



# Independent Examination: A Guide for Independent Examiners

# Contents

Section 1: Introduction	<b>4</b>
Section 2: Types of external scrutiny	<b>7</b>
Section 3: Eligibility for independent examination	<b>11</b>
Section 4: Who can act as an independent examiner	<b>16</b>
Section 5: Appointment as an independent examiner	<b>21</b>
Section 6: The work of the independent examiner	<b>25</b>
Section 7: Whistleblowing – continuing reporting duties for independent examiners	<b>38</b>
Section 8: Cross Border Charities	<b>43</b>
Section 9: Example independent examiner's reports	<b>45</b>



# Introduction

## What this Guide covers

This Guide aims to explain, in broad terms:

- How to understand what form of external scrutiny is applicable to different charities
- What independent examination involves
- What responsibilities and duties are attached to the role of the independent examiner.

## Who is this Guide for?

This Guide is for anyone who acts as an Independent Examiner for a registered Scottish Charity, or anyone who has been asked to act as an Independent Examiner for a registered Scottish Charity.

Find out more about preparing accounts by going to our website and viewing our **Accounts and finance guidance** and **Annual monitoring** page.

## How to use this Guide

The Guide is split into sections to help you find the information most relevant to you and your charity.

Key terms are highlighted in **bold purple type**. These terms will be explained in the **accounting terms glossary** in the **A Guide to Charity Accounts** booklet.

Within the Guide, we have posed some ‘**milestone**’ questions for the reader. These are designed to help indicate when to make a particular decision. We have provided some answers to these questions and some practical tips. Hopefully you will find these helpful as you progress through the Guide.

## The law and the rules

- **Charities and Trustee Investment (Scotland) Act 2005 (the 2005 Act)**

The main piece of charity law in Scotland that sets out the requirements for being a charity and establishes OSCR.

- **The Charities Accounts (Scotland) Regulations 2006 (the Regulations) as amended**

The 2006 Regulations set out in detail what information trustee annual reports and charity accounts must contain and when they must be submitted to OSCR. Amendments to The Charities Accounts (Scotland) Regulations are as follows: **2007, 2010, 2014, 2016, 2017** and **2018**.

- **Statement of Recommended Practice (SORP)**

The SORP sets the framework for charity financial reporting in the UK for charitable companies, charities with income of £250,000 and more and all other charities preparing accruals accounts.

## Sources of help and advice

OSCR publishes general guidance for charities, but we can't provide specific advice on the full range of things which can happen in or affect your charity.

Below is a list of organisations, professional bodies and publications that can help with some or all of the areas set out in the Guide and more:

Organisations:

- Local **Third Sector Interfaces** offer a range of support to voluntary organisations.
- The **Scottish Council for Voluntary Organisations (SCVO)**.
- If your charity is part of an umbrella organisation, such as **Early Years Scotland** or the **Development Trusts Association Scotland**, the umbrella organisation or parent charity may be able to give you support.

- The **Charity Commission for England and Wales** is the Regulator for charities in England and Wales and provides information and advice on matters affecting charities in England and Wales.
- The **Charity Commission for Northern Ireland** is the Regulator for charities in Northern Ireland and provides information and advice on matters affecting charities in Northern Ireland.
- **Companies House** has information on Company law and the accounting rules for companies.

Professional bodies:

- **The Institute of Chartered Accountants of Scotland**
- **The Institute of Chartered Accountants in England and Wales**
- **Chartered Accountants 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**
- **The Association of Charity Independent Examiners**
- **The Institute of Financial Accountants**

Publications:

Accounting and Reporting by Charities: Statement of Recommended Practice 2015. Copies can be downloaded at: [www.charitiessorp.org](http://www.charitiessorp.org). Hard copies may be purchased from CIPFA. Contact 020 7543 5600.

- Practical Guide to Financial Management for Charities and Voluntary Organisations. By Kate Sayer, 3rd edition, 2007, **Directory of Social Change**. ISBN 978 1 903991.
- The Charity Treasurer's Handbook. By Gareth Morgan, 5th edition. 2017, **Directory of Social Change**. ISBN 978 1 78482 013 8.

