and examiner

The trustees (who are also the directors of the company for the purposes of company law) are responsible for the preparation of the accounts. The trustees consider that an audit is not required for this year under section 144(2) of the Charities Act 2011 (the 2011 Act) and that an independent examination is needed. The charity's gross income exceeded £250,000 and I am qualified to undertake the examination by being a qualified member of [named body].

Having satisfied myself that the charity is not subject to audit under company law and is eligible for independent examination, it is my responsibility to:

- examine the accounts under section 145 of the 2011 Act;
- to follow the procedures laid down in the general Directions given by the Charity Commission under section 145(5)(b) of the 2011 Act; and
- to state whether particular matters have come to my attention.

Basis of independent examiner's report

My examination was carried out in accordance with the general Directions given by the Charity Commission. An examination includes a review of the accounting records kept by the charity and a comparison of the accounts presented with those records. It also includes consideration of any unusual items or disclosures in the accounts, and seeking explanations from you as trustees concerning any such matters. The procedures undertaken do not provide all the evidence that would be required in an audit and consequently no opinion is given as to whether the accounts present a 'true and fair view' and the report is limited to those matters set out in the statement below.

Independent examiner's statement

In connection with my examination, no matter has come to my attention:

(1) which gives me reasonable cause to believe that in any material respect the requirements:

- to keep accounting records in accordance with section 386 of the Companies Act 2006; and
- to prepare accounts which accord with the accounting records, comply with the accounting requirements of section 396 of the Companies Act 2006 and with the methods and principles of the Statement of Recommended Practice: Accounting and Reporting by Charities

have not been met; or

(2) to which, in my opinion, attention should be drawn in order to enable a proper understanding of the accounts to be reached.

Name:

Relevant professional qualification or body:

Address:

Date:

EXAMPLE 4.3: EXAMINER'S QUALIFIED REPORT - FAILURE TO IDENTIFY A RESTRICTED FUND RECEIPTS AND PAYMENTS ACCOUNTS (NON-COMPANY CHARITY)

Independent examiner's report to the trustees of "EFG" Trust

I report on the accounts of the Trust for the year ended 30 April 2012, which are set out on pages 00 to 00.

Respective responsibilities of trustees and examiner

The charity's trustees are responsible for the preparation of the accounts. The charity's trustees consider that an audit is not required for this year (under section 144(2) of the Charities Act 2011 (the 2011 Act)) and that an independent examination is needed.

It is my responsibility to:

- examine the accounts under section 145 of the 2011 Act;
- to follow the procedures laid down in the general Directions given by the Charity Commission under section 145(5)(b) of the 2011 Act; and
- to state whether particular matters have come to my attention.

Basis of examiner's statement

My examination was carried out in accordance with the general Directions given by the Charity Commission. An examination includes a review of the accounting records kept by the charity and a comparison of the accounts presented with those records. It also includes consideration of any unusual items or disclosures in the accounts, and seeking explanations from you as trustees concerning any such matters. The procedures undertaken do not provide all the evidence that would be required in an audit and consequently no opinion is given as to whether the accounts present a 'true and fair view' and the report is limited to those matters set out in the statement below.

Independent examiner's qualified statement

The trustees have prepared receipts and payments accounts but have not separately identified restricted funds within those accounts. At the end of one church service a special appeal was held for a mission to Samarkand but the money was banked together with the routine collection and no separate record kept of the amount received. The accounts show the expenditure on the mission to Samarkand was separately identified and amounted to £2,837. The trustees pointed out that the banking for that service was £1,978 against an average weekly banking of £1,275 but they have now put in place a protocol to ensure that any appeals are now counted and banked separately.

In connection with my examination, no other matter except that referred to in the above paragraph has come to my attention:

(1) which gives me reasonable cause to believe that in any material respect the requirements:

- to keep accounting records in accordance with section 130 of the 2011 Act; and
- to prepare accounts which accord with the accounting records and comply with the accounting requirements of the 2011 Act

have not been met; or

(2) to which, in my opinion, attention should be drawn in order to enable a proper understanding of the accounts to be reached.

Name:

Relevant professional qualification or body:

Address:

Date:

EXAMPLE 4.4: EXAMINER'S QUALIFIED REPORT - FAILURE TO PREPARE RECEIPTS AND PAYMENTS ACCOUNTS PROPERLY (NON-COMPANY CHARITY)

Independent examiner's report to the trustees of "DEF" Trust

I report on the accounts of the Trust for the year ended 30 April 2012, which are set out on pages 00 to 00.

Respective responsibilities of trustees and examiner

The charity's trustees are responsible for the preparation of the accounts. The charity's trustees consider that an audit is not required for this year under section 144(2) of the Charities Act 2011 (the 2011 Act) and that an independent examination is needed.

It is my responsibility to:

- examine the accounts under section 145 of the 2011 Act;
- to follow the procedures laid down in the general Directions given by the Charity Commission under section 145(5)(b) of the 2011 Act; and
- to state whether particular matters have come to my attention.

