



## Consultation

# Independent examination of charity accounts: Directions and guidance for examiners (CC32)

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# 1. Introduction

## 1.1 The role and contribution of the independent examiner

Public trust and confidence in charities is key to the public continuing to give to, and support charities. Charity law requires trustees to prepare a trustees' annual report and accounts as a record of their stewardship of charitable funds and the independent examiner provides an independent scrutiny of the accounts. Whether acting as a volunteer or a paid professional your contribution is important in maintaining public confidence. Your independent examination provides a form of external check.

The way an independent examination is carried out and reported is defined by regulations and explained in this guidance. This guidance is designed to help you and the Charity Commission recommends you keep this guidance to hand when carrying out your independent examination.

## 1.2 What is this guidance about?

This guidance explains how an independent examiner must carry out their independent examination of a charity. It sets out the examiner's role and duties in examining the accounts of a charity, and the matters which they must include in their report to the charity trustees. The examiner's report accompanies the accounts. The examiner must follow all the Directions when undertaking their examination. Independent Examiners carrying out an independent examination on a charity which has prepared consolidated (group) accounts must refer to the separate guidance: [the independent examination of the accounts of small charity groups](#).

## 1.3 'Must' and 'should': what the commission means

In this guidance:

- 'must' means something is a legal or regulatory requirement or duty that the independent examiner must comply with or must follow in the conduct of their examination
- 'should' means a recommendation or guidance which is good practice that the commission expects the independent examiner to follow and apply in the conduct or reporting of their examination

Following the good practice and recommendations specified in this guidance will help you to: comply with your legal duties, conduct, and report your independent examination effectively and avoid a poorly conducted or incomplete examination which falls short of what is required. Charities vary in terms of their size, activities and form and content of accounts and accounting records. The commission expects the independent examiner to record the approach taken to each of the Directions and carefully consider their separate duty to report matters of material significance to the commission and their discretionary power to report relevant matters to the commission.

Departing from the guidance is likely to mean the independent examination has not been properly conducted or reported unless the alternative approach taken is demonstrably equivalent to, or better than, that which is recommended.

## 1.4 Previous guidance

This guidance updates the commission's previous publication published in June 2015. The updated guidance follows on from the increase in threshold for independent examination financial years ending on or after 31 March 2015 and the revised list of reportable matters as matters of material significance to the charity regulator published on [date] 2016. The guidance and Directions are applicable to all independent examinations where the examiner's report is issued on or after [date] 2017.

Separate guidance is given to charity trustees who are responsible for appointing their charity's independent examiner in [Independent examination of charity accounts: trustees \(CC31\)](#).

## 1.5 Scope of this guidance

The guidance sets out what is involved in an independent examination and identifies 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, issued on [date] 2016, which set out the procedures that must be followed by someone undertaking an independent examination.

The guidance also explains the statutory duty placed on examiners of charities to separately report matters of material significance to the commission's regulatory functions, and explains the discretionary right to report matters relevant to any of the commission's functions.

This guidance is for independent examiners of all types of charities eligible for independent examination.

## 1.6 Using this guidance

The key to a successful independent examination is in having an understanding of the 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.

Section 2 gives an 'at a glance' summary which provides the examiner with a general understanding of the requirements for carrying out an independent examination.

Section 3 sets out 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 should be met in practice.

Section 4 sets out the new duty to report matters of material significance to the commission where these matters relate to the potential use of the commission's inquiry powers.

Section 5 sets out the discretionary right to report relevant matters. Additional information is provided in the appendices for reference where needed, including advice for charities also registered with OSCR - the Office of the Scottish Charity Regulator (appendix 5) and example examiner reports (appendix 6).

## 1.7 Technical terms used in this guidance

The guidance and Directions use a number of terms that will be familiar to accountants. Examiners should refer to the glossary (appendix 8) where an unfamiliar accountancy or technical term is used.

The examiner exercises their judgement in carrying out their work and in considering the information obtained when preparing their report. In exercising their 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:** 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 applicable 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 13 (Write and sign the independent examination report) and accruals accounts Direction 8 (Check the reasonableness of the significant estimates and judgments and accounting policies, used in the preparation of the accounts) which 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:** is a term that is used in this guidance in connection with the keeping of accounting records (Direction 5: Check that accounting records are kept and not materially misstated), the analytical review (Direction 11: Identify items to review and follow up for further explanation or evidence) carried out by the examiner and in describing the considerations that affect the examiner's report (Direction 13).

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 (Direction 11), 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:** 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 considers to be of material significance are listed in section 4 of this guidance with further advice provided in appendix 7.

## 2. Independent examination at a glance

External scrutiny: The Charities Act 2011 (the 2011 Act) requires all but the smallest of charities to have an external scrutiny of their accounts. The external scrutiny provides an independent check and charity law sets out the different requirements of audit and independent examination. The conduct of an audit is subject to international standards of audit. Similarly the conduct of an independent examination is subject to the commission's Directions.

The 2011 Act and the 2008 Regulations set out when a charity cannot have an independent examination of the accounts and those accounts must be audited. Sections 145 and 152 of the 2011 Act do allow trustees of smaller charities below the audit threshold to choose independent examination as a simpler and less expensive form of external scrutiny in place of an audit. Since 1 April 2008, independent examination has also been an option for eligible smaller charitable companies which are not required to have an audit.

For reporting periods (financial years) ending on or after 31 March 2015, the trustees may opt for an independent examination provided the charity's gross income threshold is £1 million or less or where the charity's gross income exceeds £250,000 its gross assets are £3.26 million or less. However the examiner must check that an audit is not required for some other reason (Direction 1: Check whether the charity is eligible to have an independent examination).

Content of an examination: 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 and/or disclosures provided. 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. 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.

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 you 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 the Directions are mandatory and apply to examinations of both registered charities and those charities currently excepted from registration.

In your examiner's report you are only required to provide a statement on specific matters that have come to your attention as a result of following 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'.

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 trustees of 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 plan to test the internal financial controls operating in the charity.

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

If you identify a significant concern relating to the accounts and this concern remains unresolved then consideration will be needed as to how this is reported. Also if 1 or more other matters come to your attention which are of material significance (see section 4) to the commission's regulatory functions then you must make a separate report on that matter to the commission. Provided it does not give rise to a risk of 'tipping off' (see section 4) you must also consider what to say about it in your examiner's report. Lastly if you identify a matter relevant to the work of the commission (see section 5) which you wish to report you must also consider whether to mention it in your examiner's report.

The examiner's skills: an independent examination provides an external check on the accounts and can be carried out by any person who is independent (see Direction 2: Check for any conflict of interest that prevents the examiner carrying out his/her independent examination), has the necessary knowledge and experience (see appendix 3: relevant experience/knowledge and professional qualification requirements) and the gross income of the charity is £250,000 or less. If the gross income of the charity exceeds £250,000, then only persons who hold a qualification from 1 of the bodies listed in the 2011 Act (see appendix 3) can undertake the examination.

Preparation is essential: the purpose of this guidance is to help examiners understand what is involved in undertaking an examination, what you have to do and what you have to report. You must take the time to read the Directions before starting your independent examination. Independent examiners should follow the guidance set out under each Direction if you are to meet the expected standard and should only adopt a different approach if the outcome meets or exceeds the expected standard.

Preparing for the examination is important. Careful planning is the key to a successful examination. The necessary steps are explained in this guidance. The key points to bear in mind include:

- reading and following the Directions and related guidance
- liaising with the trustees to ensure the accounting records are up to date and available
- agreeing a timetable with the trustees for the availability of 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
- ensuring the examination takes place at a time when trustees and key staff are available to answer any questions that may arise

### 3. The commission's Directions

All independent examiners must follow the Directions. The Directions have legal force as they are made by the commission under the Charities Act 2011, Section 145(5)(b). The 2011 Act places 3 specific duties on you as the examiner:

- you must carry out the independent examination in accordance with the commission's Directions
- you must make your independent examiner's report to the charity's trustees
- you must consider if matters of material significance have come to your attention during the independent examination which give rise to a legal duty to report to the commission (see section 4)

An independent examination involves following all applicable Directions but only where accruals accounts are prepared does Direction 9 fully apply. The 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 commission under powers given in the 2011 Act and set out the areas of work that must be covered in any examination. Charity law also gives the examiner discretion to report relevant matters to the commission (section 5). The commission welcomes and encourages this additional reporting.

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Direction	Applicable to receipts and payments	Applicable to accruals accounts
1. Check whether the charity is eligible to have an independent examination.	✓	✓
2. Check for any conflict of interest that prevents you as the examiner from carrying out your independent examination.	✓	✓
3. Record your independent examination.	✓	✓
4. Plan your independent examination.	✓	✓
5. Check that accounting records are kept and not materially misstated.	✓	✓
6. Check that the accounts are consistent with the accounting records.	✓	✓
7. If during the independent examination the examiner identifies a conflict of interest was present and/or related party transaction took place, the examiner must check if these were properly authorised and were appropriately disclosed.	✓	✓
8. Check the reasonableness of the significant estimates and judgments and accounting policies, used in the preparation of the accounts.	✓	✓
9. Check the charity's financial sustainability and the trustees' assessment of going concern.	part	✓
10. Check the form and content of the accounts.	✓	✓
11. Identify items to review and follow up for further explanation or evidence.	✓	✓
12. Compare the trustees' annual report with the accounts.	✓	✓
13. Write and sign the independent examination report.	✓	✓

This section sets out:

- each of the 13 Directions
- guidance on operational procedures and methods which will help examiners to meet the requirements of each of the Directions

The Directions must be followed and are reproduced in bold print.

The guidance that follows each direction should be followed to ensure that examiners meet the requirements of the Directions but the examiner may depart from it insofar as their alternative approach provides a qualitatively better solution in the application of a Direction to a charity's particular circumstances. Examples given within the guidance are intended to illustrate a particular point and should not be seen as the only way a particular matter is dealt with or as representing a comprehensive treatment of a matter. Judgment will need to be exercised by all examiners in the applying the Directions in the context of their work and the particular circumstances of the charity which they are examining.

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

If the trustees choose to prepare consolidated accounts for the charity and 1 or more subsidiaries (also known as group accounts), then the examiner must refer to the separate guidance: *the independent examination of the accounts of small charity groups*. Any voluntary examination of group accounts requires a high level of accountancy skill including an understanding of accounting standards and consolidation principles.

