

INFORMATION SHEET 5.4

INDEPENDENT EXAMINATIONS



WHAT IS AN INDEPENDENT EXAMINATION?

An independent examination is an external review of a charity's accounts and is carried out by an independent person with the requisite ability and practical experience to carry out a competent examination. Independent examination allows the trustees of smaller charities to opt for a simpler form of external scrutiny in place of an audit. See Information Sheet 5.3 Accounting for Charities for more information.

DO WE NEED AN INDEPENDENT EXAMINATION OF OUR ACCOUNTS?

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

For financial years ending on or after 31 March 2015, trustees may opt for an independent examination instead of an audit provided their charity's gross income is not more than £1m, or where gross income exceeds £250,000, its gross assets are not more than £3.26 million.

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. **All charities with an income of more than £25,000 that opt not to have an audit must have to have an examination**

WHO CAN CARRY OUT INDEPENDENT EXAMINATIONS?

When choosing an independent examiner, you should make sure that they are fully independent of your charity and able to carry out a proper charity independent examination. An independent examiner may be, for example, a charity treasurer or finance worker, or an accountant from industry or the public sector. The key is that they must have a good understanding of charity finance and the law. To carry out an independent examination of a charity with an income above £250,000 the

examiner must have a professional qualification or be a member of a body specified in the Charities Act 2006, such as the Association of Charity Independent Examiners (ACIE).

The Charity Commission guidance for trustees on independent examinations (CC31) includes a section on 'How to select your examiner'.

VODA's Finance Team can provide low-cost accounting and Independent Examination services (for charities with an income under £500,000 per year). Contact us on 0191 643 2626 or email finance@voda.org.uk for more information or to discuss your requirements.

WHAT IS THE INDEPENDENT EXAMINER LOOKING FOR?

An examiner, in their report, is only required to confirm that no evidence has been found that suggests certain things have not been done by the charity. This form of 'negative assurance' is a more limited form of scrutiny than an audit.

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

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If a matter is identified which is of material significance to the Charity Commission, where it is likely to consider using its inquiry powers, the examiner has to make a separate report on that matter to the commission in addition to the examiner's report attached to the accounts.

WHICH CHARITIES CAN OPT FOR AN INDEPENDENT EXAMINATION?

For financial years ending on or after 31 March 2015, charities with a gross income of £1m or less may choose to have an independent examination in place of an audit unless both their gross assets exceed £3.26 million and their gross income exceeds £250,000.

Charities with gross income of £25,000 or less are not generally required to have any form of external scrutiny.

Small charitable companies may also opt for an independent examination under the Charities Act provided they are not required or have chosen to have a statutory audit under the Companies Act.

The duty to maintain accounting records, and the form and contents of the accounts of charitable companies still remain subject to company law.

For full information about the legal requirements of charity accounting, please see the Charity Commission website www.gov.uk/government/publications/charity-reporting-and-accounting-the-essentials-cc15b

You may also find VODA's Information Sheet 5.3 Charity Accounting useful