

Independent examinations

This information sheet is for small charities and charitable organisations that raise money. This could be a donation from an individual, running a raffle or a grant from a funder.

The law states that you must keep a record of your money throughout the year and produce annual accounts. Most organisations then need to have their accounts checked or scrutinised by someone completely independent from the organisation.

This check makes sure that the organisation's finances are managed properly and that the money raised and spent by the organisation is allowed by their objects and by their constitution.

At one time, most charitable organisations were required to employ qualified accountants and pay for a full audit of their accounts. This has now changed and only larger organisations are required by law to have the full audit. Smaller organisations can have their accounts checked by an independent examiner.

Please note that different regulations apply for charitable companies.

Independent examination or audit?

The following three things will tell you whether you need an independent examination or a full audit.

1. Charity law

This lays down the income levels for whether you need an independent examination or an audit. The law also says what type of accounts you need to produce. See the table below for details. If you have an income of less than £10,000 you still have to produce accounts. We would recommend that you have them independently examined even if not required to by law or by your constitution (see below).

2. Your constitution

You must always do what your constitution states, even if it tells you to do more than is required by the law. For example, it may say you must have an independent examination, even if your income is less than £10,000. Other constitutions state that the organisation always has to have an audit by a qualified auditor. The exception to always doing what your constitution says is if the law requires

Income level (£)	Level of scrutiny	Type of accounts
0 – 9,999	No external scrutiny needed	Receipts and payments
10,000 – 99,999	Independent examination	Receipts and payments
100,000 – 249,000	Independent examination or full audit	Accrual
250,000 +	Full audit	Accrual

you to have a full audit. This will always override a constitution that only requires independent examination. It may be possible to change your constitution to reflect changes in law.

3. Your funders

Some funders (and lenders) may require you to have a full audit, even if you don't legally need one. If it is a condition of your funding or loan then you will have to go along with it. However, some funders may use the term without knowing what it really means. It is worth checking what they mean and educating them about charity law if needed!

Who can do an independent examination?

- Someone who understands accounts, perhaps the treasurer of another organisation or someone from your bank
- Someone who is familiar with charity accounting and the guidance set out by the Charity Commission (see publications CC63 and CC64)
- They do not need to be a qualified accountant, although the Charity Commission recommends you use one if your income is over £100,000
- They must be independent of your group. They shouldn't be a committee member, anyone employed by or working with you or a close relative or friend of any of these people
- They can be paid or, preferably, unpaid

How do you choose an independent examiner?

The management committee has the responsibility of choosing someone with the ability and practical experience of carrying out an examination. You can get more guidance on this from the Charity Commission publication CC63.

Have you, or another group, already used someone? You could also ask a treasurer of another group. However, it is proving difficult to find people willing to be independent examiners, both in North Tyneside and elsewhere. You may still find that you have to pay an accountant to do the examination for you.

The Association of Charity Independent Examiners has been set up to try to bring together independent examiners and to help charities select one. You can find their details at the end of this document.

You should discuss the matter fully at a management committee meeting and minute the decision. You should then send the independent examiner a letter formally asking them to carry out the independent examination.

What does the independent examination include?

These eight steps are based on the Charity Commission booklet CC63, and the independent examiner must work through each step.

Step one – what's needed

They will find out if you need an examination and of what type by checking your constitution and level of income

Step two – understanding the organisation

They need to find out about your group by

- reading through your constitution, your last annual report, management committee minutes and other information you may have about your group
- speaking to the management committee, staff (if you have any) and volunteers

Step three – comparison with accounting records

They will compare the end of year accounts you've prepared with your accounting records by

- checking that your books add up
- comparing a proportion of figures against bank statements and cheque books
- checking a proportion of petty cash receipts and vouchers
- checking a proportion of the original records eg invoices and other receipts

Step four – accounting records

They will then check that your accounts

- are well organised and easy to find and understand
- are up to date
- can provide basic information on your finances to anyone wanting to know at anytime during the year
- show all money received and paid out, dates and what the money received and paid out was used for
- show details of assets (eg equipment) and liabilities (eg unpaid bills)

Step five – analytical review

They must look for any unusual and inconsistent items in your accounts, and will

- compare the year's budget (what you predicted you'd spend) and the annual accounts (what you actually spent)
- check that money was only spent on what you are set up to do
- speak to the management committee if any unusual items are found. The notes to the accounts should include anything that would need explaining to other people to help them understand the accounts

Step six – examiner's report

The examiner will then give you a report on the examination process and your accounts. This can be in a letter format, and should include

- name and address of independent examiner
- date examination carried out
- name of your group
- date of the financial year
- notes about the accuracy of your accounts, eg bringing up any areas of concern

Step seven – reporting to the Charity Commission

The independent examiner must tell the Charity Commission if one or more of your management committee members has been responsible for deliberate or reckless misconduct in the administration of your organisation

Step eight – documentation

The independent examiner must keep records of independent examinations. These should be kept for six years, and should include

- the letter you sent asking the independent examiner to carry out the examination
- the main points found out from step two above
- notes about any areas of concern
- copies of your accounts and annual report

For more information

Charity Commission publications

www.charity-commission.gov.uk

- *CC63 – Independent examination of charity accounts*

This publication is aimed at independent examiners, but also includes guidance on choosing an examiner. It also gives information on what should be included in the examiner's report and gives examples.

- *CC64 – Receipts and payments accounts pack 2001*

Association of Charity Independent Examiners

Bentley Resource Centre, High Street
Bentley, Doncaster DN5 0AA
Tel: 01302 828338 Fax: 01302 872973
e-mail: infor@acie.org.uk
www.acie.org.uk

ACIE will send you a list of their members if you write to them on your letterhead for the list. The letter should state that you need an independent examination, your income and your financial year.

www.cash-online.org.uk

www.communityaccounting.co.uk

North Tyneside VODA can offer help and advice on setting up a simple book keeping system and financial management

For more information contact

① **Julie Eastlake**
Finance Officer on
Voice **0191 200 8559** or
julie.eastlake@voda.org.uk

North Tyneside VODA training

VODA runs a range of training on book keeping and financial management. Training is offered both as part of the regular *Training the Voluntary Sector* (TVS) programme or can be tailored to meet the specific needs of your organisation.

For more information contact

① **North Tyneside VODA**
Voice **0191 200 8555**
training@voda.org.uk

If you copy this information sheet, please acknowledge North Tyneside VODA and make sure you have the latest version

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