If the trustees wish to file group accounts prepared on a voluntary basis as their statutory accounts with the commission, then the group accounts must comply with the requirements of the 2011 Act, the 2008 Regulations and the applicable SORP. If the parent charity is a company then the group accounts must also comply with company law, particularly if the accounts are to be used for filing purposes at Companies House.

Section 152 of the 2011 Act 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 £1 million and if group income exceeds £1 million then an audit is required by law. For more information on group accounts refer to the relevant section of the [applicable SORP](#).

## Direction 1: Check whether the charity is eligible to have an independent examination

**The examiner must check to see if the charity is permitted to have an independent examination or whether it is required to have an audit by charity or company law or for any other reason. If the trustees have chosen to prepare the accounts on a receipts and payments basis, the examiner must check that the charity is eligible for receipts and payments accounts.**

### Explanatory guidance

- 1.1. Every charity with a gross income of more than £25,000 must have an independent examination unless an audit is required (refer to appendix 1: flowchart for the steps to follow in checking eligibility). To be eligible for an independent examination, the examiner must take reasonable steps to confirm that:
  - The charity's gross income (for the definition of gross income see appendix 2) for the reporting period (financial year) and aggregate value of assets do not exceed the threshold for independent examination. The charity must have an audit for financial years ending on or after 31 March 2015 if its gross income exceeds £1 million or, its gross income exceeds £250,000 and the aggregate value of assets (before deduction of liabilities) exceeds £3.26 million.
  - The charity is not a parent charity with 1 or more subsidiaries (eg a subsidiary trading company) with an aggregate gross income of the parent charity and its subsidiaries after consolidation adjustments exceeding £1 million as above this threshold group accounts must be prepared and an audit is required.
  - If the charity operates branches and these branches are part of the charity (and are not separately registered charities) then any income received by the branches must be included when calculating the gross income of the charity.
  - If receipts and payments are being prepared, the gross income is £250,000 or less and the charity is not a charitable company incorporated under company law and if a non-company charity, that accruals accounts are not required by the charity's governing document, a condition of funding, or for any other reason. If the receipts and payments option is not available or has not been taken then accruals accounts must be prepared following the applicable SORP.
- 1.2 It is important to check personal eligibility to carry out the examination before starting the examination (see appendix 3 for relevant experience/knowledge and if gross income and the professional qualification requirements that apply if the charity's income exceeds £250,000).
- 1.3 By carrying out these checks at an early stage this should prevent the work of the examiner being duplicated by professional audit which would add to the expense for the charity. If the charity is not eligible for independent examination then the accounts should be referred back to the trustees.

- 1.4 The examiner should consider at an early stage of the examination the level of gross income disclosed by the accounting records and/or by the 'trial balance'. Gross income for threshold purposes must be calculated in accordance with the methods set out in appendix 1. If accounts have been previously prepared on the accruals basis then the level of income should be considered first on the accruals basis. A non-company charity that has previously prepared accounts on an accruals basis can only change to receipts and payments basis if both its income on an accruals basis and money received are £250,000 or less. Where accounts have been previously prepared on the receipts and payments basis then the level of income should be considered on the basis of money actually received.
- 1.5 The examiner must remain alert to any additional information which may come to their attention during the course of the examination which indicates that an income and/or asset threshold has been crossed. If the charity is not eligible for independent examination then the accounts should be referred back to the trustees to appoint an auditor.
- 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 must obtain a copy of the approval letter from the commission and make reference to it in the examiner's report.
- 1.7 The reasonable steps taken to confirm the income of the charity and the outcome of that research must be documented in accordance with Direction 3.
- 1.8 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. At the time of publication, the details of the current thresholds can be found in the guidance [Charity reporting and accounting: the essentials March 2015 \(CC15c\)](#).
- 1.9 The examiner must check that the trustees of a charitable company (company charity) in electing for an independent examination have made the audit exemption statement required by section 475 of the Companies Act 2006.

## Legal references

- 1.10 Trustees may elect for independent examination (under Charities Act 2011 section 145(1)). Trustees of non-company charities only, if their charity is eligible, may 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.
- 1.11 The examiner is required to check that:
- an examination is required under section 145(1) of the Charities Act 2011
  - section 144(1) (audit) of the Charities Act 2011 does not apply to the charity
  - the current thresholds for audit are set out in section 144 of the Charities Act 2011 as amended by the Charities Act 2011 (Accounts and Audit) Order 2015
  - where the charity is a small company charity, that it must be exempt from audit in accordance with section 477 of the Companies Act 2006
  - where accounts are prepared on a receipts and payments basis under section 133 of the Charities Act 2011, that the charity trustees have elected to prepare accounts under this sub-section (see (CC15c) Charity reporting and accounting: the essentials March 2015) on [GOV.UK](http://GOV.UK) to confirm the thresholds that apply
  - if the charity has subsidiaries that the group income is below the threshold for the preparation of group accounts is set out in section 138 of the Charities Act 2011; the current threshold specified in The Charities Act 2011 (Group Accounts) Regulations 2015
- 1.12 If the requirement for an 'audit' is found in the governing document of a charity which has been written prior to 1 March 1992 then the examiner may infer that the inclusion of a reference to an accounts scrutiny provision in the governing document of a charity is simply evidence of an intention on the part of the founder to impose a more stringent obligation than that which would be imposed by statute at that time. Prior to the Charities Act 1993 there was no statutory framework for charity audit and so unless reference is explicitly made to an audit by a 'qualified auditor' or audit by a 'qualified accountant' then the term 'audit' may be taken to simply mean the requirement for some form of an independent scrutiny. In this case an independent examination may be undertaken in preference to an audit but the decision to construe the governing document in this way must be made by the trustees and should be advised to the examiner in writing.

## Direction 2: Check for any conflict of interest that prevents the examiner from carrying out his/her independent examination

**The examiner must not be influenced, or perceived to be influenced, by close personal relationships with the trustees of the charity, being a major donor or having control or significant influence over a major funder to the charity, or through day to day involvement in the administration of the charity being examined. The examiner must ensure that there are no matters and no potential matters that would reasonably give rise to a perception about his/her independence that would affect their ability to carry out the examination in a wholly objective manner.**

### Explanatory guidance

- 2.1 The appointment of the independent examiner is a personal one. It is the examiner who conducts the independent examination and signs their report. For an examiner to be independent you must have no connection with the charity trustees which might inhibit the impartial conduct of the examination. This is not the same as having no connection with the charity; an examiner can be a member or supporter of the charity and often some involvement brings an added quality of personal enthusiasm and familiarity with the charity which can be advantageous but you should not be a material donor to the charity.
- 2.2 As the examiner you must be independent of the charity which you are reviewing. Independence means that the examiner is not influenced, or perceived to be influenced, 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.
- 2.3 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. The examiner may assist in formatting the accounts (see Direction 6 for more information) but such assistance must not extend to creating or maintaining accounting records for the charity. The trustees are responsible for the accounts of the charity and so they must still review and approve the accounts once compiled before you start your examination.
- 2.4 Whether a connection with the charity affects independence will depend upon the particular circumstances but the following persons are classed as related parties to the charity and/or its trustees and so you must not carry out an independent examination if you fall into any of the following categories:
  - A. any charity trustee and custodian trustee of the charity
  - B. a person who is the donor of any land to the charity (whether the gift was made on or after the establishment of the charity)

C. any person who is:

1. A child, parent, grandchild, grandparent, brother or sister of any such trustee (A) or donor (B) of land.
2. An officer, agent or a member of the key management personnel of the charity (or a related entity, for example its subsidiary).
3. The spouse or civil partner of any of the above persons (A, B, C1 and C2).
4. Carrying on business in partnership with any of the above persons (A, B, C1, C2 and C3).
5. A person, or a close member of that person's family, who has control or joint control over the reporting charity.
6. A person, or a close member of that person's family, who has significant influence over the reporting charity.

'Close member of a person's family' refers to:

- i) that person's children or spouse
- ii) the children, stepchildren or illegitimate children of that person's spouse or domestic partner
- iii) dependents of that person
- iv) that person's domestic partner who lives with them as husband or wife or in an equivalent same-sex relationship

- 2.5 An examiner who is a member of the charity may act as an examiner, subject to their having the necessary ability, experience and qualification (see appendix 3) required, they have no conflict of interest, and have not been involved in the day-to-day decision making or administration of the charity. An example of day to day involvement is serving on a committee or sub-committee convened by the charity.
- 2.6 Of itself, the right to take part or attend as a member in an annual general meeting (AGM) does not stop you from acting as the examiner and conducting an independent examination.
- 2.7 If the examiner considers that they may have a conflict of interest or would not be perceived as not being independent then they should not carry out the independent examination. The examiner must also ensure that they are not dependent upon the charity or are involved in giving significant support to the charity.
- 2.8 Similarly if the examiner has delegated certain tasks to their own employees to carry out, those staff involved must meet the same standard of independence of the charity as the examiner and have relevant experience and knowledge (see appendix 3).

### Legal references

- 2.9 An independent examiner was described in section 145(1)(a) 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'.

## Direction 3: Record your independent examination

**The examiner must keep a record of his/her examination and the conclusions reached which is sufficient to allow a third party unconnected with their work to conclude that they have complied with the Directions (including Directions 1 and 2).**

### Guidance

- 3.1 The examiner's working papers must provide details of the work undertaken and support any conclusions reached, and record any matters where the examiner has had to make a judgment including judgements made by the examiners under Directions 8 and 11. Working papers should normally be retained by the examiner for 6 years from the end of the financial year to which they relate, and should provide a sufficient record of what the examiner has done. It should 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 also 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)
  - confirmation that the examiner has the qualification where required (independent examinations where gross income exceeds £250,000) to carry out the examination and, if a member of a professional body, the examiner has met the requirements of any practicing certificate and has maintained their membership and registration
  - 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 that the examiner relied upon and/or considered in carrying out their examination
  - confirmation that the charity is eligible for the independent examination and that that an audit is not required by law, the charity's governing document or for another reason
  - 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
  - the final accounts and if the examiner compiled the accounts (see Direction 6) the trial balance
  - the trustees' annual report where accruals accounts are prepared (consideration of the trustees' annual report is required under Direction 12 and must be done where accruals accounts are prepared, and should be done where receipts and payments accounts are prepared)
  - in exceptional circumstances, copies of any written assurances that the examiner has required of the trustees confirming amounts included within the accounts
  - any matters identified as matters of material significance which the examiner must report to the commission (see section 4) or any relevant matters (see section 5) noted that the examiner should report to the commission

- 3.2 Where the examiner has cause to resign or is unable to complete their independent examination, they must consider the circumstances carefully and decide if there is a duty to report a matter of material significance to the commission or if they have been prevented from completing the examination or have been obstructed by trustees or charity staff in carrying out their examination this must be reported to the commission. Even if there is no duty to report, the examiner should consider whether 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 sections 4 and 5 and appendix 7.

