



Charity FAQs: Independent examination

What is an independent examination?

The Charities Act 1993 introduced the requirement for charity accounts to be independently audited.

Independent examination was introduced as part of this new requirement as a 'lighter touch' for smaller charities as it was felt that a full audit in accordance with auditing standards would be a disproportionate requirement for smaller charities in terms of cost, compared to the reassurance of an independent audit.

An independent examination is an external review of a charity's accounts carried out by an independent person with the requisite ability and practical experience to carry out a competent examination. The independent examiner is required to undertake specific work as detailed in Directions laid down by the Charity Commission.

Having completed the work in accordance with the Directions, the examiner is required to prepare a report for the trustees, setting out their findings. This is attached to, and issued as part of, the year end accounts.

How does it differ from an audit?

An audit is the examination of a charity's accounts by a registered auditor. Registered auditors are required to conduct their work in accordance with Auditing Regulations and Standards. Auditing regulations apply equally to large and small organisations.

The nature of an audit, and the report issued, is such that it involves much more work, so it takes longer to perform an audit than an independent examination. This has an implication on the cost to the charity – an independent examination can be as much as half the cost of an audit.

Is an independent examination as good as an audit?

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

The trustees are responsible for appointing the independent examiner and must be confident that they are competent to do the job. The trustees must be sure that the examiner appointed is independent and has sufficient practical experience of charity accounting, including Statement of Recommended Practice (SORP): Accounting and Reporting by Charities, and is able to understand and follow the Charity Commission Directions.

Whilst there is no requirement for the examiner to be professionally qualified, unless the charity's gross income is above £250,000, many trustees still choose to appoint a qualified accountant with charity expertise, especially if they need help preparing accounts on the accruals basis that comply with SORP or may need support between the year end examinations with accounting and related matters.



Can we have an independent examination?

Trustees may opt to have an independent examination subject to:

(a) Audit thresholds

The minimum requirements for charities, for accounting periods **ending** on/after 1 April 2009, are as follows:

Gross assets	Gross income	Requirement
	< £ 25,000	None
< £3.26m	< £250,000	Independent examination
	> £250,000 < £500,000	Independent examination – Qualified examiner
	> £500,000	Audit
> £3.26m	< £250,000	Independent examination
	> £250,000	Audit

(b) Charitable companies

Charitable companies are only eligible for independent examination in respect of **accounting periods beginning on or after 1 April 2008**.

The original 1993 Act excluded charities that were also registered companies as they were already subject to scrutiny requirements under the Companies Act 1985. These special rules were abolished when the Companies Act 2006 came into force.

In order to maintain public confidence in the work of charities, the audit provisions in the Charities Act 1993 were extended to all charities, including company charities, for accounting periods beginning on or after 1 April 2008.



(c) Governing document

A charity must follow the requirements of its governing document if this specifies the requirement for an audit. Trustees can consider replacing specific references to 'audit' with reference to the provisions of the Charities Act. As this is not a fundamental change to the charitable nature of the governing document, this is usually relatively simple to do and can be done without the prior permission of the Charity Commission.

(d) Funding agreements

Some funders require an audit as part of their grant conditions. It is always worth enquiring if they actually mean an audit by a registered auditor, as many are happy with an independent examination.

Where can I get additional help and guidance?

The Charity Commission has produced the following relevant publications which can be downloaded from its website: www.charitycommission.gov.uk

- CC31: *Independent Examination of Charity Accounts: Trustees' Guide*
CC31 contains guidance on independent examination, including appointing an examiner.
- CC32: *Independent Examination of Charity Accounts: Examiners' Guide*
CC32 details the work an independent examination involves, including the Charity Commission's Directions for examiners.

This briefing note is intended for guidance only.
No decisions or actions should be taken without seeking professional advice specific to your charity.

If you would like to discuss how **Myers Clark** can assist you with an independent examination, audit or any other related matter, please do not hesitate to contact us.