Basis of examiner's statement

My examination was carried out in accordance with the general Directions given by the Charity Commission. An examination includes a review of the accounting records kept by the charity and a comparison of the accounts presented with those records. It also includes consideration of any unusual items or disclosures in the accounts, and seeking explanations from you as trustees concerning any such matters. The procedures undertaken do not provide all the evidence that would be required in an audit and consequently no opinion is given as to whether the accounts present a 'true and fair view' and the report is limited to those matters set out in the statement below.

Independent examiner's qualified statement

The trustees have prepared receipts and payments accounts and the accounts show cash received in the year of £36,873 however no records have been kept to match the record of the donations received to the bankings made and cash balances were retained unbanked. The only written record retained is a letter advising a grant award of £10,000. The majority of the expenditure was made in cash from retained unbanked cash or via cash withdrawals using a charity debit card but few receipts were kept. Aside from invoices for utilities and rent and play equipment, there are no records of volunteer or other expenses. Total cash spent amounted to £86,000 with receipts for only £41,732 leaving £44,268 of payments without any supporting records.

In connection with my examination, no other matter except that referred to in the above paragraph has come to my attention, apart from accounting records having not been maintained properly in accordance with section 130 of the 2011 Act:

- (1) which gives me reasonable cause to believe that in any material respect the requirements to prepare accounts which accord with the accounting records and comply with the accounting requirements of the 2011 Act have not been met; or

(2) to which, in my opinion, attention should be drawn in order to enable a proper understanding of the accounts to be reached.

Name:

Relevant professional qualification or body:

Address:

Date:

EXAMPLE 4.5: EXAMINER'S QUALIFIED REPORT - A MATTER TO BE REPORTED (NON-COMPANY CHARITY)

Independent examiner's report to the trustees of "ABC" Trust

I report on the accounts of the Trust for the year ended 30 April 2012, which are set out on pages 00 to 00.

Respective responsibilities of trustees and examiner

The charity's trustees are responsible for the preparation of the accounts. The charity's trustees consider that an audit is not required for this year under section 144(2) of the Charities Act 2011 (the 2011 Act) and that an independent examination is needed.

It is my responsibility to:

- examine the accounts under section 145 of the 2011 Act;
- to follow the procedures laid down in the general Directions given by the Charity Commission under section 145(5)(b) of the 2011 Act; and
- to state whether particular matters have come to my attention.

Basis of examiner's statement

My examination was carried out in accordance with the general Directions given by the Charity Commission. An examination includes a review of the accounting records kept by the charity and a comparison of the accounts presented with those records. It also includes consideration of any unusual items or disclosures in the accounts, and seeking explanations from you as trustees concerning any such matters. The procedures undertaken do not provide all the evidence that would be required in an audit and consequently no opinion is given as to whether the accounts present a 'true and fair view' and the report is limited to those matters set out in the statement below.

Independent examiner's qualified statement

In connection with my examination, no matter has come to my attention which gives me reasonable cause to believe that, in any material respect, the requirements:

- to keep accounting records in accordance with section 130 of the 2011 Act; and
- to prepare accounts which accord with the accounting records and to comply with the accounting requirements of the 2011 Act

have not been met.

The accounts disclose the payment of a material restricted grant of £75,000 to the XXX partner organisation operating in country X. The trustees explained that a trustee took the funds over in US dollar currency in a suitcase and gave the funds to a representative of XXX partner organisation. However the trustees were unable to explain how the funds were used and were not able to provide evidence by way of receipt or letter of acknowledgment from XXX partner organisation. A concern exists that the grant may have to be repaid because of the lack of evidence available to inform the donor of its use.

No other matter has come to my attention in connection with my examination to which, in my opinion, attention should be drawn in order to enable a proper understanding of the accounts to be reached.

Name:

Relevant professional qualification or body:

Address:

Date:

EXAMPLE 4.6: EXAMINER'S QUALIFIED REPORT – NOT COMPLIANT WITH SORP AND COMPANIES ACT (COMPANY CHARITY)

Independent examiner's report to the trustees of "WXY Charitable Company"

I report on the accounts of the company for the year ended 30 April 2012, which are set out on pages 00 to 00.

Respective responsibilities of trustees and examiner

The trustees (who are also the directors of the company for the purposes of company law) are responsible for the preparation of the accounts. The trustees consider that an audit is not required for this year under section 144(2) of the Charities Act 2011 (the 2011 Act) and that an independent examination is needed.

Having satisfied myself that the charity is not subject to audit under company law and is eligible for independent examination, it is my responsibility to:

- examine the accounts under section 145 of the 2011 Act;
- to follow the procedures laid down in the general Directions given by the Charity Commission under section 145(5)(b) of the 2011 Act; and
- to state whether particular matters have come to my attention.