### Legal references

- 3.3 Section 156 of the Charities Act 2011 requires that the examiner must report matters that the examiner has reasonable cause to believe is likely to be of material significance for the purposes of the exercise by the commission of certain of its statutory functions (see section 4 and appendix 7 for guidance). Section 156 also provides that the examiner has reasonable cause to believe is likely to be of relevant for the purposes of the exercise by the commission of any its functions (see section 5 ) then the examiner should report it.

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## Direction 4: Plan your independent examination

In order to plan the specific examination procedures appropriate to the circumstances of the charity, the examiner must review:

- the charity's constitution
- the way the organisation is controlled and managed
- whether action has been taken on any previous recommendations for improvement
- the accounting records and systems
- the charity's structure, its funds and how fund balances changed in the year
- the charity's activities in the year and its spending and the financial risks the charity faces

### Guidance

4.1 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 (Direction 11). The steps taken by an examiner should include:

- consideration of the governing document of the charity, paying particular attention to the charity's objects, powers and obligations
- consideration of any delegation of authority to staff to make decisions, including the control of/ spending of charitable funds and entering into legal agreements or making commitments and the extent to which the trustees exercise some oversight of these decisions
- consideration of any matters which would give rise to a statutory duty to make a report to the commission (see section 4 and appendix 7 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 and to gain an insight into any special circumstances and problems affecting the charity
- discussions with the trustees and, where appropriate, the charity's staff, about the charity's funds and the accounting records and accounting systems maintained by the charity including the operation of any bank accounts
- consideration of the different types of fund administered by the charity, unrestricted, restricted and endowment funds
- discussions with the trustees on any actions taken to follow through on recommendations made, if any, following the previous year's independent examination (or previous audit) and the reasons why trustees have not accepted or put into effect any of the recommendations made
- discussions with the trustees on the current financial situation of the charity and if accruals accounts are prepared, why the trustees consider the charity is a going concern (see Direction 9), together with any financial and non-financial risks to the charity which the trustees have set out in their risk management policy/risk registers or consider significant to the operation of the charity

- discussions with trustees about the roles of any staff employed and how staff pay is determined and whether any of the staff employed are related parties
  - reviewing the minutes of trustees' meetings to find out about details of major events, plans, decisions and any changes to membership of the trustee body
  - obtaining details of the accounting records maintained and methods of recording financial transactions
- 4.2 Normally a discussion with one of the trustees and/or the person who prepared the accounts should provide all the information or explanations required. Sometimes several conversations will be needed as the examiner needs to check certain facts or discovers matters that require further explanation.
- 4.3 Having made an initial assessment the examiner should then consider this information along with the trustees' annual report and accounts and identify the main items that need checking and those items to which particular attention is needed and which items will be a part of the analytical review (Direction 11) to compare the current value with previous values and identify any major changes that require an explanation or material items that require some form of vouching or assurance and to identify any risk of loss due to fraud/theft/financial crime or other reason.
- 4.4 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 should confirm or discuss significant matters with 2 or more of the trustees and/or members of the charity's staff to gain the necessary background information for their examination and consider the implications for their report (Direction 13) and separate reporting to the commission (see sections 4 and 5).

## Direction 5: Check that accounting records are kept and not materially misstated

**The examiner must ensure that accounting records have been kept in compliance with the relevant legislative requirements.**

### Guidance

- 5.1 The charity trustees are responsible for maintaining adequate accounting records to fulfil their legal obligations. This is an important responsibility and the absence of well organised and complete accounting records gives rise to a significant risk of misstatement and loss from fraud and theft, or the misappropriation of charitable funds.
- 5.2 The examiner must review the accounting records to identify 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 (Direction 11).
- 5.3 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 legal requirements.
- 5.4 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.
- 5.5 The accounting records should:
- be kept updated during the year and be up to date at the time the accounts are prepared
  - be readily available
  - provide the basic information from which the financial position can be ascertained, not only at the year end, but also on any selected date
- 5.6 The accounting records should contain:
- details of all income/money received and payments/expenditure made, the date, and the nature of the income/money received or payments/expenditure
  - details of any assets and liabilities at the end of the reporting period
  - if the charity has 1 or more branches which are administered separately but are part of the charity, the details of the income and expenditure and any assets and liabilities of each branch are identified
- 5.7 Smaller charities may not have maintained computerised nominal ledgers to record assets and liabilities, and in such instances the requirements can generally be met by their maintaining a record of transactions in the reporting period and files for any unpaid invoices and amounts due but not yet received. A record of any stocks and fixed assets held is also necessary to meet the accounting requirements.

## Legal references

- 5.8 For trustees of non-company charities their duty to maintain accounting records is set out in section 130 of the 2011 Act. The accounting records kept must be sufficient to show and explain all the charity's transactions and which are such as to:
- disclose at any time, with reasonable accuracy, the financial position of the charity at that time
  - enable the trustees to ensure that, where any statements of account are prepared by them under section 132(1), those statements of accounts comply with the requirements of the regulations under section 132(1)
- 5.9 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
  - a record of the assets and liabilities of the company
- 5.10 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. For trustees (normally the directors) of charitable companies their legal duty is under section 386 of the Companies Act 2006.
- 5.11 The examiner must 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 identify any incidence of a material failure to maintain such records and any material misstatement of transactions in those records.

## Direction 6: Check that the accounts are consistent with the accounting records

**The examiner must compare the accounts of the charity with the charity's accounting records in sufficient detail so as to be able to reasonably conclude there is no concern that the accounts are materially inconsistent with the accounting records.**

### Guidance

- 6.1 The examiner must compare the accounts with the underlying accounting records to be satisfied that there is no concern that the accounts do not 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 spent in accordance with the specific purposes of those funds and are accurately recorded and identified in the accounts.
- 6.2 Where accounts are prepared on the accruals basis, all items in the accounts should be compared with the trial balance or any computerised nominal ledger (see glossary) maintained.
- 6.3 Where accounts are prepared on a receipts and payments basis, a direct comparison with the cash records and the summary of income and spend of the charity should be carried out. This will be needed if no computerised 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.
- 6.4 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 using computer accounting packages. If transactions have been made by way of a journal entry, there should be evidence that these have been correctly authorised or approved by the trustees or in accordance with procedures that they have approved.
- 6.5 A review of bank reconciliations, payroll summaries and control accounts should be undertaken to 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).
- 6.6 There is no requirement for all 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 11) matters are identified which cannot be resolved by simply seeking explanations from the trustees, or where appropriate the charity's staff, or the explanations given are insufficient.
- 6.7 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 should not compromise the examiner's independence provided that the examiner ensures that the requirements of the Directions are met and:
  - the accounting records (the books of prime entry) have been maintained by another person
  - the examiner has had no direct involvement in the day-to-day management or administration of the charity (see Direction 2)
  - the trustees review and approve the accounts before the examiner begins their independent examination

## Direction 7: If during the independent examination the examiner identifies a conflict of interest was present and/or related party transaction took place, the examiner must check if these were properly authorised and were appropriately disclosed

**The examiner must check if the trustees had a process in place to recognise, record, approve and report any conflicts of interest, including related party transactions. Where accruals accounts are prepared, the examiner must check that any related party transactions they have identified are fully disclosed in the notes to the accounts.**

### Guidance

- 7.1 The trustees have independent control over, and legal responsibility for, a charity's management and administration (refer to the guidance - [The essential trustee: what you need to know, what you need to do \(CC3\)](#)). In carrying out this role the trustees should make decisions exclusively in the interest of the charity (refer to the guidance - [It's your decision: charity trustees and decision-making \(CC27\)](#)) and in doing this take steps to identify any conflict of interest, prevent the conflict of interest affecting the decision and make a record of it and how the matter was dealt with. Any private benefit to a trustee or a related party must be authorised, necessary and incidental to the charity fulfilling its charitable purposes. Where payments have been made to trustees, the trustees should have followed the guidance: trustee expenses and payments (see appendix 8).
- 7.2 Conflicts of interest and related party transactions must be recognised and recorded but the requirement to publicly disclose related party transactions differs depending upon the format of the accounts prepared.
- 7.3 Accruals accounts are prepared following the applicable Statement of Recommended Practice (SORP) and so you should refer to module 9. The SORP requires the disclosure of related party transactions in the notes to the accounts. In England and Wales there is no requirement for notes to the accounts but this is good practice for related party transactions.
- 7.4 If there have been none then the SORP requires a nil disclosure is made in the notes to the accounts or if there have been such payments then certain particulars must be disclosed in the notes to the accounts. For trustee expenses and trustee remuneration if there have been none paid then a nil disclosure is made in the notes to the accounts or if there have been such payments then certain particulars must be disclosed in the notes to the accounts.
- 7.5 Although the disclosure of trustee expenses, remuneration and related party transactions is not a requirement for receipts and payments accounts, such disclosures are evidence of good practice.
- 7.6 The commission's casework experience is that unauthorised trustee benefit and remuneration and related party transactions which are for private benefit rather than in the interests of the charity are a common area of fraud and loss to charities and therefore pose a potential risk of material misstatement in the accounts. The examiner must check whether any required disclosures have been made and if those disclosures fully comply with the requirements of the applicable SORP which specifies what must be disclosed. Partial, incomplete or omitted disclosures are evidence of non-compliance with the SORP as the SORP considers these types of transaction as being always material.
- 7.7 The examiner should consider whether the trustees have followed the commission's guidance in making decisions dealing with conflicts of interest and if the relevant records have not been fully kept throughout the reporting period then the examiner must consider their duty to report (see section 4 and appendix 7 for guidance) and the implications for their independent examiner's report (Direction 13).

