

Independent examination of accounts checklists

Guidance note

Contents

| | |
|---|----|
| Independent examination of accounts checklists | 3 |
| Independent examination of accounts – general points to remember | 4 |
| Independent examiner - appointment | 7 |
| Independent examiner – qualifications | 9 |
| Independent examiner – removal | 11 |
| Independent examiner – resignation | 12 |

If you have any feedback on the content of these resources, or additional questions that you'd like to discuss, please contact the SGA:
020 7612 7029 | info@sportsgovernanceacademy.org.uk

© The Chartered Governance Institute, May 2022

Reviewed: May 2022

Date of next review: May 2023

The information given in this report is provided in good faith with the intention of furthering the understanding of the subject matter. While we believe the information to be accurate at the time of publication, The Chartered Governance Institute and its staff cannot, however, accept any liability for any loss or damage occasioned by any person or organisation acting or refraining from action as a result of any views expressed therein. If the reader has any specific doubts or concerns about the subject matter they are advised to seek legal advice based on the circumstances of their own situation.

Independent examination of accounts checklists

An independent examination is a form of external scrutiny of your organisation's annual accounts. It is a 'light touch' scrutiny and is narrowly defined, with the examiner checking for specific matters only. For this reason and because it does not involve forming an opinion as to whether the accounts are 'true and fair', independent examination usually costs less than an audit.

Checklist

- Independent examination offers an assurance that nothing has been found that needs to be brought to the attention of the trustees/directors (a negative assurance). It is less rigorous than an audit.
- For charities in England and Wales, the trustees must take a positive decision to opt for independent examination instead of audit.
- A charity in Scotland that meets the relevant thresholds has an automatic right to independent examination instead of audit. This is subject to any requirement for audit in the charity's own constitution.

*Note also the requirement in a charitable company for a resolution of the board that audit is not likely to be needed (see further below).

- The independent examiner's report is addressed to the trustees (not the members of the charity).
- The report is a matter of public record and is attached to the publicly filed copy of the charity's annual accounts.
- If the charity's gross annual income exceeds £250,000 the independent examiner must be suitably qualified in accordance with applicable regulations.
- For a charitable company, if the trustees wish to claim audit exemption and have the annual accounts of the charity independently examined, instead of audited, they must pass a resolution that appointment of an auditor is not necessary on the ground that audited accounts are unlikely to be required.

This document covers some key tips on independent examination of accounts in general, for appointment, the qualifications of and the removal or resignation of such persons.

Independent examination of accounts – general points to remember

England and Wales

- A charity in England and Wales may usually opt to have its annual accounts independently examined, rather than audited if:
 - annual income does not exceed £500,000; and
 - assets do not exceed £3,260,000.
- The smallest charities, with income under £25,000 can opt not to have any external scrutiny on their accounts. However, note that Church of England Parochial Church Councils are required to arrange independent scrutiny of their accounts under church accounting regulations, regardless of income level. Note also that the Code for Sports Governance requires that compliant organisations publish audited accounts unless agreed otherwise with Sport England and/or UK Sport.

Constitution

- The relevant statutory provisions regarding independent examination scrutiny, as an alternative to audit, are permissive not overriding. If the individual charity's constitution requires the appointment of auditors and audit of the annual accounts, those requirements must be observed.

Procedure

- The independent examination must be carried out in accordance with the Charity Commission's directions and guidance for independent examiners (CC32) and in accordance with appropriate professional standards.
- The directions are made by the Commission under powers given to it by the Charities Act 2011. The directions must be followed by an independent examiner.
- The directions address:
 - eligibility for independent examination;
 - independence of the prospective examiner – whether any conflicts of interest prevent them acting;
 - recording the examination;
 - planning the examination;
 - checking that the accounting records are kept to the required standard;
 - checking that the accounts are consistent with the accounting records;
 - checking whether related party transactions have been properly disclosed (in accruals accounts);
 - checking the reasonableness of significant estimates, judgements and accounting policies;
 - checking whether the trustees have considered the financial position of the charity at the end of the reporting period. If the accounts are accruals accounts, also checking whether the trustees have made an assessment of the charity's position as a going concern in approving the accounts;
 - checking the form and content of the accounts;
 - identifying items from the analytical review of the accounts that need to be followed up for further explanation or evidence;
 - comparing the trustees' annual report with the accounts;

- writing and signing the independent examiner's report;
- the examiner's duty to report matters of material significance to the Charity Commission; and
- the examiner's discretion to report relevant matters to the Charity Commission.