Basis of independent examiner's report

My examination was carried out in accordance with the general Directions given by the Charity Commission. An examination includes a review of the accounting records kept by the charity and a comparison of the accounts presented with those records. It also includes consideration of any unusual items or disclosures in the accounts, and seeking explanations from you as trustees concerning any such matters. The procedures undertaken do not provide all the evidence that would be required in an audit and consequently no opinion is given as to whether the accounts present a 'true and fair view' and the report is limited to those matters set out in the statement below.

Independent examiner's qualified statement

The accounts do not fully comply with company law and are not consistent with the Charities SORP. A balance sheet and notes are present but instead of a Statement of Financial Activities incorporating an income and expenditure account, only a profit and loss account has been prepared. In neither the profit and loss account nor the balance sheet are the funds analysed between unrestricted and restricted funds. The amount of restricted funds held is detailed in the notes to the accounts and relates to a public collection with balance of £x remaining at the year-end.

In connection with my examination, apart from the matter referred above indicating that the accounts are not fully compliant with the accounting requirements of section 396 of the Companies Act and with the methods and principles of the Statement of Recommended Practice: Accounting and Reporting by Charities, no matter has come to my attention:

- (1) which gives me reasonable cause to believe that in any material respect the requirements to prepare accounts which accord with the accounting records and to keep accounting records in accordance with section 386 of the Companies Act 2006 have not been met; or

(2) to which, in my opinion, attention should be drawn in order to enable a proper understanding of the accounts to be reached.

Name:

Relevant professional qualification or body:

Address:

Date:

Appendix 5: Further advice for examiners: identifying matters of material significance

5.1. Introduction

The examiner's statutory duty to report matters of material significance to the Commission is explained in section F of this guidance. This Appendix provides further advice, particularly for volunteer examiners, on matters that may be reportable to the Commission.

A decision to report a matter to the Commission will always involve the use of judgement based on whether a matter is likely to be of material significance to the Commission's regulatory functions. In effect the examiner has to consider the matter identified from the regulator's perspective. This guidance is not meant as a checklist or an exhaustive list of all matters of 'material significance' that may arise but as an aid to the examiner in deciding whether a matter identified is reportable. Remember the examiner is not expected to go looking for matters to report and is only expected to do their best and to act reasonably and honestly when deciding if a matter is reportable.

Minor breaches of trustees' obligations or isolated administrative errors that do not pose a significant risk to the charities assets are not normally reportable unless they are so frequent as to amount to misconduct or mismanagement.

The Commission recognises that reaching a conclusion as to whether a matter is reportable can be a difficult task particularly for volunteer examiners who do not hold professional accountancy qualifications.

There are a number of questions the examiner can consider to help reach a conclusion:

- Is this a matter which causes you, the examiner, significant concern?
- Is this a matter the Commission is likely to need to investigate?
- Is this a matter the Commission needs to know about in order to regulate the sector?
- Are charity funds or the safety of beneficiaries or the public at significant risk?

The examiner should check whether the matter falls within the 'eight matters' listed in Section F of this guidance which are always regarded as reportable by the Commission. It can also be helpful to understand the range of matters which the Commission investigates and summaries of completed inquiry cases can be downloaded at:

www.charity-commission.gov.uk/Our_regulatory_activity/Compliance_reports/inquiry_reports/default.aspx

If after going through these steps the examiner is still unsure if the Commission would regard the matter as being of 'material significance' it can be helpful to discuss the matter with us. The final decision of whether or not to report will remain with the examiner; we at the Commission are willing to discuss the matter with examiners but we cannot make the decision for you. It's also important to remember that any telephone discussion will not remove the need for a report to be submitted by the examiner if the matter is of material significance.

Where a matter is identified which is potentially reportable we recommend that the examiner records the key facts or circumstances. The examiner does not need to produce a body of evidence that proves a matter beyond doubt but the examiner needs to have sufficient information to give a 'reasonable cause to believe' that the reportable matter does exist or has occurred. This may mean the examiner may have to do some extra work to help establish their concern but only to the extent necessary to satisfy themselves there is a reasonable cause for their belief about the reportable matter.

It is also important for the examiner to remember that they do not have a duty to look specifically for matters to report. An independent examination is not as rigorous as an audit and the 2008 Regulations only require the examiner to look at a limited number of things as part of their examination. The procedures for carrying out an examination are set by the Directions and explained in the guidance that follows each Direction. What the examiner must not do is ignore a matter identified whilst acting as a charity's examiner which is likely to be of material significance.