## Direction 8: Check the reasonableness of the significant estimates and judgments and accounting policies, used in the preparation of the accounts

### The examiner must:

- check whether the separate funds of the charity have been correctly accounted for and reported correctly in the accounts
- check the reasonableness of any significant estimates or judgments that have been made in preparing the accounts
- where accruals accounts are prepared, check that the accounting policies adopted are consistent with the applicable Statement of Recommended Practice: Accounting and Reporting by Charities (SORP) and are appropriate to the activities of the charity

### Guidance

- 8.1 Fund accounting is a distinctive feature of charity accounting. It is essential that the trustees have a good understanding of the types of charitable fund they are administering and the purposes for which those funds can be used and any restrictions on their use. Whether receipts and payments or accruals accounts are prepared the accounts must separately identify the types of fund and the transactions for each fund.
- 8.2 The examiner must therefore also understand what the different types of fund are so as to be able to confirm that the different types of fund held by the charity have been accounted for correctly and to confirm that no material breach of trust has taken place in the use of charitable funds in the reporting period. If the charity is preparing accruals accounts refer to module 2 of the applicable SORP.
- 8.3 Where receipts and payments accounts are prepared, the accounts are a factual report of cash book transactions in the reporting period and so few judgements are made. The only fundamental accounting concepts which apply are fund accounting and 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 received and spent. The statement of assets and liabilities can be a simple schedule of information. In compiling the statement of assets and liabilities some estimation and judgment may be required if values are entered for assets and liabilities.
- 8.4 Further guidance as to the form and content of receipts and payments accounts can be found in the notes included in the commission's guidance [Receipts and payments accounts pack \(CC16\)](#).
- 8.5 Accounts prepared on an accruals basis involve the use of accounting policies that determine how transactions and events are reflected in accounts and accounting 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.
- 8.6 The accounting policies adopted, and 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 to ensure that the accounts that have been prepared accord with the methods and principles of the applicable SORP. Although the examiner does not have to form an opinion on whether the accounts give a 'true and fair' view, a departure from the methods and principles of the SORP must be considered as a matter to report upon in the independent examiner's report (Direction 13).

- 8.7 The examiner should be satisfied that accounts are prepared on a basis consistent with the going concern assumption (see Direction 9) and accruals concept, and evaluate the accounting policies adopted and applied for appropriateness to the activities of the charity and consistency with the applicable SORP. The accounting policies adopted should ensure a relevant, reliable, comparable and understandable accounts presentation.
- 8.8 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.
- 8.9 The examiner should evaluate whether the accounting policies adopted are consistent with the methods and principles set out in the applicable SORP. Where the accounting policies are not consistent with the applicable 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.
- 8.10 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 applicable 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.
- 8.11 The applicable 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 applicable SORP has been provided. Where the examiner considers that a material departure has not been adequately justified or explained, they must report upon it in their report (Direction 13).
- 8.12 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
  - where an activity based approach has been adopted, the allocation of costs between the various expenditure categories of the SoFA

### Legal references

- 8.13 Charities registered in England and Wales that are not companies are allowed under section 133 of the Charities Act 2011 to prepare receipts and payments accounts provided the charity's gross income is not over £250,000.

- 8.14 If preparing receipts and payments accounts, a charitable incorporated organisation (CIO) must include 2 obligatory notes. The charitable incorporated organisations (General) Regulations 2012 require the following information to be given by way of note:
- a) particulars of any guarantee given by the CIO, where any potential liability under the guarantee is outstanding at the date of the statement of assets and liabilities
  - b) particulars of any debt outstanding at the date the statement of assets and liabilities which is owed by the CIO and which is secured by an express charge on any of the assets of the CIO
- 8.15 Charities preparing their accounts to give a 'true and fair' view under UK Generally Accepted Accounting Practice are required by Financial Reporting standard FRS 100: Application of Financial Reporting Requirements, to apply the applicable SORP in accordance with the circumstances set out in the Financial Reporting Standard for Smaller Entities (FRSSE) or the FRS 102: The Financial Reporting Standard Applicable in the UK and Republic of Ireland.
- 8.16 Where accounts are prepared under section 132 of the Charities Act 2011 (the accruals basis) or under the Companies Act 2006 section 396 the trustees prepare accounts to give a 'true and fair' view.
- 8.17 Where accounts are prepared under section 132 of the Charities Act 2011 (the accruals basis), non-company charities are required by regulation 8 of the Charities (Accounts and Reports) Regulations 2008 to prepare accounts that give a 'true and fair' view and that the statement of accounts must be prepared in accordance with the methods and principles set out in the SORP. The Regulations have yet to be updated for the new SORPs issued in July 2014 that took effect for reporting periods (financial years) beginning on or after 1 January 2015. To assist trustees, preparers of charity accounts and examiners, the commission issued guidance about how this is to be handled. This guidance is set out in [Charity accounting and reporting- the essentials- March 2015 \(CC15c\)](#).

## Direction 9 (fully applied where accruals accounts are prepared): Check the charity's financial sustainability and the trustees' assessment of going concern

**The examiner considers whether any assumptions made by the trustees about the charity's financial sustainability and whether the trustees have made a reasonable assessment as to whether the charity is a going concern. Where accruals accounts are prepared, the examiner must ensure that any material uncertainties related to events or conditions that cast significant doubt on the charity's ability to continue as a going concern are disclosed in the notes to the accounts.**

### Guidance

- 9.1 It is the responsibility of the trustees to manage the charity's money and other resources properly (see [The essential trustee: what you need to know, what you need to do \(CC3\)](#)) and they should consider what arrangements are necessary to ensure that the charity can pay bills and meet any liabilities as they fall due (see [Managing charity assets and resources \(CC25\)](#)). All charities must disclose their reserves policy in the trustees' annual report or the trustees' reason(s) for not having one. In considering the charity's reserves policy, the examiner should consider if there is a material discrepancy between the accounts and the trustees annual report (see Direction 12).
- 9.2 By managing reserves well the trustees should ensure that the charity is able to settle its bills and meet its liabilities (see [Charity reserves: building resilience \(CC19\)](#)) in a timely way but if this is not the case the charity may be in financial difficulty (see [Managing a charity's finances: planning, managing difficulties and insolvency \(CC12\)](#)). The term going concern refers to the ability of a charity to meet its liabilities as they fall due and so it is a continuing situation that applies for as long as the charity is operating. It applies to non-company and company charities alike, however the relationship between going concern and accounts preparation differs depending upon whether accruals accounts or receipts and payments accounts are prepared.
- 9.3 Where receipts and payments accounts are prepared, the accounts are a factual report of cash book transactions in the reporting period and so no judgement is made as to whether the charity is a going concern or not. In preparing receipts and payments accounts the trustees are not required to make a judgment as to whether the charity is a going concern but if the examiner has cause to believe that the charity may be in financial difficulty the examiner must consider reporting this fact to the commission (see sections 4 and 5 and appendix 7 for guidance) and should consider what to say in their examiner's report. Evidence of a charity in financial difficulty is if it is frequently not paying bills, invoices, charges or meeting other liabilities as they fall due.
- 9.4 Where accruals accounts are prepared then these are prepared on a going concern basis except where the trustees prepare the accounts under an alternate basis. The applicable SORP requires (see module 3) that the trustees prepare the accounts on an alternate basis if not a going concern. If the trustees prepare the accounts on a going concern basis then any material uncertainties about going concern must be disclosed in the notes to the accounts. The applicable SORP provides that the trustees make their assessment of going concern looking at least 12 months ahead from the date that they approve the accounts.

- 9.5 Where the trustees have prepared accruals accounts on a going concern basis, the examiner must check that the trustees have carried out an assessment of going concern that meets the requirements of the applicable SORP that includes setting out the assumptions upon which the trustees are relying in reaching their conclusion that the charity is a going concern. Although the trustees may take the advice of the Honorary Treasurer and/or the charity's finance officer about the charity's financial situation as a going concern, it is a decision the trustees jointly take when approving the accounts.
- 9.6 The trustees should have documentation supporting their conclusions about going concern as part of the accounts preparation documentation. This might take the form of a cash-flow forecast, budgetary projections setting out expectations of income and expenditure or be part of a minuted discussion of risks and/or reserves.
- 9.7 The absence of any consideration by the trustees of going concern should be taken by the examiner as a cause for concern and a matter requiring further work (Directions 8, 10 and 11). If the examiner is concerned that the trustees' assumption that the charity is a going concern is not well documented, then the examiner must consider their duty to report (see section 4 and appendix 7 for guidance) and the implications for their independent examiner's report (Direction 13).
- 9.8 Even if the trustees have documented their reasoning as to why the charity is a going concern, should the examiner have cause to believe that the charity may be in financial difficulty then the examiner must consider reporting this fact to the commission (see sections 4 and 5 and appendix 7 for guidance). They should also consider what to say in their examiner's report.

### Legal references

- 9.9 Where accounts are prepared under section 132 of the Charities Act 2011 (the accruals basis), non-company charities are required by regulation 10 of the Charities (Accounts and Reports) Regulations 2008 to have the balance sheet signed by at least 1 of the trustees of the charity. Similarly for charitable companies, section 414 of the Companies Act 2006 requires company's annual accounts must be approved by the board of directors and the balance sheet signed on behalf of the board by a director of the company.

## Direction 10: Check the form and content of the accounts

The examiner must carry out such procedures as the examiner considers necessary to provide a reasonable basis on which to conclude whether or not the accounts have been properly prepared.

The examiner must:

- where receipts and payments accounts have been prepared, check that the charity can lawfully prepare such accounts, that all the accounting statements are present and that the funds of the charity are correctly identified
- where accruals accounts are prepared, check that they comply with the applicable Statement of Recommended Practice: Accounting and Reporting by Charities (SORP) and the applicable accounting standard
- if the charity is a company, check that the accounts also comply with the applicable company law requirements

### Guidance

- 10.1 Non-company charities with a gross income of £250,000 or less are eligible to prepare receipts and payments accounts and the trustees can choose whether to prepare the accounts on a receipts and payments basis or accruals basis provided there are no other requirements that require accruals accounts (see Direction 1).
- 10.2 The 2008 Regulations do not specify the form and content of accounts prepared on a receipts and payments basis. The commission provides pro forma layout for such accounts in its guidance [Receipts and payments accounts pack \(CC16\)](#).
- 10.3 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 then the examiner may treat those accounts as receipts and payments accounts but the trustees need to rename it as a statement of assets and liabilities, otherwise the accounts must be regarded as accruals accounts and examined accordingly.
- 10.4 Where accruals accounts are prepared the examiner will require access to the applicable SORP and an understanding of its methods and principles to ensure compliance with the 2008 Regulations. The applicable SORP requires all charities preparing accruals accounts to prepare a Statement of financial activities (SoFA), balance sheet, and accompanying notes to the accounts. However, smaller charities have a degree of flexibility in the format of their accruals accounts. Refer to the applicable SORP for more information.
- 10.5 The examiner should review the accruals accounts in sufficient detail to be able to identify any significant non-compliance with the methods and principles of the SORP. This will involve a review of the format of the SoFA 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.