Examiner's duty to report matters to Charity Commission

- An independent examiner is under a statutory duty to report certain matters of material significance to the Charity Commission.
- This applies where, in the course of the examination, the examiner identifies a matter which relates to the activities or affairs of the charity, or of any connected institution or body, which the examiner has reasonable cause to believe is likely to be of material significance for the purpose of the exercise by the Charity Commission of its statutory functions.
- The Commission's statutory functions are set out in s. 156(3) of the Charities Act 2011.
- Examples of such matters, given in the Charity Commission's guidance for examiners, include:
 - matters suggesting dishonesty or fraud, involving a significant loss or major risk to the charity;
 - failures of internal controls (including governance failures) that have resulted in a significant loss or misappropriation of charitable funds, or which lead to significant charitable funds being put at major risk;
 - suspicions of money-laundering or the involvement of funds that are the proceeds of organised crime;
 - that the charity is a conduit for criminal activity;
 - that the charity, its trustees or employees, or its assets, have been involved in, or used for, terrorism or proscribed organisations (inside or outside the UK);
 - that the way the charity carries out its work relating to the care and welfare of beneficiaries does (or has) put those beneficiaries at significant risk of abuse or mistreatment; and
 - significant breaches of trust or of legislative requirements.

Scotland

- Charity law in Scotland applies its own thresholds for the independent examination of the accounts of unincorporated charities and SCIOs. For charitable companies, the UK Companies Act thresholds apply.
- The overall thresholds in Scotland for opting to have annual accounts independently examined, rather than audited, are:
 - annual income does not exceed £500,000; and
 - assets do not exceed £3,260,000.
- Note that there is no complete exemption from independent scrutiny for the smallest charities (unlike the position in England and Wales).
- Independent examiners must meet the relevant criteria set out in the applicable regulations.
- Independent examiners have notification obligations to OSCR if, during the course of their examination, they come across any matters of relevance to the exercise of OSCR's statutory functions.
- The main statutory provisions applicable to the independent scrutiny of charity accounts in Scotland are set out in the following:

- Charities and Trustee Investment (Scotland) Act 2005.
 - Charities Accounts (Scotland) Regulations 2006 SSI 218 of 2006.
 - Charities Accounts (Scotland) Amendment Regulations 2007 SS1 136 of 2007.
 - Charities Accounts (Scotland) Amendment Regulations 2010 SSI 287 of 2010.
- Guidance on independent examination and the qualifications required under Scottish charity law for independent examiners is published by the OSCR: www.oscr.org.uk.

Northern Ireland

Relevant provisions in the Charities (Northern Ireland) Act 2008 and regulations made under it address the requirements for charities in Northern Ireland.

Filing requirements

- A copy of the independent examiner's report must be included with the publicly filed copy of the charity's annual accounts.
- A copy of the report should also be included when any copy of the accounts is issued to third parties and members of the public.
- There are other filing and notification obligations which may apply when independent examiners are appointed or cease to hold office and various reporting obligations to the charity regulators, should an independent examiner become aware of a notifiable matter.

Notes:

- Some major funders may demand independent scrutiny or full audit of a charity's annual accounts (particularly public bodies that provide funds). See the Code for Sports Governance's requirement in this regard.
- See also the relevant professional guidance issued by bodies such as the Institute of Chartered Accountants in England and Wales and the Institute of Chartered Accountants for Scotland and the Association of Charity Independent Examiners:
 - www.icaew.com.
 - www.icas.org.uk.
 - www.acie.org.uk.