- **Matters suggesting dishonesty or fraud involving a significant loss of, or a major risk to, charitable funds or assets.** Criminal activity within or involving the charity should be reported even if the matter has already been reported to the police. Certain examination procedures may also highlight risks that should be considered, for example, large or regular cash drawing without adequate explanation, expenditure not for the purposes of the charity, falsifying of accounting records, a significant failure to keep accounting records, the use of personal bank accounts to hold charity funds or the unusual use of agents to make payments for the charity where the end recipient cannot be identified. Reviewing accounting records, comparing accounting records with the accounts, and seeking explanations for unusual items may identify these matters.
- **Failure(s) of internal controls, including failure(s) in charity governance, that resulted in a significant loss or misappropriation of charitable funds, or which leads to significant charitable funds being put at major risk.** Although the examiner is not required to consider internal controls certain failures or risks may still become apparent during the examination, for example, if accounting records are not kept, expenditure regularly taking place without authority, pre-signing of blank cheques, unusually high level of use of credit cards, store cards, e-cards (cards preloaded with money) or cash unsupported by receipts or without apparent business need or trustees never or rarely meeting to administer the charity. These matters might be identified through the review of accounting records or in obtaining a general understanding of how the charity operates.
- **Matters leading to the knowledge or suspicion that the charity or charitable funds have been used for money laundering or such funds are the proceeds of serious organised crime or that the charity is a conduit for criminal activity.** Where a fee is charged the examiner is likely to be providing an accountancy service under contract, and so the examiner should consider the Money Laundering Regulations 2007 and any guidance issued by their professional body. For volunteer examiners knowing when a suspicion is reportable can be a difficult judgment. To be reportable a suspicion should be based on some evidence, even if that evidence is tentative. Simple speculation that a charity may be involved in money laundering would not be sufficient grounds to form a suspicion. It is not possible to give a definitive list of the indicators of money laundering – but matters that would require further consideration include:
 - refusal by trustees to explain an unusual transaction;
 - concerns about the honesty, integrity, or identity of trustees;

- large or regular donations that require the charity to transfer those funds to a nominated party inside or outside of the UK or to buy goods or services from the donor or a named third party;
 - loans from an unknown or unverified source, at a zero, low or commercial rate of interest, which the charity is asked to repay by cheque or bank transfer to the donor or a third party;
 - request by a donor to return funds by cheque or bank transfer because they were 'paid from the wrong account';
 - 'loaning' of the charity's bank account to enable deposits or transactions by other third parties or individuals;
 - making money transfers inside or outside of the UK on behalf of a third party in return for a fee;
 - illogical transactions or routing of funds through a series of bank accounts;
 - unusual investment or property transactions without a clear investment purpose or rationale.
- **Matters leading to belief or suspicion that the charity, its trustees, employees or assets, have been involved in or used to support terrorism or proscribed organisations in the UK or outside of the UK.** Where a concern arises examiners should read our Operational Guidance OG 410 [Charities and Terrorism](#) on our website. Where the concern relates to the support of a particular organisation (in cash or otherwise) you can check whether it is a proscribed organisation on the Home Office website at www.homeoffice.gov.uk. Factors that are indicative of money laundering activity identified should also be considered.
 - **Evidence suggesting that in the way the charity carries out its work relating to the care and welfare of beneficiaries, the charity's beneficiaries have been or were put at significant risk of abuse or mistreatment.** The examiner is not expected to act as an inspector nor to attempt to interpret the physical, emotional or spiritual state of the beneficiaries. Whilst examiners do not consider internal controls they will have general knowledge of how the charity operates, for example from trustees' minutes, or they may become aware of a pattern of complaints or concerns. Examiners may, for example, identify information concerning legal action against the charity, a criminal investigation or an investigation or concern raised by another regulator or agency or that necessary eligibility checks on trustees or staff are not being carried out. Where concerns are identified our guidance on protecting children may be helpful and can be downloaded at: www.charitycommission.gov.uk/supportingcharities/protection.asp
 - **Significant or recurring breach(es) of either a legislative requirement or of the charity's trusts.** The examiner is not expected to be a legal expert and as previously stressed minor breaches of trustees' obligations or isolated administrative errors that do not pose a significant risk to the charities assets or reputation are not normally reportable. However, if the amounts involved are large or recurring then this can indicate a concern about the administration of the charity. At the extreme, activities could be unconnected with the purposes of the charity making the charity effectively a sham or there might be large expenditure for a purpose clearly unconnected with the charity or a disregard for legislative requirements or an unwillingness to rectify a breach, for example, unauthorised remuneration or benefits for service as a trustee (trustees may claim proper expenses and may be paid to provide services to a charity, other than for their services as a trustee, provided the procedures set out in law are followed and the payment is disclosed where accruals accounts are prepared).

- **A deliberate or significant breach of an Order or Direction made by a charity regulator under statutory powers including suspending a charity trustee, prohibiting a particular transaction or activity or granting consent on particular terms involving significant charitable assets or liabilities.** On occasions the Commission will use its regulatory powers to protect the assets or reputation of a charity or a particular transaction will be subject to a consent on particular terms. If, for example, a suspended trustee is known to still be involved in the administration of a charity, or funds are being expended when assets are frozen, or a significant transaction is undertaken on a basis that is contradictory to the consent given, then this should be reported.
- **Any notification or matters reported to the trustees on resigning as independent examiner or matters that the examiner is aware of on resignation or ceasing to act that falls within the categories of reportable matters.** The duty to report cannot be avoided by resigning as examiner. If a matter, for example, a refusal to provide information necessary for the examination or a concern arises of such magnitude that the examiner is unwilling to continue then the examiner should consider whether the matter falls within the categories of reportable matters identified above.