- 10.6 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 applicable SORP requires all charities preparing accruals accounts to prepare a SoFA, balance sheet, and accompanying notes to the accounts. A charitable company will therefore usually submit a SoFA that incorporates an income and expenditure account, it may however opt to submit both an income and expenditure account and a SoFA. In such cases the examiner must review the 2 statements for consistency.

### Legal references

- 10.7 The trustees may elect to prepare accounts a receipts and payments basis under section 133 of the Charities Act 2011 provided the charity is not a charitable company and falls below the applicable income threshold. The current threshold was set by provision 9 of the Charities Acts 1992 and 1993 (Substitution of Sums) Order 2009 at £250,000.
- 10.8 The examiner should 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 applicable Statement of Recommended Practice: Accounting and Reporting by Charities (SORP).
- 10.9 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 2008 Regulations concerning the content of accounts do not apply to the accounts of charitable companies.
- 10.10 In the case of a charity that is a company the examiner must check whether or not the accounts are prepared in accordance with sections 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 and are prepared in accordance with the methods and principles of the SORP.
- 10.11 Charities preparing their accounts to give a 'true and fair' view under UK Generally Accepted Accounting Practice are required by Financial Reporting standard FRS 100: Application of Financial Reporting Requirements, to apply the applicable SORP.

## Direction 11: Identify items to review and follow up for further explanation or evidence

**The examiner must carefully consider if, during the course of their examination, items were found that were material to the accounts which need further explanation or supporting evidence to gain reasonable assurance that the charity's accounts are not materially misstated. In such cases the examiner must undertake sufficient additional work to obtain that reasonable assurance. Where the examiner is unable to obtain that reasonable assurance then the matter must be referred to in their report.**

### Guidance

- 11.1 A central part of a successful independent examination is reviewing the what the examiner has learned about the charity (Direction 4), the quality of the accounting records kept (Direction 5), and the preparation (Directions 7,8 and 9) and content of the accounts (Direction 10) to identify matters that require additional explanation, verification or discussion with trustees. To assist in this process the examiner must undertake an analytical review of the accounts to identify any material changes between the reported and previous reporting period that require explanation.
- 11.2 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. The examiner should be looking for material items, differences or changes which require further review or explanation.
- 11.3 For accruals accounts the analytical review involves both the Statement of Financial Activities (SoFA) 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 further review. 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.
- 11.4 It may be that having undertaken the analytical review the examiner has already come across the necessary explanations or confirmation and so no further action is taken. For those items identified in the analytical review for which the examiner does not already have the necessary explanation or confirmation the examiner must undertake further work to obtain the required explanation or confirmation or to identify that such information cannot be obtained. If not obtained then the examiner must consider their duty to report (see section 4 and appendix 7 for guidance) and the implications for their independent examiner's report (Direction 13).
- 11.5 In carrying out the analytical review, the examiner should:
- compare the accounts with those for comparable prior periods
  - compare the accounts with any budgets or forecasts that have been produced
  - consider whether income/cash received is 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

- consider whether the expenditure/payments made are consistent with 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
  - consider 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
  - consider whether fixed asset investments are producing income consistent with the nature of assets held
  - consider whether any tangible fixed assets held are consistent with the scale and type of activities undertaken by the charity
  - where accruals accounts are prepared confirm with the trustees that they are satisfied that the charity is a going concern (Direction 9) 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
- 11.6 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. These explanations should be documented (see Direction 3).
- 11.7 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
  - checking of a post year end receipt or payment to confirm recoverability of a debt or the amount of a liability
- 11.8 The examiner should consider whether they need to undertake additional analytical procedures in addition to those set out in this guidance to suit the charity's specific circumstances and should record what, if any, additional procedures they undertook. This is an area where the examiner exercises their judgment and draw on their experience as to what is reasonable given the size and nature of the charity's activities.

## Direction 12: Compare the trustees' annual report with the accounts

**The examiner must compare any narrative information or figures in the trustees' annual report with the accounts in order to identify any material inconsistency between the trustees' annual report and the accounts.**

### Guidance

- 12.1 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. [Charity reporting and accounting: the essentials \(CC15c\)](#) - 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 registered charities are set out in the 2008 Regulations. The trustees must prepare the report (see appendix 4). Charities not registered with the commission are encouraged to prepare a trustees' annual report as good practice.
- 12.2 The examiner must carry out procedures to identify inconsistencies between the trustees' annual report and the accounts which the examiner judges to be misleading or which contradict the financial information contained in the accounts. For example, a review should identify where amounts stated in the trustees' 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 trustees' annual report should be consistent, where accruals accounts are prepared with amounts disclosed in the charity's balance sheet, or where receipts and payments accounts are prepared with the available unrestricted funds held in cash.
- 12.3 Where inconsistencies are identified which are significant, these should be drawn to the attention of the charity trustees. If no appropriate amendment is made to the trustees' annual report then the examiner must consider the implications for their independent examiner's report (Direction 13).
- 12.4 Trustees are required to report on public benefit in their report. They must confirm they have read the commission's guidance ([Public benefit: reporting \(PB3\)](#)). If the trustees have made reference to items in the accounts as part of their explanation of public benefit, then those figures should be consistent with the accounts.

### Legal references

- 12.5 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 must 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.
- 12.6 The examiner is required by regulations 31 or 32 of the Charities (Accounts and Reports) Regulations 2008 to comment where any information contained in the accounts is inconsistent with any report of the trustees and so must make a comment in their examiner's report. However, if accounts are prepared on the receipts and payments basis under section 42(3) there is no requirement placed on the examiner to comment on whether an inconsistency is present but examiners should so report if they come across such an inconsistency.

## Direction 13: Write and sign the independent examination report

**The examiner must review the conclusions from their independent examination and then prepare and sign their independent examiner's report. The content of their report must cover all the matters required by the 2008 Regulations. If the examiner has identified a matter of concern because 1 or more of the specific matters listed in the 2008 Regulations or in this Direction are present or remain unresolved then the examiner must normally bring it to the attention of trustees in their independent examiner's report.**

### Guidance

#### Preparation for writing the report

- 13.1 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 have not been met, together with any matters that need reporting for the benefit of the reader's understanding of the charity's accounts.
- 13.2 The report brings together the conclusions from the independent examination. The examiner needs to consider carefully the conclusions drawn from their examination, and the impact of these conclusions on their report. Appendices 5 and 6 provide illustrative examples of independent examiner's reports. It is the examiner's report and the examiner in signing it takes responsibility for the independent examination fulfilling the requirements of the 2008 Regulations and the Directions. This responsibility cannot be delegated to, or reliance placed upon, another person.
- 13.3 Examiners examining accounts of charities that operate across 2 or more charity law jurisdictions must modify their report so as to fulfil the legal requirements of each jurisdiction. Refer to the Charity Commission (Northern Ireland) or Office of the Scottish Charity Regulator or the Charity Regulatory Authority (Republic of Ireland) for more information as to their requirements. Appendix 5 includes example independent examiner's reports for a cross-border charity operating in Scotland.
- 13.4 The 2008 Regulations set out the legal requirements for an independent examiner's report. The Regulations do not specify how the examiner lays out their report but it specifies the content that must be covered in the report. The examiner should follow the format of the sample reports set out in appendices 5 and 6 unless the particular circumstances require an alternate approach. There is no requirement on the examiner to do more than cover those matters specifically referred to in the 2008 Regulations and Directions.

#### The required contents of the report

- 13.5 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 (must be a member of the listed bodies, see section appendix 3)
  - the 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

13.6 In addition to making these statements, the examiner must 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
- where the charity is a charitable company, the accounting records have not been kept in accordance with section 386 of the Companies Act 2006
- the accounts do not accord with the accounting records
- 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 SoFA and balance sheet and notes and are prepared in accordance with the methods and principles set out in the applicable SORP)
- 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 applicable SORP

13.7 Also the examiner must consider whether any matters of concern have come to the independent examiner's attention a result of their independent examination in connection with which, in the examiner's opinion, attention should be drawn in the report to enable a proper understanding of the accounts to be reached.

### **Consideration of matters of concern to draw to attention in the report to enable a proper understanding of the accounts to be reached**

13.8 In considering if a matter of concern 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, the examiner must consider the findings from applying all the Directions to identify any matter that must be reported. It is expected that only significant matters will be reported.

13.9 In particular the 2008 Regulations require the examiner to provide a statement if the following specific matters of concern 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 or the specific purposes placed on the use of restricted funds
- 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
- 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

13.10 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 in 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.

### **Matters for resolution if possible prior to making the report**

- 13.11 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 must be addressed in the examiner's report. Where reported the matter concerned should be fully explained together with the financial effects on the accounts.
- 13.12 Where the concern relates to non-compliance to the form and content of the accounts or material inconsistency with the applicable SORP, the matter should be raised first with the charity trustees with a view to seeking an amendment or adjustment to the accounts but if concerns remain the matter must be addressed in the examiner's report. Where reported the matter concerned should be fully explained together with the financial effects on the accounts.
- 13.13 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 must be considered (see section 4 of this guidance).
- 13.14 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 trustees' annual report or where concerns still exist this must be stated in the examiner's report.

### **Signing the report**

- 13.15 The examiner must sign and date the trustees' copy of their examiner's report. For the version of the examiner's report which is filed with the commission the signature may be typed and is in the examiner's own name. The examiner may choose to add the name of any business or firm in addition to signing in their own name. Electronic typed signatures are accepted by the commission when filing the report, accounts and examiner's report. The examiner must list relevant qualifications and if the charity's income exceeds £250,000 they must also name the listed body of which they are a member (see appendix 3). Examiners who are members of a listed body must name that body when signing their report.
- 13.16 The examiner must not sign their report before the trustees have approved and signed the trustees' annual report and the accounts. Until the trustees have approved and signed the accounts, the accounts are draft and not final.