## Section 2: Types of external scrutiny

In Scotland, more than two thirds of charities are 'small' – that is, they have an annual income of less than £25,000. OSCR recognises that complying with statutory requirements can sometimes be challenging for 'small' charities due to the resources available to them therefore OSCR publishes specific guidance to assist and support the small charity. This Guide aims to be a comprehensive package, providing information and practical guidance on both the preparation of accounts and external scrutiny. The Guide is written particularly for the smaller charity although a number of best practice elements are also applicable to larger charities.

All Scottish charities are required to prepare annual accounts. These consist of numerical information and also a **Trustees' Annual Report** which is narrative information providing details that cannot be expressed in financial terms. This is important for a full understanding of the charity, its organisational structure, purpose and the activities that it carries out. The report is particularly useful for readers who are not familiar with accounts but are still interested in understanding what the charity has achieved.

A charity's accounts are a means of communication that the charity can use to its own advantage. Anyone who has ever given time or money to a charity will have an interest in understanding how the charity uses that money.

OSCR has already published specific guidance on our website about how to prepare accounts, and on the content of the Trustees' Annual Report:

- **A Guide to Scottish Charity Accounts**
- **Receipts and Payments Accounting Workpack**
- **Trustees Annual Reports: Good practice and guidance**

Under **statutory requirements**, the accounts of Scottish charities must be externally scrutinised. That is, someone who is independent of the charity has reviewed the accounts and produced a report, attached to the accounts, that highlights any issues to the reader. As such, external

scrutiny is an important component of the overall regulation of charities in Scotland, a scheme designed to ensure transparency and public accountability by charities.

## 2.1 What is independent examination?

Independent examination is one of the two forms of external scrutiny that may be carried out under the statutory provisions in Scotland.

Broadly speaking, an independent examination involves reviewing the accounting records and the annual accounts of the charity and considering whether the annual accounts properly reflect the underlying records. An independent examination provides a degree of comfort that the figures in the accounts, including the **Trustees' Annual Report**, present an accurate picture of the financial activity of the charity during the accounting period.

Also involved in the independent examination process is consideration of any unusual items in the accounts that may require further discussion or explanation from the **charity trustees**. The independent examination seeks to consider whether the charity's accounts, fulfil the requirements of the 2006 Regulations. The independent examiner also reviews the Trustees' Annual Report for any inconsistency with the accounts.

## 2.2 Independent examination versus audit

An independent examination is a form of external scrutiny of the accounts which:

- is a statement that nothing has been found that needs to be brought to the attention of readers of the accounts (or the opposite if this is the case).
- is less rigorous than an audit
- is less costly than an audit.

The independent examiner's report is prepared on an 'exception' basis. This means that there is an assumption that the examiner is content with the accounting records and accounts unless they specifically state otherwise. The report is intended to be simpler than an audit and no



opinion is expressed on whether the accounts give a “true and fair view”.

In contrast, an auditor is required to build up a body of evidence and express an opinion on the accounts. The opinion given in an audit depends on the nature of the accounts that have been prepared.

- If receipts and payments accounts have been prepared, the opinion will state whether or not the accounts ‘properly present’ the receipts and payments for the charity for the financial year. In practice, OSCR expects very few charities preparing receipts and payments accounts to have an audit.
- If fully accrued accounts have been prepared, the opinion will state whether the accounts provide a ‘true and fair view’ of the financial affairs of the charity and its income and expenditure during the year then ended.

Historically, the term ‘audit’ has been used loosely to describe any external scrutiny of accounts, although since 1990 it has had a more specific meaning. Under the 2006 Regulations, if the term ‘audit’ is used in a charity’s governing document, the charity must have its accounts audited by either:

- a registered auditor
- the Auditor General for Scotland
- an auditor appointed by the Accounts Commission for Scotland (responsible principally for public bodies).

### Milestone 1

- **Does the governing document of the charity require an audit to be carried out rather than an independent examination?**

If the **governing document** contains a requirement for audit, the examiner would not be able to independently examine the accounts. If the charity trustees wanted an examination to take place then they would need to seek to amend the governing document. See **Making**

**changes to your charity** on our website for more information.

# Section 3: Eligibility for independent examination

In Scotland, the formal requirements for accounts and external scrutiny are contained within the 2005 Act and the 2006 Regulations. The requirements differ depending on the legal form of the charity, the level of the charity's income and any relevant provisions contained in the charity's governing document.

This section looks at the relevant factors and explains how to understand what the required form of external scrutiny is for a charity. More detailed information on the preparation of accounts and the relevant requirements can be found within the **Accounts Guide** on OSCR's website.