Trustees are separately required to notify the Commission of matters which fall within the categories of matters requiring the filing of a serious incident report. These serious incident reports are made by trustees either during the year or as part of their Annual Return to the Commission. It is the trustees' responsibility to make these serious incident reports, not the examiner's duty, but the examiner may find it helpful to ask the trustees if they have had cause to make a serious incident report. If a serious incident report has been made by the trustees the examiner should ask for a copy and if it is a matter of material significance make their own report setting out the examiner's understanding of what has happened and any action the trustees have taken or are taking to remedy the matter of which the examiner is aware.

An example letter, reporting a matter of material significance to the Commission, is provided in this Appendix. Two example letters are also provided of matters which are not considered by the examiner to fall within the category of 'material significance' but where the examiner has chosen to exercise their discretionary power or right to make a report believing the information to be relevant to the Commission's functions .

5.2. Example report arising from a legal duty to report a matter of material significance to the Charity Commission.

This example provides additional information which relates to the example examiner's report 4.5 in Appendix 4.

Whitetree
White Town Lane
White Whitterington
Well County
WW1 3ZZ
September 15th 2012

Dear Sir,

Independent examiner reporting a matter of material significance concerning ABC Trust, charity number 1XXX700

I am making a report to you in accordance with section 156 of the Charities Act 2011 to advise you of a matter which I believe is of material significance to you in the exercise of your functions under sections 46, 47 and 50 of the Charities Act 2011. The matter relates to a failure of internal controls that has led to significant charitable funds being put at major risk.

The income of ABC Trust to the year ending 30 April 2012 was £242,876 and included a restricted grant given by AB Donor Trust of £75,000 to fund a planned project in country X to assist in the relief of poverty. During the course of my examination I discovered that Mr CD, a trustee of the charity, travelled to country X on 10 occasions taking these funds with him in the form of US dollars in a suitcase and gave these funds to Mr TZ of XXX a partner organisation. Neither Mr CD nor the other trustees have any receipt from Mr TZ nor do they have any field reports or other evidence as to how the money was used.

The trustees remain confident in Mr TZ who they say they have known for at least a year and believe that the facilities run by XXX partner organisation give great benefit to the poor of country X. Following my examination the trustees have sought to obtain field reports from Mr TZ but have been advised that he is unavailable, having journeyed to neighbouring Y Country and his date of return is uncertain. There is a concern that AB Donor Trust may now require the return of these funds because the charity has insufficient records to demonstrate how the money was spent.

Having completed my examination of the accounts I provided a qualified independent examiners report due to these matters.

Yours faithfully,

Mr A Doubt

5.3. Example report: A discretionary report of a matter likely to be relevant to the Charity Commission.

Whitetree
White Town Lane
White Whitterington
Well County
WW1 3ZZ

September 15th 2012

Dear Sir,

Matter of relevance to the functions of the Charity Commission concerning WWZ Trust, charity number 1XXX900

I am making a report to you in accordance with section 156 of the Charities Act 2011 to advise you of a matter which I believe is of relevance to you in the exercise of your functions under the Charities Act 2011.

Whilst carrying out the independent examination of WWZ Trust I noted that the trustees had awarded a retiring trustee, Mr Long Service, an honorarium of £1,500 in recognition of his 40 years of trusteeship. The charity had no power in its constitution to make the payment and the trustees confirmed that they had not realised that the payment, which is above the level of £1,000 at which prior Commission approval is required, is contrary to charity law. I understand the trustees have now contacted Charity Commission Direct to ask for your advice on the matter.

Having completed my examination of the accounts, I provided an unqualified independent examiner's report as the payment is shown in the accounts and I did not consider further explanation in my examiner's report was necessary to provide a proper understanding of the accounts given the relatively small amount involved.

Yours faithfully,

Mr A Doubt

5.4. Example report: A discretionary report of a matter likely to be relevant to the Charity Commission

This example provides additional information which relates to the example examiner's report 4.4 in Appendix 4.

Whitetree
White Town Lane
White Whitterington
Well County
WW1 3ZZ
September 15th 2012

Dear Sir,

Matter of relevance to the functions of the Charity Commission concerning DEF Trust, charity number 1XXX905

I am making a report to you in accordance with section 156 of the Charities Act 2011 to advise you of a matter which I believe is of relevance to you in the exercise of your functions under the Charities Act 2011.