- 13.17 The trustees are responsible for filing the independent examiner's report together with the trustees' annual report and the accounts with the commission (see appendix 4). The examiner may do this on their behalf if the trustees authorise this. Any authority to file should be given in writing by the trustees.
- 13.18 The examiner must also consider whether a separate report of a matter needs to be sent to the commission. This separate duty is explained fully in section 4 of this guidance.
- 13.19 Provided the examiner has followed the Directions and associated guidance there is no requirement to undertake additional work. An independent examination is not an audit and the examiner is only 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 1 or more of the requirements have not been met.

### Legal references

- 13.20 The examiner must in making their report fulfil all the requirements of the 2008 Regulations. Regulation 31 requires that the examiner to state that the matters set out in regulation 31(h) and 31(i), and regulation 31(j) are fulfilled or not and to state whether or not any additional matter is reported as required by regulation 31 (i).
- 13.21 For NHS charities independently examined by an examiner appointed by the Audit Commission or the Auditor General for Wales, the equivalent requirements are set out in regulation 32 of the 2008 Regulations.

## 4. Statutory duty matters of material significance to report to the 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 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

- 4.1 In addition to undertaking an independent examination of the accounts, the examiner has a separate legal responsibility to report to the 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.
- 4.2 The examiner's duty is to report matters of material significance that they come across in undertaking the independent examination and following the Directions. Normally the matter will relate to the year the examiner is reporting upon but where a matter comes to light relating to a previous financial year which would give rise to a duty to report, then the examiner must make a report unless they are certain that it has already been reported. The examiner is not required to undertake additional work over and above following the Directions and is not required to actively go looking for matters of material significance that need to be reported
- 4.3 The commission, the Office of the Scottish Charity Regulator (OSCR), and the Charity Commission for Northern Ireland (CCNI) have agreed a shared list of 10 matters of material significance that must be reported by an independent examiner. In any event the examiner must keep the particular matters of material significance in mind as they carry out their examination. These matters of material significance are:
- matters suggesting dishonesty or fraud involving a material loss of, or a material risk to, charitable funds or assets
  - failure(s) of internal controls, including failure(s) in charity governance, that resulted in, or could give rise to, a material loss or misappropriation of charitable funds, or which leads to material charitable funds being put at major risk
  - during the independent examination knowledge or suspicion that the charity or charitable funds or the charity's bank account 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 knowledge 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, with the exception of matters related to a qualifying offence as defined by Section 3(7) of the Northern Ireland (Sentences) Act 1988

- during the independent examination 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
  - single or recurring breach(es) of either a legislative requirement or of the charity's trusts leading to material funds being misapplied
  - during the independent examination evidence suggesting 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 issuing a qualified independent examiner's report identifying matters of concern to which attention is drawn, notification of the nature of the concern(s) with supporting reasons including notification of the action taken, if any, by the trustees subsequent to the examiner's report
  - evidence that, without reasonable cause, trustees have not taken action on matters identified by the examiner in their scrutiny of accounts for a previous year
  - during the independent examination evidence that conflicts of interest have not been managed by the trustees in accordance with guidance issued by the charity regulator and/or related party transactions have not been fully disclosed in all the respects required by the applicable SORP
- 4.4 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. Other matters that could be relevant to the work of the commission should be reported separately (see section 5).
- 4.5 The examiner may identify other matters not listed which they believe amount to a matter of material significance that must be reported. Volunteer independent examiners may not encounter these situations very often when reviewing the accounts of charities and so to help them some illustrative examples are provided in appendix 7 of matters of material significance.
- 4.6 The duty to report relates to information or evidence obtained from the examiner's work undertaken in following the commission's Directions when 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.
- 4.7 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. This duty cannot be delegated.
- 4.8 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.

- 4.9 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 must notify the National Crime Agency in the first instance by submitting a 'Suspicious activity report'. Subsequently a report must also be made to the commission. Notifying the commission, itself a regulator, will not give rise to a 'tipping off' offence.
- 4.10 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 or might lead to a 'tipping off offence'. In particular, matters that involve terrorism or money laundering must always be immediately reported to the police or NCA and care exercised to ensure risks of 'tipping off' do not arise.
- 4.11 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 from the NCA 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.
- 4.12 Where a reporting duty arises the examiner should report the matter by e-mail to [Whistleblowing@charitycommission.gsi.gov.uk](mailto: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 2011Act
  - under which of the 10 headings of reportable matters (see paragraph 4.3) 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 National Crime Agency and/or police as appropriate
  - if the report concerns the abuse of vulnerable beneficiaries whether you have informed the police and/or social services
- 4.13 Appendix 7 provides further advice, particularly for volunteer examiners, on matters of material significance reportable to the commission. 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.
- 4.14 An example letter is given below as a guide as to how to report a matter of material significance.

- 4.15 Example report arising from a legal duty to report a matter of material significance to the commission. This example provides additional information which relates to the example examiner's report 6.5 in appendix 6.

Whitetree  
White Town Lane  
White Whitterington  
Well County  
WW1 3ZZ

September 15th 2017

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 identified a matter of concern in my independent examiner's report due to these matters.

Yours faithfully,

Mr A Doubt

## 5. Discretion to report relevant matters to the commission

**Sections 156 and 159 of the Charities Act 2011 provides for discretionary reporting by the independent examiners of both non-company and company charities to make a report to the 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 relevant for the purposes of the exercise by the commission of any of its functions.**

- 5.1 Section 156 of the 2011 Act also provides a 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 those relevant matters that do not fall clearly within the category of being matters 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 or is a significant matter which the trustees are aware of but they have chosen not to address it by way of appropriate management action.
- 5.2 The examiner may find it helpful to be aware of the range of topics about which the commission issues guidance to charities. A matter would be relevant to report if it fell within the scope of a commission publication and the action recommended in the commission's guidance was relevant to the charity's circumstances but not being followed by the trustees. The commission's publications are available on [GOV.UK](http://GOV.UK). Since reporting of a relevant matter is a matter of the charity's circumstances and the judgement of the examiner it is not appropriate to give a list of issues where this discretionary power might be used. There is no obligation on the examiner to make such a report.
- 5.3 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.
- 5.4 Where the examiner is exercising their discretion to report a matter, the examiner should report by email to [Whistleblowing@charitycommission.gsi.gov.uk](mailto: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
  - 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
- 5.5 Two examples are given below of how a letter to the commission might be set out where the examiner chooses to exercise their discretionary right to report a relevant matter to the commission. 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.

- 5.6 The examiner must notify the National Crime Agency in relation to any matter covered by the Money Laundering Regulations the first instance by submitting a 'Suspicious activity report. Subsequently a report must also be made to the Commission. Notifying the commission, itself a regulator, will not give rise to a 'tipping off' offence.

Example report: A discretionary report of a matter likely to be relevant to the commission.

Whitetree  
White Town Lane  
White Whitterington  
Well County  
WW1 3ZZ

September 15<sup>th</sup> 2017

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 Charity Commission approval is required, is contrary to charity law. I understand the trustees have now contacted the Charity Commission to ask for your advice on the matter.

Having completed my examination of the accounts, I have not noted the matter as a concern in my 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

5.7 Example report: A discretionary report of a matter likely to be relevant to the commission. This example provides additional information which relates to the example examiner's report 6.4 in Appendix 6.

Whitetree  
White Town Lane  
White Whitterington  
Well County  
WW1 3ZZ

September 15<sup>th</sup> 2017

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 1 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.

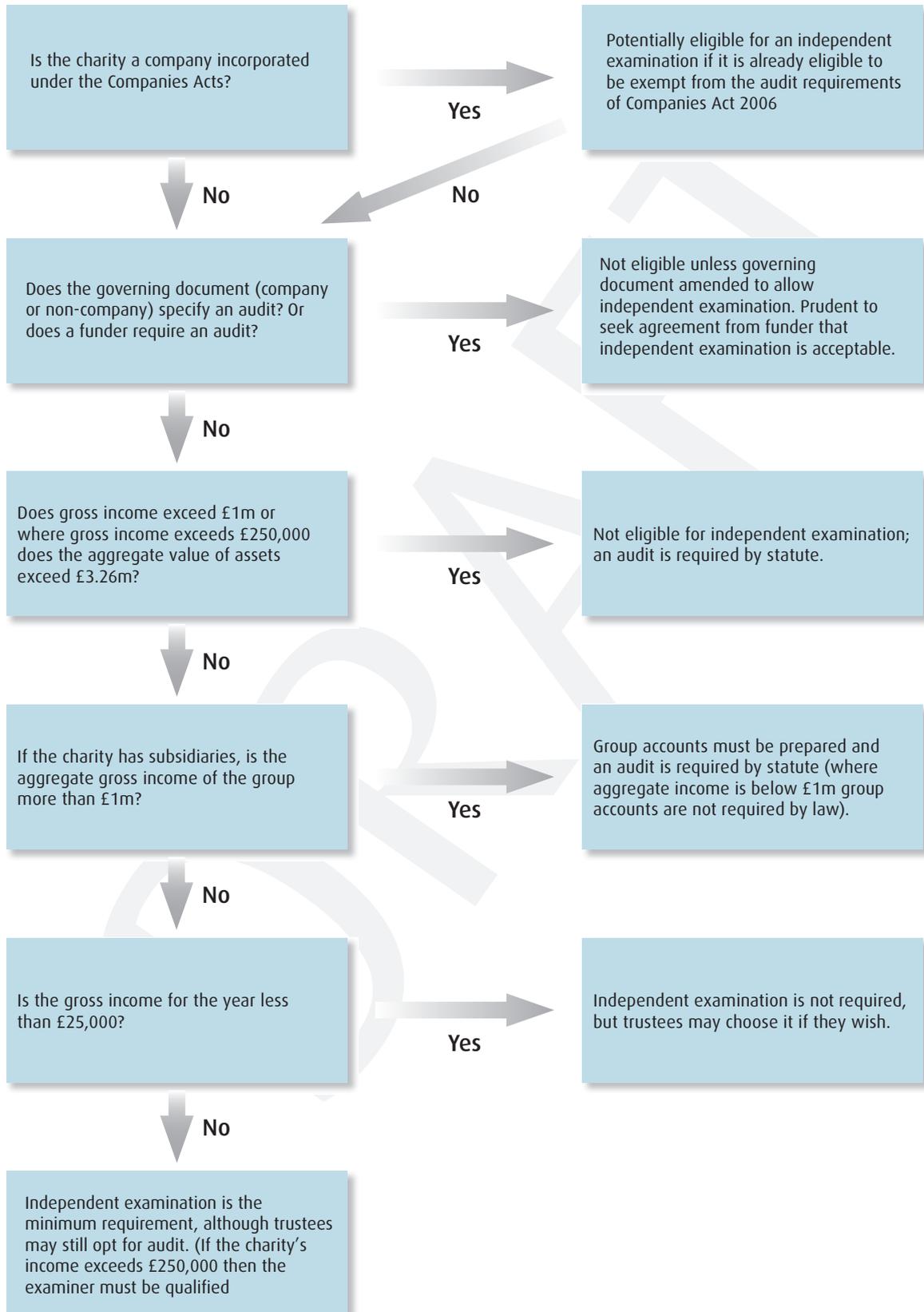
I understand that the trustees recognise that there has been a major lapse in record keeping and have now hired a book-keeper and put in place proper controls by adopting the Charity Commission's guidance [Internal financial controls for charities \(CC8\)](#).

