

## WHAT CHECKS ARE NEEDED ON OUR ACCOUNTS?

Any organisation with charitable status is handling other people's money. The law says that you must therefore produce accounts each year, and in almost all cases, have those accounts scrutinised by someone completely independent of the charity.

### Isn't that an Audit

Since 1992, a charity audit means a full professional audit by a firm of registered auditors. An audit is only required for charities with an income of more than £1,000,000. However, for the vast majority of smaller charities, the law allows an independent examination, which although covering slightly less than a full audit, is still a very thorough form of scrutiny. It covers exempted charities (e.g. churches, scout/guide groups) as well as registered and charitable companies Ltd by Guarantee.

### What is an Independent Examination?

Independent examination is the process of scrutinising a charity's accounts below the level

of a professional audit. An independent examiner will look at your accounts, gain an understanding of the organisation, compare the accounts to the books, perform various

other checks, and write an independent report for circulation with the accounts. The procedures are laid down by Act of Parliament, by Regulations, and (in England & Wales)

by the Directions of the Charity Commission. Unless your constitution says that you must

have a full audit, most funders and donors are very happy to accept independently examined accounts. If you do not have the skills to produce a full set of accounts complying with charity law, most independent examiners will help with preparing accounts in the format required, for approval by your committee or trustees, as well as examining them.

### Who can be an Independent Examiner?

The law defines an Independent Examiner 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. The key issues are independence (not

someone closely connected with any trustee), ability and experience (especially experience of charity accounts) and a willingness to devote the time and effort needed for a competent examination of the accounts, in accordance with the various regulations on independent examination.

### **Confirming the Appointment**

Once your trustees have agreed to appoint an individual as the Independent Examiner it is vital to confirm this in writing. Some examiners have a standard engagement letter, but if not, you need to send a letter to the person, confirming that he or she is appointed "to undertake an independent examination of the charity's accounts in

accordance with the Charities Act 1993". This must be signed on behalf of the charity trustees. It must also make clear the charity concerned, the accounting year(s) to which

the appointment applies, and it is also a good idea to confirm any discussions about fees

and timescales for the work.

### **The Examiner's Report**

Once the independent examination is complete, the examiner must provide you with a

signed report on your accounts (similar to an auditor's report). All copies of your accounts

(e.g. to funders or to the Charity Commission) must include the independent examiner's

report.

However, the wording of an independent examination report is different from an audit. An

audit report normally says whether the accounts give a "true and fair view". By contrast an

independent examiner's report gives a negative assurance. An independent examiner gathers extensive evidence as required under the rules, and then says whether or not certain matters "have come to my attention".

To paraphrase the Regulations, if the examination is satisfactory, the independent examiner declares that:

- No evidence was found of lack of accounting records
- Nor of the accounts failing to comply with the records
- Nor of accounts failing to comply with the Charities Act
- Nor are there other matters that need to be disclosed.

However, such a declaration can only be made after following twelve stages of Charity Commission directions, so for most smaller charities an independent examination provides

a very effective scrutiny, which goes much further than the "informal audits" of the past,

but which can be carried out without needing a registered auditor.

### **Information Required the First Time the organisation Does an Independent Examination**

- Minutes of the meeting recording the election/appointment of an Independent Examiners.
- A signed letter of engagement between Independent Examiners and your organisation.
- The Constitution or Rules of your organisation. The Memorandum and Articles of Association if it is a Limited Company.
- A copy of the Charity Registration and/or Company House Registration if applicable.
- A list of Trustees or committee members.
- The previous year's Accounts and Audit/Examination report.
- List of cheque signatories with their name and position.
- Equipment inventory including equipment donated to the organisation.
- Schedule of insurance cover

This is not an exhaustive list.

### **Information Require Each Year**

- The main Bank Book and related receipts and invoices.
- Minutes of the meeting recording the election/appointment of VASCAS as Independent Examiners
- The Petty Cash Book and related receipts and invoices.
- Bank Statements for the whole period (including the first and last day of the financial period)
- All bankbooks, cheque books, paying in books etc.
- Letters, advice notes and copy of original bid applications from Funders.
- All wage records for your financial year including tax payments, tax credits, monthly employee and employer NI contributions, pension contributions, P11s, P35s, yellow book etc.
- Any losses to be written off.
- A list of creditors. (Bills unpaid on the last day of the financial period).
- A list of debtors. (Money owed to the organisation on the last day of the financial period).
- Minutes of committee meetings during the year.
- Schedule of insurance cover
- Any changes made during the year.
- If accounts are prepared on a computer a backup copy of the data to be provided on disc.
- Review of activities for the year.
- Reserves Policy.
- Investment Policy.
- Any other information you feel relevant.
- Petty Cash Balance at the end of financial year, actually counted in the petty cash tin.

### **Information (Links)**

Charity reporting and accounting - the essentials March 2015 (CC15c)

The Charities Act 2011 (Group Accounts) Regulations 2015