## 3.1 Type of accounts

The table below sets out the formal requirements under the **2006 Regulations** for the form of accounts to be prepared by Scottish charities.

Gross income	Format of accounts	
Less than £250,000	Non-company charities:  receipts and payments accounts	Charitable companies and Community Benefit Societies: fully accrued accounts
£250,000 and over	Fully accrued accounts	

Preparers of accounts also need to consider any relevant requirements of the charity's governing document in understanding the format of accounts to be prepared – there may be provision requiring accrued

accounts to be prepared for example which would overrule the above threshold requirements.

## Receipts and payments

Non-company charities with gross income of less than £250,000 will normally prepare a simple form of accounts called 'Receipts and Payments Accounts'. These are much easier to compile than fully accrued accounts as they simply provide basic information regarding the money that has come into and been paid out by the charity. Therefore, an individual does not need to be professionally qualified to undertake the role of independent examiner for these accounts.

However, where an audit of receipts and payments accounts is required as a result of a requirement in the governing document, a decision of the charity trustees or any other enactment, a qualified auditor will be required.

Trustees of charities that are eligible to prepare receipts and payments accounts may choose to prepare fully accrued accounts instead. However, they should be aware that such accounts will require to be examined by a qualified independent examiner, which may have a cost implication for the charity.

## Fully accrued

Charitable companies are always required to prepare fully accrued accounts. They do not have the option of preparing receipts and payments accounts. This is due to company law requiring such bodies to prepare accounts that are 'true and fair'.

Non-company charities with gross income of £250,000 or above must also prepare fully accrued accounts.

Where fully accrued accounts are prepared, they must be prepared under the methods and principles of the SORP. The external scrutiny of fully accrued accounts must be carried out by an individual who is professionally qualified to understand such accounts as they can be complex in comparison to receipts and payments accounts.

## 3.2 External scrutiny criteria

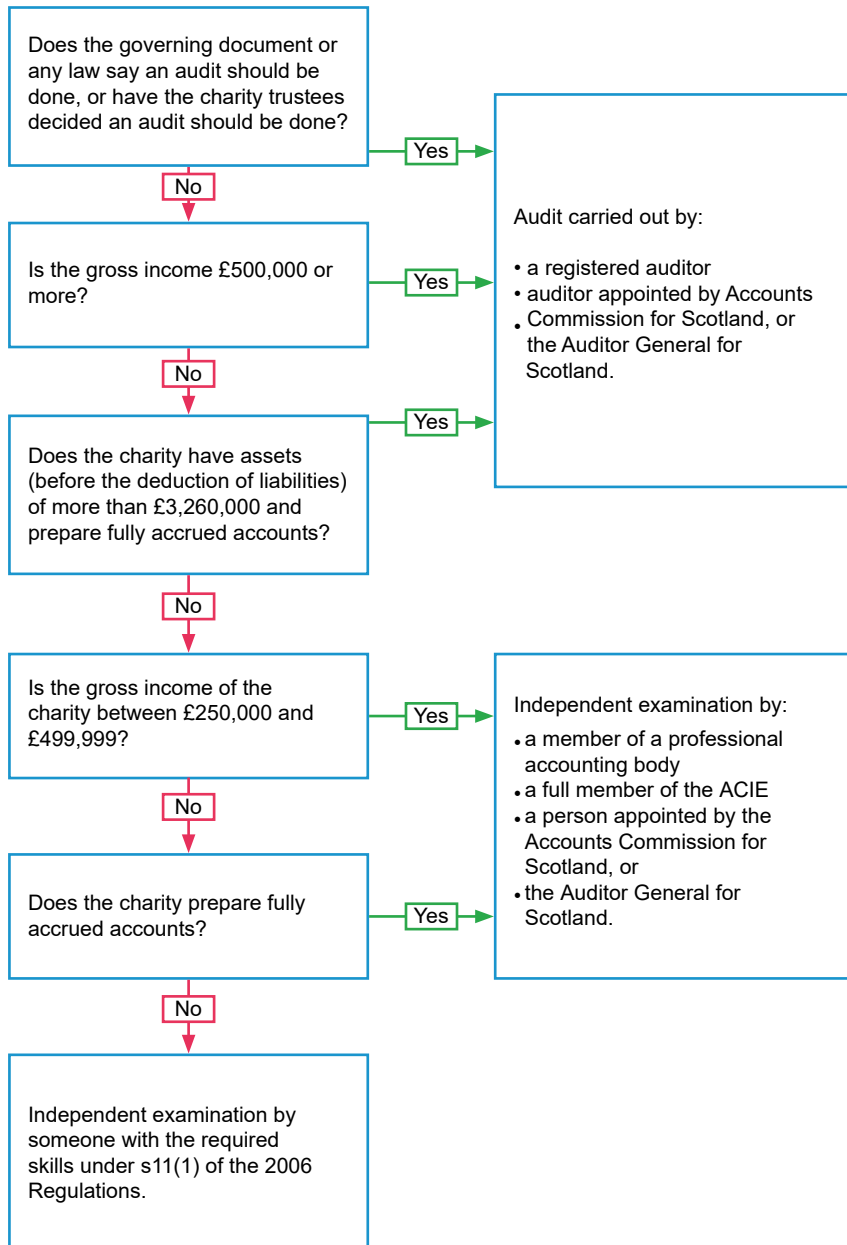
Flowcharts 1 and 2 on the following pages provide a step by step guide to understanding the appropriate form of external scrutiny for Scottish charities. Note that there are different steps depending on whether the charity is a company or not.