Having completed my examination of the accounts, I have noted this as a matter of concern in my independent examiner's report highlighting that sufficient accounting records had not been fully maintained.

Yours faithfully,

Mr A Doubt

## Appendix 1: flowchart: charity eligibility requirements for independent examination



## Appendix 2: calculation of gross income

The Charities Act 2011 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. This administrative definition of gross income is reviewed annually in preparation for the annual return process.

The definition of gross income for a charity:

- a) ‘For receipts and payments accounts’ - gross income is the total receipts recorded in the statement of accounts excluding endowments, repayment of loans and proceeds from the sale of investments or fixed assets.
- b) ‘For accruals accounts’ - gross income is the total income as shown in the SoFA prepared in accordance with the SORP for all funds, but:
  - excluding any endowment
  - including any amount transferred from endowment funds to income funds during the year so as to be available for expenditure.

Note: the definition also excludes from total income any gains on revaluation of fixed assets or gains on investments. Such gains do not form part of ‘gross income’ for threshold purposes.

The definition of gross income for a group:

The Charities Act 2011 (Group Accounts) Regulations 2015 set out the threshold for financial years ending on or after 31 March 2015. The calculation for the gross income threshold for a group is:

- the gross income of the group net of intra group transactions exceeds £1 million, 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 applicable SORP for more information about what constitutes income for a charity)
  - 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 3: relevant experience/knowledge and professional qualification requirements

This appendix explains who can carry out an independent examination and the requisite knowledge and experience you need and where a formal accountancy professional membership is required.

### In brief:

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.

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 and, where required, is a member of a listed professional body.

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. Any person with financial awareness and numeracy skills should have the requisite ability to act as an independent examiner for receipts and payments accounts. For accruals accounts the examiner should be a skilled person, who demonstrates a good understanding of accountancy principles, accounting standards and knowledge of the applicable SORP.

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 [The essential trustee: what you need to know \(CC3\)](#).

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### In more detail

The origins of the independent examination lie in the Charities Act 1993. An independent examiner is described in section 145(1)(a) of the 2011 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'.

In the House of Lords' debate on the original legislation 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'.

Since then the independent examination framework and the complexity of accounting standards have changed. This description of the volunteer examiner should only be applied in the examination of receipts and payments accounts. More is required of examiners of accruals accounts including a working knowledge of the applicable SORP.

The majority of charities have a gross income below the threshold at which accruals accounts 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 applicable SORP is not required to examine receipts and payments accounts.

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. Trustees who have the charity's accounts prepared on an accruals should select a person who is a member of 1 of the accountancy bodies listed in the 2011 Act as amended by the 2015 order or if the charity's income is £250,000 or less are satisfied that the examiner has the skills and knowledge required. 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. When examining accounts prepared on an accruals basis the examiner should be a member of 1 of the accountancy bodies listed and the examiner must be a member of a listed body if the charity's gross income exceeds £250,000.

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
- acted successfully as an independent examiner on previous occasions for such charities
- relevant practical experience in accountancy or commerce and a working knowledge of charity accounting

For financial years ending on after 31 March 2015, once a charity's gross income exceeds £250,000, the examiner must be a person who is a member of 1 of the following bodies listed in the 2011 Act, as amended by the 2015 order, 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
- Institute of Financial Accountants
- Certified Public Accountants Association

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 should 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 differ in their 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 8.

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## Appendix 4: who is responsible for preparing the trustees' annual report and filing with the regulator?

### In brief (legal requirement)

It is the responsibility of the trustees of registered charities to prepare a trustees' annual report and accounts although an independent examiner may assist the trustees to prepare them.

Subject to certain size limits, it is the responsibility of the trustees of registered charities to file their trustees' annual report and the charity's accounts and external scrutiny report with the commission within 10 months of the financial year end.

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### In more detail

The commission's publication [Charity reporting and accounting: the essentials \(CC15c\)](#) - explains the requirements for a trustees' annual report and options for preparing accounts.

Smaller charities, which are not charitable companies registered with Companies House, can prepare receipts and payments 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'. 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.

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 applicable 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 Financial Reporting Council in accounting standards as interpreted by the applicable SORP for the charity sector. Charitable companies must also comply with the accounting requirements of the Companies Act 2006.

For financial years ending on or after 1 April 2009 where a charity's gross income exceeds £25,000 the trustees must file their report and accounts with the commission. The trustees are responsible for ensuring that their trustees' annual report and accounts, together with the independent examiner's report are 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. The trustees of charitable companies filing with Companies House 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.

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## Appendix 5: charities based in England and Wales also operating in Scotland

The format and content of these example reports will be agreed with the Office of the Scottish Charity Regulator subsequent to the consultation on the format of independent examiner's reports for England and Wales.

## Appendix 6: 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 examiner's report is addressed to the trustees and is the culmination of your work. Careful consideration is needed when preparing your report as to what, if any, matters need to be drawn to the attention of the trustees.

Although the examiner's report is addressed to the trustees, it will be of interest to anyone reading the trustees' annual report and accounts including the commission.

An 'unqualified report' is one where the examiner has not come across any matters that mean that they cannot provide the positive statements required of them about the accounts and accounting records and they have not found any other matters of concern which they judge need to be brought to the attention of trustees so that a proper understanding of the accounts to be reached or any of the specific matters where the regulations require them to report if a problem is found (refer to Direction 13 for more information). An unqualified report is not the same as giving a 'clean bill of health' as the examiner is not saying everything about the charity is fine nor is the examiner given an opinion as to whether the accounts give a 'true and fair' view.

Where there are concerns or non-compliance with the requirements of the 2008 Regulations then the examiner reports on those matters and the report is said to be a 'qualified report'. It is qualified because there are 1 or more matters required by the regulations not met and/or that matters that need to be reported for a proper understanding of the accounts to be reached.

Please note the 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. See appendix 3 for further information.

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.

There are 2 different styles of examiner's report, 1 for non-company charities and another for charitable companies. Those charities set up under the Companies Acts are termed '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. By far the majority of charities are non-company charities, most commonly trusts or unincorporated associations or charitable incorporated organisations. 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:

- 6.1 Unqualified report for a non-company charity (applicable to both accruals accounts and receipts and payments accounts) for a charity with an income of £250,000 or less (the examiner does not have to be a member of 1 of the listed bodies).
- 6.2 Unqualified report for a charitable company (gross income exceeded £250,000 so the examiner had to confirm their membership of a listed body- see appendix 3 for that list).
- 6.3 Matter of concern where a non-company charity preparing receipts and payments accounts had failed to separately identify restricted funds.
- 6.4 Matter of concern 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 section 5.)
- 6.5 Matter of concern 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 section 4.)
- 6.6 Matter of concern where a charitable company had prepared accounts which were not consistent with the applicable SORP.

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## Example 6.1: 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 2017, which are set out on pages 00 to 00.

#### Responsibilities and basis of report

As the charity's trustees you are responsible for the preparation of the accounts in accordance with the requirements of the Charities Act 2011 ('the Act').

I have examined your charity's accounts as required under section 145 of the 2011 Act and in carrying out my examination I have followed the Directions given by the Charity Commission under section 145(5)(b) of the 2011 Act.

My role is to state whether any material matters have come to my attention giving me cause to believe:

1. that accounting records were not kept as required by section 130 of the Act; or
2. that the accounts do not accord with those records; or
3. that the accounts do not comply with the accounting requirements of the Act; or
4. that there is further information needed for a proper understanding of the accounts.

#### Independent examiner's statement

I have completed my examination and I have no concerns in respect of any of the matters (1) to (4) listed above and in connection with following the Directions of the Charity Commission I have found no matters that require drawing to your attention.

Name:

Relevant professional qualification if any:

Address:

Date:

## Example 6.2: 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 2017, which are set out on pages 00 to 00.

#### Responsibilities and basis of report

As the charity's trustees (and also the directors of the company for the purposes of company law) you are responsible for the preparation of the accounts in accordance with the requirements of the Companies Act 2006.

Having satisfied myself that the charity is not subject to audit under company law and is eligible for independent examination, I have examined your charity's accounts as required under section 145 of the Charities Act 2011 ('the Act'). In carrying out my examination I have followed the Directions given by the Charity Commission under section 145(5)(b) of the 2011 Act.

My role is to state whether any material matters have come to my attention giving me cause to believe:

1. that accounting records were not kept as required by section 386 of the Companies Act 2006; or
2. that the accounts do not accord with those records; or
3. that the accounts do not comply with the accounting requirements of section 396 of the Companies Act 2006 and the methods and principles of the Charities Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland; or
4. that there is further information needed for a proper understanding of the accounts.

#### Independent examiner's statement

Since your charity's gross income exceeded £250,000 your examiner must be a member of a listed body. I can confirm that I am qualified to undertake the examination because I am a registered member of [named body] which is 1 of the listed bodies.

I have completed my examination and I have no concerns in respect of any of the matters (1) to (4) listed above and in connection with following the Directions of the Charity Commission I have found no matters that require drawing to your attention.

Name:

Relevant professional qualification stated and name of listed body given:

Address:

Date:

## Example 6.3: examiner's matter of concern reported - 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 2017, which are set out on pages 00 to 00.

