

5. Who can act as an independent examiner?

For charity trustees and independent examiners

Section 4 outlines the criteria for determining whether or not a charity is eligible to have its accounts independently examined. This section explains the different requirements for the individual acting as an examiner depending on the form of accounts being prepared by the charity.

Charity trustees should always bear in mind that they have an important responsibility when appointing an independent examiner.

- Where receipts and payments accounts are prepared, the examiner should be someone who they believe is able to carry out an independent examination in line with the relevant requirements. The trustees should satisfy themselves that the person appointed has the necessary skills to be able to carry out the engagement which may depend on the complexity of the charity's operations and its accounts.
- Where fully accrued accounts are prepared, the examiner should be someone who is professionally qualified to undertake the role.

5.1 Receipts and payments accounts

Receipts and payments accounts are a simple form of accounting that broadly consists of a summary of all monies received and paid by the charity during its financial year, along with a statement of balances at the year end.

Under the 2006 Regulations, receipts and payments accounts must consist of:

- a Trustees' Annual Report
- a Statement of Receipts and Payments
- a Statement of Balances as at the last day of the financial year
- notes to the accounts.

Plus a report from an independent examiner or auditor.

The independent examination of receipts and payments accounts must be carried out by someone independent of the management and administration of the charity and whom the charity trustees believe has the required skills and experience to carry out a competent examination of the accounts.

In deciding who might have the required skills, the charity trustees should take into consideration the degree of complexity of the accounts. The more complex the accounts are, the higher the level of experience and knowledge likely to be required by the independent examiner.

The types of people whom charity trustees could consider as having the required skills and experience might include:

- full or associate members of the Association of Charity Independent Examiners
- qualified accountants currently in employment
- retired accountants
- other people familiar with financial matters who can demonstrate familiarity with the current reporting requirements for Scottish charities.

5.2 Fully accrued accounts

Under the 2006 Regulations, fully accrued accounts must consist of:

- a Trustees' Annual Report
- a Statement of Financial Activities (SoFA)
- a Balance Sheet as at the last day of the financial year
- notes to the accounts.

Plus a report from an independent examiner or auditor.

For charities producing fully accrued accounts, the independent examination must be carried out by an individual who is appropriately qualified in matters of accounting and financial administration on the basis that the accounts to be examined are more complex.

The 2006 Regulations specify that the independent examiner **must** be one of the following individuals:

Either:

- a member of one of the following professional bodies:
 - The Institute of Chartered Accountants of Scotland
 - The Institute of Chartered Accountants in England and Wales
 - The Institute of Chartered Accountants in Ireland
 - The Association of Chartered Certified Accountants
 - The Association of Authorised Public Accountants
 - The Association of Accounting Technicians
 - The Association of International Accountants
 - The Chartered Institute of Management Accountants
 - The Institute of Chartered Secretaries and Administrators
 - The 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.

5.3 Independence

It is critical that an independent examination is carried out by someone who is independent of the charity, and seen to be so. Independence is not possible if you are:

- one of the charity's trustees
- anyone else involved in the management, control or administration of the charity, which usually means being a senior employee of the charity. However, there are also occasions where a volunteer (other than a trustee) also has a key role and so would not be independent.

Given that independent examination is about the charity's finances, there are certain people within a charity who are particularly likely to be asked *inappropriately* to take on the role of examiner. These include the charity's treasurer or book-keeper who keep the day to day records from which the formal accounts are prepared. This is because, if they carried out the independent examination, they would end up checking the integrity of their own work.

However, independence can also be compromised by being 'connected' to the charity. Such a connection can arise because of:

- a family relationship. For example, you may be the parent or child of a trustee or senior employee.
- a financial or commercial relationship. For example, you represent a body which funds the charity or the charity contracts with you to provide it with certain services other than independent examination.

Where the connection is financial or commercial:

- the connection is only relevant if it is significant to the charity's operations. For example, the person providing the window cleaning service at a charity shop is probably not connected in a significant way, whereas the landlord of the shop premises probably is.
- the connection is not only about any individual relationship, it is also about the organisation or business that you work for. In this case, if you work for a firm or body which has a significant contractual relationship with the charity (or, indeed, are a partner of such a body), it is likely that you will not be independent.

If there is a connection, it may be possible to put arrangements in place within an organisation or firm so that there is sufficient distance between those managing any contractual relationship and the person carrying out the independent examination. These are often referred to as 'Chinese Walls'. The arrangements need to be thought through and planned very carefully. They should not simply pay lip-service to the concept of independence and all parties should be satisfied that they address the issue adequately.

Particular groups who need to give this aspect of independence special consideration are those who act for the charity as accountants or financial advisors and/or who prepare the charity's formal accounts. Again, there is scope for arrangements to be put in place to safeguard independence, but these must be considered carefully in advance. To protect independence in such a case, the basic underlying principle is that any person involved in keeping the underlying accounting records for the charity i.e. providing bookkeeping services or involved in the administration of the charity should not be involved in providing independent examination services to the same charity.

See also the Glossary of terms – 'connected persons'