Flowcharts 1 and 2 show that there are different forms of independent examination depending on the form of accounts being produced by a charity. In the next section we will look at these differences to provide a better understanding of the relevant underlying principles and how this affects the process of the independent examination.

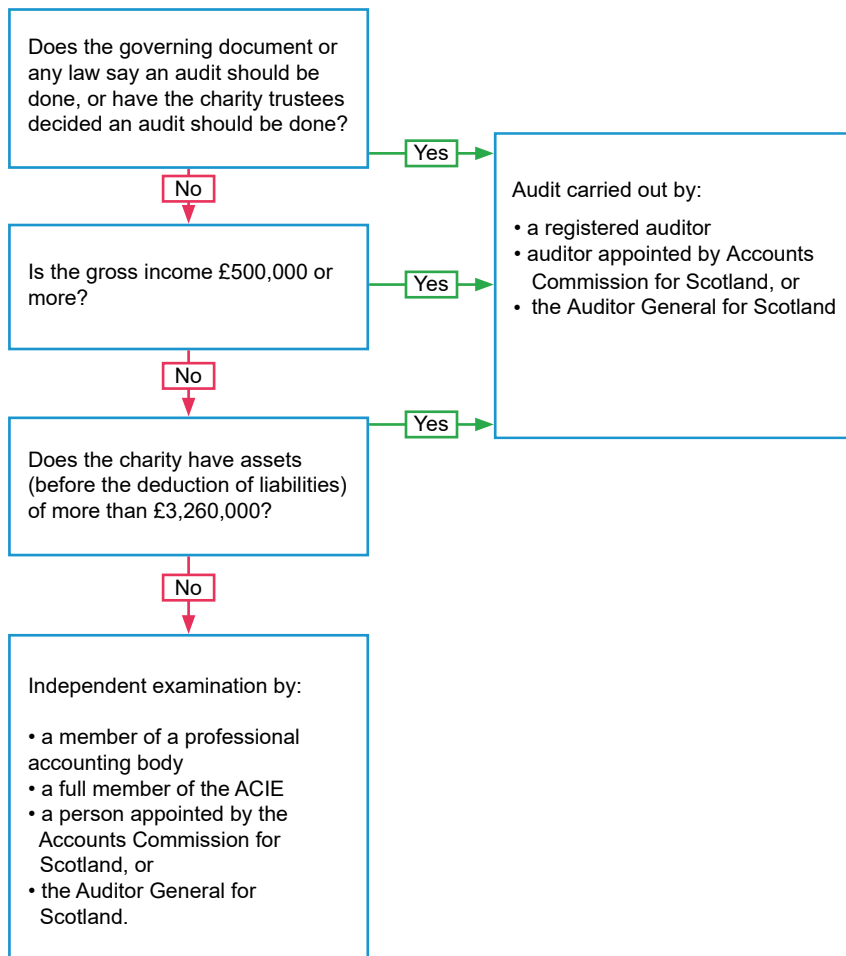
### Milestone 2

- **Is it clear whether receipts and payments accounts or fully accrued accounts are to be prepared by the charity for the financial year concerned?**
- If it is still unclear which type of accounts should be prepared, please refer to our **Guides to Charity Accounts**.
- If receipts and payments accounts are to be prepared, you may wish to use our **Receipts and Payments Workpack**.
- If fully accrued accounts are to be prepared, the SORP is available to download from **[www.charitySORP.org](http://www.charitySORP.org)**.

