



CHARITY COMMISSION
FOR ENGLAND AND WALES

Independent examination – the new Directions and guidance

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The external scrutiny of charity accounts

There are 167,000 charities registered in England and Wales

On the basis of their income and assets:

- 62% of charities are not required to have any external scrutiny of their accounts (income less than £25,000)
- 6% of charities must have an audit of their accounts (income £1 million or £250,000 and gross assets £3.26 million)
- 32% of charities may opt for an independent examination of their accounts instead of an audit (income £25,000 but below the audit threshold)



Independent examination: the trustees' key responsibilities

Our guidance to trustees is 'Independent examination of charity accounts: trustees' (CC31). Trustees must:

- Check eligibility for examination: whether an external scrutiny of the charity's accounts is required and, if so, whether the trustees may opt for examination instead of audit
- Decide whether to opt for examination (if eligible): see ICAEW paper 'Choice between audit and independent examination'
- Appoint an examiner (if opt for examination): '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'



Independent examination: the examiner's responsibilities

Anyone carrying out an independent examination of a charity's accounts must follow the Charity Commission's Directions (CC32)

New Directions and guidance for independent examiners were published on 4 September 2017

The new Directions and guidance must be followed for all examiner's reports dated on or after 1 December 2017. Early adoption is encouraged

We will be updating CC31 to reflect the changes to CC32



Why the Directions and guidance have been reviewed

The independent examination framework has not had a major review since the Charities Act 2006

Examiners (and auditors) are our first line of defence against mismanagement in charities, so this is important guidance

The doubling of the income audit threshold from 31 March 2015 has brought more, larger, charities within the scope of examination

An updated list of matters of material significance reportable to the regulator came into force on 1 May 2017



The key changes to the Directions and guidance

Section 3: there are 3 new Directions, covering the independence of the examiner, related party disclosures and the trustees' consideration of the charity's financial circumstances

Section 4: there is guidance for examiners of small charity group accounts (we will accept them if the guidance is followed)

Sections 5 & 6: the guidance on reporting matters of material significance and relevant matters to the UK regulators has been updated (new duties to report 'qualified' examiner's reports and concerns over conflicts of interest and related party disclosures)

Appendix 4: the example examiner's reports have been updated



A reminder of the existing 10 Directions (Section 3)

1. Check whether the charity is eligible to have an examination
3. Record your examination
4. Plan your examination
5. Check that accounting records are kept to the required standard
6. Check that the accounts are consistent with the records
8. Check the reasonableness of significant estimates and policies
10. Check the form and content of the accounts
11. Follow up items from the analytical review of the accounts
12. Compare the trustees' annual report with the accounts
13. Write and sign the independent examination report.



Direction 2: Check for any conflict of interest that prevents the examiner from carrying out their independent examination (new)

Confirm that you have the necessary ability, experience and qualifications. If income is over £250,000, the examiner must be a member of an approved accountancy body (Appendix 5)

Check for:

- any day to day involvement in the administration of the charity. In response to feedback, there is guidance on the examiner's firm or organisation providing both book-keeping and independent examination services. This is permitted in very limited circumstances (see paragraph 2.5 for details)
- any conflict of interest that would reasonably lead to the perception that the examiner is not independent
- any close relationships with the trustees (related parties)



Direction 7: Check disclosure of related party disclosures (accruals accounts only) (new)

Where accruals accounts are prepared, check that

- the trustees have considered if there were any related party transactions in the reporting period, and
- that they have made the disclosures required by the SORP in the notes to the accounts (including nil disclosures)

Where receipts and payments accounts are prepared, there is no requirement to disclose related party transactions in the notes to the accounts. If the trustees have included a note, consider if its contents are relevant to any concerns that the examiner has

As a result of feedback, the proposal to ask the trustees how they manage conflicts of interest has not been included



Direction 9: Check that the trustees have considered the charity's financial circumstances (new)

Ask the trustees:

- whether they expect the charity to be able to settle outstanding invoices, bills and commitments as and when they fall due
- about the reserves policy and the adequacy of the level of reserves held

Where accruals accounts are prepared, check that the trustees have made an assessment of going concern, that their assessment is reasonable and that they have made the disclosures required by the SORP

As result of feedback, the focus of this Direction has been changed to the role of the trustees in considering the charity's financial circumstances at the time the accounts are prepared



Some recommendations to help the examination go smoothly

- Read CC32, to understand what is involved in an examination and the information that the examiner will need
- Agree with the examiner who will prepare the set of accounts. The examiner may assist, but the trustees must 'own' and approve the trustees' annual report and accounts
- Agree a timetable for preparing the trustees' annual report and accounts and for the examination itself
- Make the accounting records and key documents available to the examiner and check that they are up to date
- Ensure that trustees and any key staff are available to answer questions