Whilst carrying out the independent examination of DEF Trust I noted that the trustees had not retained sufficient records to support £44,268 of payments made in the year. The charity has grown very rapidly with a grant made in the previous year providing funds to support a major expansion in the activities for children. The trustees explained that they hadn't appreciated the extra work involved and in their haste to recruit additional volunteers had not put in place the book-keeping processes to ensure money is promptly banked and that volunteers sign a receipt book for their expense claims. The charity also provides toys, tea and refreshments, lunches for the children, and buys presents and cakes for the children, all of which were paid for in cash. Volunteers were also reimbursed in cash for out of pocket expenses and the travel costs and admission fees for several supervised day trips for the children were also paid in cash. I was assured that at least one of the trustees was on hand at all times when money was received or spent and they oversaw all the payments made. Neither the trustees nor their family members have benefitted in any way from the charity's funds or were paid expenses.

A further difficulty was that the volunteer treasurer had been ill for much of the year and so the discipline of obtaining receipts and using cheques had not been maintained and settlement by way of cash used for convenience. I was given full co-operation in conducting my examination and the circumstances and information provided to me gave full answers to all my questions and whilst, I am not required to look for fraud, I came across no evidence that led me to believe that fraud had taken place so I report this as relevant matter rather than as a matter of material significance to you.

I understand that the trustees recognise that there has been a major lapse in record keeping and have now hired a book-keeper and put in place proper controls by adopting the Charity Commission guidance [Internal Financial Controls for Charities \(CC8\)](#).

Having completed my examination of the accounts, I provided a qualified independent examiner's report highlighting that sufficient accounting records had not been fully maintained.

Yours faithfully,

Mr A Doubt

Appendix 6: Glossary of terms

This glossary sets out a number of technical terms used in the guidance and appendices which may not be familiar to all examiners.

(The) 2011 Act: The Charities Act 2011

2008 Regulations: The Charities (Accounts and Reports) Regulations 2008 No.629

2009 Order: The Charities Acts 1992 and 1993 (Substitution of Sums) Order 2009 No. 508

Accounting policies: Those principles, bases, conventions, rules and practices that specify how the effects of transactions and other events are reflected in the accounts through the recognition, measurement and presentation of assets, liabilities, gains, losses and changes or movements in funds. They are supplemented by estimation techniques where judgment is required in recording the value of incoming and outgoing resources and assets and liabilities. Accounting policies should be relevant and reliable and allow comparability and understandability of financial information presented in the accounts.

Accounting standards: Accounts which are intended to show a true and fair view should conform to certain standards issued or adopted by the Accounting Standards Board. These standards, with which professional accountants are expected to be familiar, comprise a number of 'Statements of Standard Accounting Practice' (SSAP), 'Financial Reporting Standards' (FRS) and 'Urgent Issues Taskforce Abstracts' (UITF abstracts).

Accruals basis: This concept requires the effects of transactions and other events to be reflected, as far as possible, in the accounts for the period in which they occur, and not, for example, in the period in which any cash settlement is made. This concept is central to the recognition of balance sheet assets and liabilities.

This term has been used to describe accounts prepared in accordance with the requirements of section 132 of the 2011 Act. Such accounts should be prepared by the trustees to show a 'true and fair view'. The accounts comprise:

- a statement of financial activities;
- a balance sheet; and
- notes to the accounts.

Such accounts should be prepared on a basis of accounting policies that enable the accounts to give a true and fair view and are consistent with accounting standards and the accounting concepts of going concern and accruals.

Bank reconciliation: This statement reconciles the balance at the bank, as at the statement date, with the balance shown in the accounts by adjusting the closing bank balance for transactions, for example, cheques that have been written but not presented and bankings that have been made but not credited, effected on or prior to the closing bank balance.

Charity trustees: Charity trustees are defined by section 177 of the 2011 Act and are the people who, under the charity's governing document, are responsible for the general control and management of the administration of the charity. In the charity's governing document they may be called trustees, managing trustees, committee members, governors, or directors, or they may be referred to by some other title.

Control accounts: These accounts form part of the nominal ledger in manual or computer accounting systems and are used as a control function for sales, purchases, payroll and on occasions for cash. In the case of sales or purchase ledger control the total amounts invoiced and cash received or paid against invoices are posted to such accounts. The balance on such accounts can be reconciled to purchases invoiced but unpaid or sales invoices for which payment has not been received.

Directors: One or more persons over the age of 18 who are responsible in law for the operations of the company. The directors form a Board of directors which constitutes the decision making body and the Board is responsible for managing the company's affairs. Directors have specific duties under company law and are legally liable for their actions. The trustees of a charitable company are its directors.

Endowment: A form of restricted fund where trustees are legally required to invest or retain the capital. Income generated from the capital should be spent. Normally these funds will represent investments but may also represent property held as endowment for use by the charity. There are two forms of endowment. Permanent endowment is a fund where the trustees do not have the power to spend the capital. Expendable endowment is a fund where the trustees have the option to spend the capital, under certain circumstances, in the same way as spending income funds.