## Flowchart 1: External scrutiny for non-companies



## Flowchart 2: External scrutiny for Companies



# Section 4: Who can act as an independent examiner

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.

## 4.1 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.

## 4.2 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 and has the necessary knowledge and skills to examine more complex accounts.

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**
  - **Chartered Accountants 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**
  - **The Institute of Financial Accountants**

Or

- a full member of **The Association of Charity Independent Examiners**

Or

- the **Auditor General for Scotland**

Or

- a person appointed by the **Accounts Commission for Scotland**.

### 4.3 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
- a connection with a trustee. For example someone who was

employed by a trustee, or managed by a trustee (even in another organisation) would not be independent of the charity's trustees

- a prior connection to the charity. For example someone who had recently stepped down as a trustee or from a senior role in the charity would not be independent.

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. 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.

However, someone who simply helps the trustees prepare the accounts in the required format (but who is not involved in keeping the accounting records) could also act as independent examiner provided the trustees fully understand that it is their duty to review any draft accounts prepared on their behalf.

See also the Glossary of terms on our website – ‘**connected persons**’

# Section 5: Appointment as an independent examiner

Taking on the role of Independent Examiner can be a valuable way of contributing to Scotland's charity sector. Ensuring charity annual reports and accounts are independently scrutinised is an important part of charities being transparent and accountable with the public.

## 5.1 Accepting appointment as an independent examiner

Where an individual is approached to act as an independent examiner, they should ensure that they have the necessary knowledge of the 2005 Act, the 2006 Regulations, the SORP and accounting standards (if appropriate) and the charity itself to be able to carry out the examination.

They should also ensure that they comply with any relevant requirements of, or guidance issued by, any professional bodies of which they are a member, before accepting such an engagement. Individuals who hold membership of one of the professional bodies listed in section 4.2 should ensure that the status/level of their membership permits them to act as independent examiner of the accounts for the charity concerned.

Where an individual is a member of more than one professional body, compliance with the relevant requirements and guidance issued by all of those bodies should be ensured. They must have regard to the rules of the stricter body and not undertake an independent examination outwith those limits.

Where an individual has been asked to take on the role of independent examiner and there has been a previous examiner, there should be some form of correspondence between the previous and new examiner to ensure a smooth handover between them. This also allows any issues that may have been a factor in the previous examiner ceasing to hold office to be brought to the new examiner's attention.

The new examiner may consider asking the following questions of the previous examiner. Has the previous examiner stopped acting for this charity because:

- they have retired or changed their line of business?
- the circumstances have changed such that the examiner cannot continue in that role e.g. the charity's income has risen above a key threshold, or the individual wants to become more involved in the charity which would compromise their independence?
- they are no longer prepared to work with the charity? For example, has their advice been ignored?

Before accepting appointment, the prospective independent examiner may wish to use the following questions as a guide to whether they feel they have the relevant skills and abilities to carry out the examination.

- Do I have sufficient knowledge of the charity itself and the charitable sector?
- Do I have sufficient understanding of the legal requirements for the charity's accounts?
- Are the accounts likely to be simple or complex?
- Do I have the necessary skills to understand the level of complexity of the accounting records?
- Am I independent of the charity trustees and the management, control and administration of the charity?
- If this is my first appointment as an independent examiner, do I feel able to carry out the work?
- Does my governing body authorise me to carry out the work? (qualified independent examiner).
- Are there any issues raised by the previous examiner that need to be considered? (if applicable)
- If I am being asked to prepare the accounts as well as acting as the independent examiner, do the trustees clearly understand the difference between my role in assisting them with their duty to prepare accounts and my own role as independent examiner?

### **Milestone 3**

- **Should I accept appointment as independent examiner?**

Before accepting appointment, individuals may wish to consider whether it may be appropriate for them to take out professional indemnity insurance (PII) to cover them in their capacity as an independent examiner. This is normal practice for professionals acting in such a capacity and therefore potential examiners may wish to consider whether this would also be appropriate for them.