Independent examiner - appointment

An independent examiner must be independent of the charity. The trustees must also ensure the examiner:

- has the requisite ability and practical experience to carry out a competent examination of the charity's annual accounts; and
- holds any required qualifications.

Checklist

- Is there a current auditor in office?
- If so, consider when that period of office will expire or whether early cessation of office (by voluntary resignation) is appropriate and permissible.
- Does the charity's constitution require the appointment of an auditor or the carrying out of an audit? If so, those provisions must be observed (or changed).
- Does a funder or any other interested party require an audit of the annual accounts?
- Do the trustees consider that an optional audit would be appropriate for any reason?
- Does the charity meet applicable thresholds for independent examination of its annual accounts?
- How will the charity identify and assess possible candidates for the role of independent examiner?
- What procedure does the constitution require (if any) for the formal appointment of an independent examiner? (For example, a resolution of the members at an AGM may sometimes be required.) If it is silent, the board can make the formal appointment.
- Are there any formalities to deal with regarding the cessation from office of a previous auditor or any previous independent examiner?

Qualifications (England and Wales)

- If the income level is over £250,000, the independent examiner must be qualified in accordance with the provisions of the Charities Act. This requires membership of one of the listed professional bodies set out in the Act and holding the qualifications and having the relevant experience required by the professional regulations of that body for charity independent examiners.

Qualifications (Scotland)

- An independent examiner who is examining accruals based accounts must hold one of the relevant professional qualifications specified in the applicable regulations.
- If the accounts to be examined are receipts and payments accounts, it is not a requirement to appoint an examiner within the above categories. However, the trustees must ensure that whoever they do appoint has the necessary skills and competence to carry out a proper examination.

Procedure

- The appropriate procedures to identify a suitable candidate vary from one charity to another. Some charities opt for a competitive tendering and formal interview process to select an independent examiner while others use more informal ways to discern suitable candidates (such as recommendation).
- Steps should be taken to ensure both the competence and the independence of the proposed examiner (ensure there are not conflicts of interest).

- The independent examiner is likely to ask the charity to follow some formal procedures relating to his or her engagement (such as signature of an engagement letter).
- The formal appointment process usually involves a decision of the trustees. However, the constitution of some charities may require a decision of the members (for example at the AGM).
- Ensure the decision is recorded in the minutes of the relevant meeting.

Companies – resolution that audit unlikely to be required

- Note that if the trustees of a charitable company wish to claim audit exemption and have the charity's annual accounts independently examined, instead of audited, they must pass a resolution that appointment of an auditor is not necessary on the ground that audited accounts are unlikely to be required.

Companies – auditor ceasing to hold office

- If an auditor of a company ceases to hold office for any reason, a statement must be given to the company by the outgoing auditor setting out any circumstances relevant to the cessation of office that should be brought to the attention of members or creditors of the company (or stating that there are none).
- If matters are specified, the company must circulate a copy of the statement within 14 days to all those entitled to receive copies of the annual accounts.
- The auditor must send a copy of the statement to Companies House (within seven days after the expiry of the 21 days' period following the date of deposit of the statement, which is the period allowed for a potential application to court by the company not to have to circulate the statement).
- An auditor who ceases to hold office before that term of office expires must notify the appropriate audit authority.

Filing requirements

- Consider what, if any, formal or informal notifications may need to be made to the charity regulator(s) or other parties.

Notes

- Relevant Scottish legislation specifies the categories of persons eligible to be appointed as independent examiners for charities on the Scottish Charity Register. The OSCR publishes guidance for both charities and examiners: www.oscr.org.uk.

More information

- See the various relevant professional guidance issued by bodies such as the Institute of Chartered Accountants in England and Wales and the Institute of Chartered Accountants for Scotland and the Association of Charity Independent Examiners:
 - www.icaew.com
 - <https://www.icas.com>
 - www.acie.org.uk

Independent examiner – qualifications

In most cases, the independent examiner for a charity's annual accounts must hold particular qualifications.

In all cases, the examiner must be genuinely independent and have the requisite ability and practical experience to carry out a competent examination.