Evidence: This term is used in Appendix 5 in determining whether a matter is of material significance to the Commission and should be reported. Evidence is the information or facts gathered by the examiner during the course of the examination. The sources of evidence available include the accounts, the accounting records, the examiner's analytical review, the explanations given in answer to questions, matters established through any verification procedures that prove necessary and the charity's other records, for example minutes of trustee meetings.

Form and content: The statutory requirements as to disclosures, analysis and information which should be contained in the accounts.

Fraud: The Fraud Act 2006 established a definition of fraud. Fraud can be committed by way of false representation, failure to disclose information, or abuse of position where the intention is that the person committing the fraud is acting dishonestly and is seeking to gain from the fraud or cause another party loss as a result of the fraud.

Going concern: This concept requires the charity to prepare accounts on the basis that it will continue in operational existence for the foreseeable future. The going concern basis applies to accounts prepared unless it is necessary, or the trustees intend, to cease operational activities, wind up or liquidate the charity.

Governing document: Any document setting out the charity's purposes and, usually, how it is to be administered. It may be a trust deed, constitution, memorandum and articles of association, will, conveyance, Royal Charter, Scheme of the Commission, or other formal document. The trusts of a charity are the provisions contained in the governing document(s) of the charity.

Gross (Total) assets: The aggregate amount of assets of a charity, before deduction of liabilities, as at the balance sheet date, ie at the close of the last day of the charity's financial year.

Group accounts: This term describes the situation where a charity controls one or more subsidiary companies. In order to provide an overview of all the assets and liabilities ultimately controlled by the trustees a set of accounts are prepared which combine the affairs of the charity with those of its subsidiaries and these are termed the group accounts. The preparation of group accounts should follow the guidance set out in the SORP and is only required by law where the income of the group (net of intra group transactions) exceeds the statutory threshold.

Letter of engagement: A letter addressed to the charity trustees from the independent examiner detailing the accounting responsibilities of the charity trustees and the statutory responsibilities of the independent examiner. It may also include matters such as fee arrangements, proposed timetable for the examination and details of any non-statutory work to be undertaken by the examiner. The purpose of the letter is to agree terms and reduce misunderstanding and the content of any such letter should be agreed in writing with the charity trustees.

Members: The members of a charity are those persons or class of persons defined in the governing document as the members of the charity. The governing documents sets out the process for appointing and removing members, the role and responsibilities of members and the place membership has in the governance of the charity. Under company law the members of a company are the initial subscribers of a company's Memorandum on registration and are also those persons who become members and whose name is entered in the company's register of members. Company law and the articles of association of the company will set out the process for appointing and removing members, the role and responsibilities of members and the place membership has in the governance of the charitable company.

Misappropriation: This term is used in Direction 4 (section E), Section F and Appendix 5 and means to apply or use money or assets owned by the charity dishonestly for someone's own use.

Misconduct: Misconduct in the context of reporting matters of material significance refers to evidence of, or a reasonable suspicion of fraud, theft, criminal behaviour, recurring or significant breach of trust or administrative errors (mismanagement), or the drawing of an unauthorised private benefit.

Mismanagement: Mismanagement is the failure of the trustees to properly manage the affairs of the charity and to safeguard its assets. For more information on the duties of trustees refer to our publication [The Essential Trustee: What you need to know \(CC3\)](#).

Misstatement: This term used in Directions 4 and 6 means whether in any respect the accounts are materially misstated by the inclusion of an item, or an aspect of the accounts that is factually incorrect, in error, or wrong, or by the omission of an item that should properly be included in the accounts.

Nominal ledger: Nominal ledger, or general ledger, is an accountancy term for the manual or computerised record which contains the accounting transactions for the period. The ledger contains the detailed history of all the transactions that have been processed over a defined period of time from which a trial balance can be extracted and financial accounts prepared. Smaller charities may not maintain a nominal ledger but instead maintain an analysed cash book, normally in an analysed columnar form, with income shown separately from expenditure.

Non-statutory accounts: Non-statutory accounts are accounts prepared by the trustees which are not prepared under or required by Part 8 of the Charities Act 2011 and the applicable 2008 Regulations, or where the charity is a company, Part 15 of the Companies Act 2006. Such accounts include management accounts prepared during the year to inform trustees about the finances of the charity, and group accounts which are prepared on a voluntary basis.

Payroll summaries: Computerised or manual records indicating by named employee, the gross salary paid, employers' tax and employers' national insurance and other employee related costs (eg healthcare plan costs or employer's contributions to defined benefit or defined contribution pensions), where applicable.

Professional audit: An audit is undertaken by a person who is eligible under the 2011 Act and who is normally a registered auditor. The auditor has to express his or her professional opinion as to whether the accounts are 'true and fair' in accordance with UK auditing standards.

Receipts and payments basis: Accounts prepared under section 133 of the 2011 Act. The accounts comprise:

- a receipts and payments account; and
- a statement of assets and liabilities.