OSCR's view is that it is difficult to foresee situations where it would be necessary for non-professional independent examiners to need professional indemnity insurance as it is hard to envisage where there may be third party exposure or significant risk arising from reliance placed on a set of receipts and payments accounts.

However, there are no set rules and, in highlighting this issue here, OSCR does so to bring the matter to the attention of the reader to enable an informed choice to be made.

## **5.2 Recording the appointment as an independent examiner**

Once the charity trustees have chosen an independent examiner, there should be a formal record of the agreement between the charity trustees and the examiner to ensure that both parties understand the services to be provided and the extent of the duties and rights of both the charity trustees and the examiner.

One method of formalising the relationship between the charity trustees and the independent examiner is by way of an 'engagement letter'. This is most commonly used by independent examiners who are providing such services on a commercial basis – that is, they are charging a fee for such work – and will usually take the form of a formal letter issued by the independent examiner. Alternatively, a letter can be issued by the charity trustees.

An 'engagement letter' is usually written by the person who is being asked to act as an independent examiner. This type of letter is addressed to the charity trustees and sets out the services that the independent examiner will provide, their fee and the duties that they have, as an examiner, under the relevant legislation. The letter should include details regarding the timetable for the independent examination and a schedule of the work to be carried out.

The examiner will prepare and sign two copies of the letter and send them to the charity trustees for consideration and signing. Thereafter, one copy will be returned to the independent examiner and the other retained by the charity trustees for their own records.

**Charity trustees** are encouraged, as a matter of best practice, to consider formalising their relationship with the independent examiner by setting out the services that are expected via a letter of appointment. This will enable both parties to understand and appreciate the extent of the work and duties involved in the independent examination process. For smaller charities, where the examiner is an unpaid volunteer for example, an email could be adequate if the charity trustees and independent examiner feel that this is appropriate.



# Section 6: The work of the independent examiner

In order to assist those providing independent examination services, a number of 'best practice' steps have been identified for examiners to follow in undertaking their duties.

Each step is explained in more detail in this section and the milestone that follows allows the independent examiner to check that they have completed that step and are ready to move on.

## Step 1: Preparation by the independent examiner

Independent examiners, in preparing for the review of the accounting records and annual accounts, should ensure that they have an understanding of the charity for which they are providing a service.

This means that the examiner should be aware of, and understand, the objectives of the charity and the activities that it undertakes in order to further those objectives. This is necessary in order for the examiner to be satisfied that the spending of the charity is in line with the charitable purposes. Identification of any expenditure outwith the scope of the charity's purposes may constitute a matter that should be reported by the examiner to OSCR.

For those independent examiners charging a fee and therefore deemed to be providing 'accountancy services', there is also a need to comply with the Proceeds of Crime Act 2002, Money Laundering Regulations, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 - this includes the need to hold proof of identification and address for the principal office bearers and a proportion of the charity trustees.

As preparation for the examination, the independent examiner may wish to use the following questions as a guide to whether they are ready to carry out the examination.

- Am I familiar with the accounting and reporting requirements?
- Have I read the governing document of the charity?
- If fully accrued accounts are being prepared, am I qualified to carry out the examination?
- What practical knowledge of the charity do I have?
- Have I seen the last set of accounts?
- Have I seen – or will I have access to – all the accounting records of the charity for the financial year concerned?
- Have I seen the minutes of all meetings of the charity trustees for the financial year concerned?
- Have I seen the minutes of any other relevant meetings of the charity trustees, including the meeting where approval was given for my appointment?
- Have I checked the OSCR register entry for the charity?

#### **Milestone 4**

- **Have I carried out the necessary preparatory work?**

## **Step 2: Ensuring that the charity has prepared its accounts on the correct basis and that it is eligible for independent examination**

This step involves looking at a number of criteria in order for the examiner to be satisfied that the accounts of the charity are prepared on the correct basis and that independent examination is the permitted form of external scrutiny for the charity. It is also important to check if the examination must be carried out by a qualified person or not.

Therefore, there are several key elements to consider:

- If the charity has prepared receipts and payments accounts, is it eligible to do so under the 2006 Regulations?
- Is the charity a company?

- Is the charity eligible for independent examination under the 2006 Regulations?