#### Responsibilities and basis of report

As the charity's trustees you are responsible for the preparation of the accounts in accordance with the requirements of the Charities Act 2011 ('the Act').

I have examined your charity's accounts as required under section 145 of the 2011 Act and in carrying out my examination I have followed the Directions given by the Charity Commission under section 145(5)(b) of the 2011 Act.

My role is to state whether any material matters have come to my attention giving me cause to believe:

1. that accounting records were not kept as required by section 130 of the Act; or
2. that the accounts do not accord with those records; or
3. that the accounts do not comply with the accounting requirements of the Act; or
4. that there is further information needed for a proper understanding of the accounts.

#### Independent examiner's statement- matter of concern identified

I have completed my examination and I have identified a matter of concern in respect of matter (2) because sufficient accounting records have not been kept. 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 for the specific purpose of the mission to Samarkand. The accounts did 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 respect of any of matters (1), (3) and (4) listed above and in following the Directions of the Charity Commission I have found no other matters that require drawing to your attention.

Name:

Relevant professional qualification if any:

Address:

Date:

## Example 6.4: examiner's matter of concern reported - 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 2017, which are set out on pages 00 to 00.

#### Responsibilities and basis of report

As the charity's trustees you are responsible for the preparation of the accounts in accordance with the requirements of the Charities Act 2011 ('the Act').

I have examined your charity's accounts as required under section 145 of the 2011 Act and in carrying out my examination I have followed the Directions given by the Charity Commission under section 145(5)(b) of the 2011 Act.

My role is to state whether any material matters have come to my attention giving me cause to believe:

1. that accounting records were not kept as required by section 130 of the Act; or
2. that the accounts do not accord with those records; or
3. that the accounts do not comply with the accounting requirements of the Act; or
4. that there is further information needed for a proper understanding of the accounts.

#### Independent examiner's statement- matter of concern identified

I have completed my examination and I have identified matters of concern in respect of areas (1) to (3) listed above because I have identified concerns to do with each of these requirements.

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 matter (4) and in following the Directions of the Charity Commission I have found no other matters that require drawing to your attention.

Name:

Relevant professional qualification if any:

Address:

Date:

## Example 6.5: examiner's matter of concern 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 2017, which are set out on pages 00 to 00.

#### Responsibilities and basis of report

As the charity's trustees you are responsible for the preparation of the accounts in accordance with the requirements of the Charities Act 2011 ('the Act').

I have examined your charity's accounts as required under section 145 of the 2011 Act and in carrying out my examination I have followed the Directions given by the Charity Commission under section 145(5)(b) of the 2011 Act.

My role is to state whether any material matters have come to my attention giving me cause to believe:

1. that accounting records were not kept as required by section 130 of the Act; or
2. that the accounts do not accord with those records; or
3. that the accounts do not comply with the accounting requirements of the Act; or
4. that there is further information needed for a proper understanding of the accounts.

#### Independent examiner's statement- matter of concern identified

I have completed my examination and I have identified a matter of concern in my report because I have concerns in respect of area (3) listed above as this requirement has not been fully 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.

I have no concerns in respect of any of matters (1) (2) and (4) listed above and in connection with following the Directions of the Charity Commission I have not found other matters that require drawing to your attention.

Name:

Relevant professional qualification if any:

Address:

Date:

## Example 6.6: examiner's matter of concern reported – 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 2017, which are set out on pages 00 to 00.

#### Responsibilities and basis of report

As the charity's trustees (and the directors of the company for the purposes of company law) you are responsible for the preparation of the accounts in accordance with the requirements of the Companies Act 2006.

Having satisfied myself that the charity is not subject to audit under company law and is eligible for independent examination, I have examined your charity's accounts as required under section 145 of the Charities Act 2011 ('the Act'). In carrying out my examination I have followed the Directions given by the Charity Commission under section 145(5)(b) of the 2011 Act.

My role is to state whether any material matters have come to my attention giving me cause to believe:

1. that accounting records were not kept as required by section 386 of the Companies Act 2006; or
2. that the accounts do not accord with those records; or
3. that the accounts do not comply with the accounting requirements of section 396 of the Companies Act 2006 and the methods and principles of the Charities Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland; or
4. that there is further information needed for a proper understanding of the accounts.

#### Independent examiner's statement- matter of concern identified

I have completed my examination and I have identified matters of concern in respect of matters (2) and (3) listed above as these requirement has not been fully met.

The accounts prepared for your charity are not fully compliant with the accounting requirements of section 396 of the Companies Act and have not been prepared fully in accordance with the methods and principles of the Statement of Recommended Practice. 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 yet 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.

I have no concerns in respect of any matters (1) and (4) listed above and in connection with following the Directions of the Charity Commission I have found no matters that require drawing to your attention.

Name:

Relevant professional qualification if any:

Address:

Date:

## Appendix 7: further advice for examiners: identifying matters of material significance

### Introduction

This appendix provides further advice, particularly for volunteer examiners, on reporting matters of material significance 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 from the regulator's perspective the matter(s) they have identified from conducting their examination. 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 as matters of material significance 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.

### Factors to consider

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

- Is this a matter on the list of matters identified by the regulator as a matter of material significance?
- 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 '10 matters' listed in section 4 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. [Summaries of completed inquiry cases](#) can be found on GOV.UK.

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 the commission and an e-mail request should be made. The request should identify the matter for discussion and include your name, contact telephone number and e-mail address. It is 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. The final decision of whether or not to report will remain with the examiner; the commission is willing to discuss the matter with examiners but it cannot make the decision for you.

Where a matter is identified which is potentially reportable, the commission recommends 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 consider 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, or when deciding to resign as the charity's examiner, which is likely to be of material significance.

## Guidance on the listed matters of material significance to the charity regulator

### **Matters suggesting dishonesty or fraud involving a material loss of, or a material 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, or could give rise to, a material loss or misappropriation of charitable funds, or which leads to material 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.

**During the independent examination knowledge or suspicion that the charity or charitable funds or the charity's bank account 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 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 or on behalf of 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 knowledge 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, with the exception of matters related to a qualifying offence as defined by Section 3(7) of the Northern Ireland (Sentences) Act 1988.**

Where a concern arises examiners should read the commission's guidance [Charities and Terrorism](#). 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](#). Factors that are indicative of money laundering activity identified should also be considered.

**During the independent examination 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. Examiners 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 the commission's guidance on [protecting children](#) may be helpful.

**Single or recurring breach(es) of either a legislative requirement or of the charity's trusts leading to material funds being misapplied.**

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).

**During the independent examination evidence suggesting 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 occasion 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.

**On issuing a qualified independent examiner's report identifying matters of concern to which attention is drawn, notification of the nature of the concern(s) with supporting reasons including notification of the action taken, if any, by the trustees subsequent to the examiner's report.**

If the examiner reports 1 or matters of concern set out in the 2008 Regulations (see Direction 13) in their report this is also a matter of interest to the regulator. The matters listed in the 2008 Regulations are not trivial and the commission expects trustees to take the necessary action to put the matter(s) right. By making a separate report direct to the charity regulator alerts the commission very quickly to the concern together with any actions being taken by the trustees. The accounts can be filed up to 10 months after the charity's year-end and so early notification enables the commission to consider what, if any, regulatory action to take.

**Evidence that, without reasonable cause, trustees have not taken action on matters identified by the examiner in their scrutiny of accounts for a previous year.**

Many examiners choose to make additional recommendations on good financial governance and communicate these findings separately from their examiner's report. There is no requirement in either the 2008 Regulations or the commission's Directions to make such recommendations but if the examiner does they should identify if the trustees have acted on them. The trustees are responsible for the affairs of the charity and have the ultimate say in how it is run and they may have good reasons to not implement 1 or more of the examiner's recommendations. However if the examiner believes that a recommendation is significant to the good financial governance of the charity had is not satisfied with the trustees' reasons for not implementing it then they must consider reporting on the matter to the commission. If it is the first year of the examiner reviewing the charity's accounts then this applies equally to the recommendations of a previous examiner or auditor.

During the independent examination evidence that conflicts of interest have not been managed by the trustees in accordance with guidance issued by the charity regulator and/or related party transactions have not been fully disclosed in all the respects required by the applicable SORP.

Conflicts of interest may mean that the charitable funds have been put at risk or that private benefit to trustees or related parties is not properly authorised, decisions have not been properly made or the reputation of the charity is damaged. Trustees should be aware of the commission's guidance and the minutes of trustee meetings should identify that conflicts of interest are considered and managed. The examiner is not under any obligation to attempt to discover unmanaged conflicts of interest but must report them to the commission if they come across them during their independent examination.

In England and Wales the form and content of receipts and payments accounts is not specified in detail and so although best practice, the disclosure of related party transactions in a note to the accounts is not required. However charities preparing their accounts under the applicable SORP must disclose related party transactions. Refer to module 9 of the applicable SORP for more information. Non-disclosure is often associated with a risk to a charity's assets including unauthorised private benefit and misapplication of funds. During their independent examination, if the examiner identifies missing, partial, or incomplete disclosure of related party transactions must be reported to the commission.

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## Appendix 8: 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.

2015 Order: the Charities Act 2011 (Accounts and Audit) Order 2015 No.321.

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 Financial Reporting Council.

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 SoFA
- a balance sheet
- 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.

Applicable SORP: the applicable Statement of Recommended Practice (SORP) is the SORP that applies for the reporting period (financial year) of the charity which has been approved by the Financial Reporting Council as consistent with the applicable accounting standards and generally accepted accounting practice. For reporting periods (financial years) beginning on or after 1 January 2015 there is a choice between the Charities SORP (FRSSE) and the Charities SORP (FRS 102) but for reporting periods (financial years) beginning on or after 1 January 2016 there is only the 1 SORP: the Charities SORP (FRS 102) which must be used together with Update Bulletin 1.

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 2 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 section 4 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 1 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.

**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 applicable 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.

**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 5), section 6 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 the commission's guidance [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 their 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
- 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 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 a SORP do not apply to charities preparing receipts and payments accounts. For reporting periods (financial years) beginning on or after 1 January 2015 there is a choice between the Charities SORP (FRSSE) and the Charities SORP (FRS 102) but for reporting periods (financial years) beginning on or after 1 January 2016 there is only the 1 SORP: the Charities SORP (FRS 102) which must be used together with Update Bulletin 1.

**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 it 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 or are funds that 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 (restricted funds).

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.