Such accounts do not purport to show a 'true and fair view'; instead they should provide a factual summary of money received and paid during the year and a statement providing information as to the charity's assets and liabilities at the end of the year.

Restricted income funds: Funds that the trustees are able to spend on particular purposes of the charity. Restricted income funds are subject to specific trusts which may be declared by the donor(s) or with their authority (eg in a public appeal) or created through a legal process, but are still within the wider objects of the charity.

SORP: The Statement of Recommended Practice: Accounting and Reporting by Charities (periodically issued, with the most recent being the 2nd edition of the 2005 SORP), sets out the recommended practice for the purpose of preparing the Trustees' Annual Report and for preparing accounts of a charity on an accruals basis. The accounting recommendations of the SORP do not apply to charities preparing receipts and payments accounts.

Statutory accounts: Statutory accounts are the accounts prepared by the trustees which are required by and meet the form and content requirements of Part 8 of the Charities Act 2011 and the applicable 2008 Regulations, or where the charity is a company, Part 15 of the Companies Act 2006, to which are appended the required Trustees' Annual Report and, where required by law or the charity's governing document, the external scrutiny report prepared by the auditor or independent examiner.

Statutory audit: Where the term statutory audit is used this refers to the requirement in charity law for an audit to be carried out where the charity's gross income and/or assets exceed the relevant threshold by a person who is eligible for appointment as auditor of a company, or a person approved by the Commission in accordance with the 2008 Regulations.

Terrorism: Under Part II of the Terrorism Act 2000, the Secretary of State has the power to proscribe any organisation which he/she believes is 'concerned with terrorism'. An organisation is 'concerned with terrorism' if it commits or participates in acts of terrorism, prepares for terrorism, promotes or encourages terrorism, or is otherwise concerned in terrorism either in the UK or abroad.

Trial balance: A listing of the closing balances on all of the separate individual accounts maintained within the charity's manual records or computerised records.

Trusts: These are the provisions which at any given time regulate the purposes and administration of the charity.

Unrestricted funds: Funds which the trustees are able to spend at their discretion for any of the charity's purposes. Unrestricted funds may also contain part of the unrestricted funds which the trustees have earmarked for a particular purpose; these earmarked funds are called designated funds. Such designated funds are legally part of the unrestricted funds, though they may be reported separately in the balance sheet or notes, where accruals accounts are prepared, or as part of unrestricted funds, where receipts and payments accounts are prepared.

Working papers: The written or computerised records, such as notes of explanations received and schedules of work undertaken, kept by the examiner to record what they have done, what they have found, the questions they posed and the answers they had to those questions. Working papers will include the examiner's analytical review, and copies of any records that may be relevant to the examination. The examiner will generally keep with their working papers a copy of any trial balance, schedules prepared supporting the accounts, the accounts examined, the Trustees' Annual Report and where applicable a copy of the engagement letter.

Appendix 7: Sources of further information

Publications

Accounting and Reporting by Charities: Statement of Recommended Practice

Also known as SORP 2005, this is available free on our website. A printed version of this can be obtained (cost £15 plus postage & packing) from CCH by phone 0870 777 2906 (8.30am to 5.30pm weekdays) or order online at www.cch.co.uk or email customerservices@cch.co.uk quoting product code CCSORP.CCH.

Other relevant guidance:

Charity Reporting and Accounting: The essentials April 2009	CC15b
Receipts and Payments Accounts Pack	CC16
Accruals Accounts Pack	CC17
Model Example Trustees' Annual Report and Accounts	

Our website offers a wide range of easily accessible online services, tools, information and guidance. Before contacting us for advice or help you might like to search our [online database of frequently asked questions](#). Most people can find the answer they need without making a phone call or writing an email. Alternatively, our [Contacting us](#) page is linked to from the top and bottom of every webpage.

The Regulations

The Charities (Accounts and Reports) Regulations 2008 (SI 2008 No.629) and **The Charities Acts 1992 and 1993 (Substitution of Sums) Order 2009 (SI 2009 No. 508)** are available from the Office of Public Sector Information website.

Guidance on company law requirements

The Department for Business Innovation & Skills publishes a number of helpful leaflets explaining the requirements of company law. These can be obtained from its web site: www.bis.gov.uk

HM Treasury guidance on the Proceeds of Crime Act 2002 and associated Money Laundering Regulations

These Regulations are essential reading for any examiner who is charging a fee or receiving payment because they are providing accountancy services that fall within businesses affected by these regulations. If you are also a member of a professional body, your professional body may also be producing information about money laundering which will help you. The HM Treasury guidance can be accessed on their web site: www.hm-treasury.gov.uk/consult_index.htm

Contacts

The Association of Charity Independent Examiners brings together both professional accountants specialising in this field and others acting as independent examiners. Itself a registered charity, it may be of assistance to trustees looking to appoint an independent examiner. Further information is available from their website: www.acie.org.uk

The Association may be contacted at:

Association of Charity Independent Examiners

The Gatehouse

White Cross, South Road

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