### Can the charity prepare receipts and payments accounts?

The 2006 Regulations set out when a charity is eligible to prepare accounts on a receipts and payments basis. This is where the gross income of the charity is less than £250,000 and the charity is not a company.

In addition, the examiner should ensure that they are provided with a copy of the most up to date governing document for the charity as it is possible that the document will contain specific provisions about the format of the accounts to be prepared. For example, there may be reference to 'true and fair' accounts which would require the preparation of fully accrued accounts. Receipts and payments accounts do not fall within the definition of 'true and fair' in this context.

### Is the charity a company?

Where the charity is also a company, it is required to comply with not only charity law but also company law. This means that the charity must prepare fully accrued accounts on a 'true and fair' basis in accordance with both charity and company law. An independent examination must then be carried out by an appropriately qualified individual as explained in section 4.2.

### Eligibility for independent examination

It is important to ensure that the charity is eligible to have an independent examination of its accounts rather than an audit. This not only involves looking at the gross income and gross assets of the charity but also at the governing document of the charity.

#### Milestone 5

- **Are the charity's accounts prepared in the required form?**
- **Is the charity eligible for an independent examination?**

### Step 3: Keeping a record and planning the work required

This step involves thinking about what processes need to be carried out and how they will be recorded. Obtaining a good understanding of the charity, its charitable objectives or purposes and the activities that it carries out to further or achieve these purposes, forms an integral part of deciding on what processes are most appropriate. It is also important for an examiner to keep a written record of their work from the planning stage through to their report. Any evidence, analysis or explanations the examiner obtains should be kept as part of this recording of their examination.

The record of work done during the examination process is for the benefit of the examiner, not OSCR. The record should focus on key risk factors. A comprehensive manual is not required – a series of bullet points, for example, may be sufficient at the planning stage and tick boxes alongside this would provide a record of completion. Key risk factors could include the adequacy of staffing levels and cash handling arrangements. The more complex the charity, the more risk factors that will need to be considered.

During the planning stage the examiner should consider any issues surrounding their independence. Any issues and consequent safeguards introduced should be clearly documented within the working papers. Any items documented as a threat to independence and any safeguards implemented should also be communicated to the trustees of the charity.

Once the examiner has a clear understanding of what the charity does and why, they should then consider the format of the accounting records held by the charity and the form of accounts prepared. This will guide the examiner in deciding on the most appropriate process to apply to the examination. For example, the processes carried out when examining a set of receipts and payments accounts are likely to be different to those carried out in the course of an independent examination of a set of fully accrued accounts. Similarly, the processes carried out when examining a very basic set of accounting records comprising a manual cash book, bank statements, receipts and invoices will be different to those carried out when examining a charity that uses a computerised accounting package to maintain its

accounting records.

A practical example may be that when examining a set of basic, manual accounting records, an examiner is likely to carry out some work to ensure that the entries made in the cash book correspond to transactions listed on the bank statements and to an invoice or receipt. Where a charity is using a computerised package to maintain the accounting records, this may be done initially on a test basis, but is unlikely to be required after that.

### **Milestone 6**

- **Have I planned the work adequately?**
- **Do I know what processes are required?**
- **Do I have an adequate method of documenting my work?**

## **Step 4: Accounting records and the comparison with the accounts**

Under the 2006 Regulations, the independent examiner is required, in their report, to state whether any matter has come to their attention that gives them cause to believe that in any material respect accounting records have not been kept in respect of the charity in accordance with the requirements of the 2005 Act and the 2006 Regulations.

### **Accounting records**

In order to be able to fulfil the obligations placed on the examiner by the 2006 Regulations, it is necessary for the examiner to review and consider the accounting records in some depth. The accounting records are required by the 2006 Regulations to be sufficient to show and explain the transactions of the charity and which:

- disclose the financial position of the charity at any time
- enable the charity trustees to ensure that the accounts are prepared in accordance with the 2006 Regulations.

The 2006 Regulations specify that the records shall contain:

- entries showing from day to day all sums of money received and spent by the charity and the source or application of those monies
- a record of the assets and liabilities of the charity.

In practice, for smaller charities the records will typically consist of:

- a basic cash book, either paper or electronic, written up on a regular basis. Records should be written up, where possible, as transactions occur.
- a record of assets and liabilities which might include a fixed asset register. This would detail equipment held with corresponding purchase cost and current value.
- a list of debtors and creditors – those people or organisations that owe money to the charity or are owed money by the charity – and the amounts due.