Care should be taken to check that there are no direct or indirect connections between the proposed examiner and the charity, or its trustees, or anyone else closely involved in the administration of the charity, which could prejudice the examiner's capacity to be truly independent.

Checklist

Charities in England and Wales gross income under £250,000

- It is not compulsory for the examiner to hold particular qualifications.

Charities in England and Wales gross income over £250,000

- The examiner must be a member of one of the bodies listed in the Charities Act 2011 and permitted by the rules of that body to undertake the role of independent examiner.
- The relevant bodies are:
 - 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 (now named The Chartered Governance Institute)
 - Chartered Institute of Public Finance and Accountancy
 - Fellow of the Association of Charity Independent Examiners.

Charities on the Scottish Charity Register

- An independent examiner carrying out an examination of accruals accounts for a charity on the Scottish Charity Register must be a member of one of these bodies:
 - Institute of Chartered Accountants of Scotland
 - Institute of Chartered Accountants in England and Wales
 - 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 (now named The Chartered Governance Institute)
 - Chartered Institute of Public Finance and Accountancy
- Or

- A full member of the Association of Charity Independent Examiners
 - Or
 - A person appointed by the Accounts Commission for Scotland
 - Or
 - The Auditor General for Scotland.
- If the charity prepares receipts and payments accounts, it is not a requirement that the examiner holds one of the above qualifications. However, the trustees must ensure that the person appointed as examiner has the necessary knowledge and skills to carry out a competent examination.

Notes

- The individual may be required by the relevant professional body to hold a current practising certificate in order to be eligible to accept appointment as an independent examiner. Note that this is likely to be the case even where the examiner acts on a voluntary basis.

Independent examiner – removal

Removal of an independent examiner should be distinguished carefully from other reasons for the cessation of office of an independent examiner (for example, voluntary resignation).

Forcible removal of an examiner is a serious matter (and a rare event). It is likely to signify there are major problems in relation to the charity.

Where a forcible removal is being considered the charity should seek professional advice.

Checklist

- Obtain professional advice before proceeding with a forcible removal.

Procedure

- There is no specific statutory procedure.

Filing requirements

- Some disclosure, reporting or notification obligations may arise, depending on the circumstance (for example, if there is anything that the trustees or the outgoing examiner should report to the charity regulators).

Notes

- There will normally be a professional adviser/client contractual relationship between the examiner and the charity. Consideration should be given to the correct steps to end that relationship and to deal with any outstanding issues (e.g. unpaid fees to the outgoing examiner).

More information

- Charity Commission guidance for trustees on reporting serious incidents is available on the Commission's website.
- For guidance on the duty of independent examiners to report certain matters to the Commission, see CC32 Independent Examination of Charity Accounts: Examiners (also available on the Commission's website).

Independent examiner - resignation

An independent examiner may choose to resign from office voluntarily. This should be distinguished from cessation of office for any other reason.

Checklist

- Consider the reason for cessation of office (e.g. voluntary resignation) and the applicable procedures.
- Consider the appropriate process for appointing a new independent examiner and follow appropriate procedures.
- A voluntary resignation can usually be reported to the next board meeting; however, if that will not be held for some considerable period it may be necessary to convene an additional meeting e.g. to deal with the appointment of a new examiner).

Procedure

- Ensure any outstanding matters with regard to the final examination by the outgoing examiner are properly dealt with.
- Obtain signed letter of resignation from the outgoing examiner.
- Arrange any required meetings.

Filing requirements

- It is unlikely that there will be any immediate filing/notification obligations on the charity.
- The outgoing examiner should address any required notifications to their relevant professional body etc. and whether there are any matters of concern that may require reporting to the charity regulator(s) (this is rarely the case but might occur).
- The change will be identified in public when the next set of independently examined accounts are filed.
- However, there may be some practical notifications to consider (e.g. ensuring relevant people within the charity are notified of the change and the contact details for the new examiner).

Notes

- If the charity becomes subject to compulsory audit under applicable thresholds, it should arrange for any serving independent examiner to leave office (by voluntary resignation) and take the necessary steps to appoint an auditor.

Date of approval

.....

Date of next review

.....