However, the relevant supporting documents are also part of the accounting records – for example:

- receipts for payments made
- PAYE records if the charity has employees
- funding agreements
- donor records for incoming donations.

The independent examiner, in the report, is required to state whether any matter has come to their attention that gives them cause to believe that in any material respect accounting records have not been kept in accordance with the relevant requirements.

### **What does ‘material’ mean?**

‘Material’ in this context means that the examiner is required to consider whether the overall format and content of the accounting records appears to be in line with the requirements outlined above. The objective is not to identify every single unintentional error or missing receipt. On a practical level, if the examiner were to stand back and look at the accounts, does the omission or inclusion of an error alter the overall picture that the accounts portray? If so, the item or issue is considered to be material.

In determining whether an amount is material, judgements will have to be made. Examiners familiar with materiality from a commercial point of view should note that materiality thresholds tend to be lower for charities because of the implicit trust placed on charities due to the nature of their income.

For further clarification, please refer to the Glossary of terms definition of **'material'**.

### Comparing the accounting records with the annual accounts

After examining the accounting records, the examiner should then consider those records in comparison with the annual accounts. The accounts must fairly reflect the underlying records and this is what the examiner should consider. For charities that have more than one type of fund for example, **unrestricted, restricted and endowment funds**, it is important to ensure that the transactions that relate to each fund are easily identifiable from the accounting records in order that they can be easily related to the appropriate columns within the accounts. If the charity has more than one restricted or endowment fund, the examiner needs to consider whether each fund is properly recorded – it is not enough just to distinguish income and expenditure as 'unrestricted' or 'restricted'.

The examiner should compare the accounts of the charity with the charity's accounting records in sufficient detail to provide a reasonable basis on which to decide whether the accounts are in accordance with the accounting records.

The examiner needs to carry out sufficient procedures to be satisfied as to whether or not the regulatory requirements have been met in terms of the substance of the accounting records.

This does not mean, however, that the examiner has to individually check every receipt or invoice to a corresponding bank deposit or cash withdrawal for example.

Examples of procedures that may be carried out would be:

- reviewing bank statements, cash books or other accounting records for large or unusual items or transfers

- checking for completeness (control accounts, bank reconciliations)
- checking from books and records to the accounts (paying-in books to banking to accounting entries to accounts)
- checking invoices and receipts to consider whether the nature of the expenditure fits with how its has been recorded in the books
- checking back from accounts to accounting records if anything looks unusual.
- reviewing funding letters to check if funding is restricted and has been shown correctly in the accounts.

### Milestone 7

- **Are the accounting records sufficient in terms of the formal regulatory requirements?**
- **Do the accounting records support the accounts?**
- **Are there any material items to consider that are not adequately represented in the accounts?**

## Step 5: Form and content of accounts

### Statutory requirements

Under the 2006 Regulations, an independent examiner must consider whether the form and content of the accounts is in line with the statutory requirements. If they consider that the accounts do not comply in any material respect, they must state this in their report.

In practical terms, the actual work to be carried out will differ depending on whether the accounts are prepared on a receipts and payments basis or a fully accrued basis.

- For receipts and payments accounts, the examiner will need to consider regulation 9 and Schedules 2 and 3 of the 2006 Regulations. Independent examiners may find the Schedules to the 2006 Regulations useful as a checklist. The 2006 Regulations are available to download from the OSCR



website.

- For fully accrued accounts, the examiner will need to consider regulation 8 of the 2006 Regulations and the SORP.

### Any other information necessary

In considering the form and content of the accounts and the accounting records, it is important for examiners to ask themselves if any other information should be disclosed within their report to enable a reader of the accounts to have a reasonable understanding of the accounts. This may involve consideration of any significant or unusual transactions or activities that the charity has entered into during the period and whether these are adequately reflected in the accounts.

### Trustees' Annual Report

The accounts for any Scottish charity must include a Trustees' Annual Report under the 2006 Regulations. The **Trustees' Annual Report** is an opportunity for the charity trustees to provide further supplementary information regarding their activities and achievements for the period. The report is particularly useful for readers who are not familiar with accounts but are still interested in understanding what the charity has achieved.

The content of the Trustees' Annual Report is specified in legislation. For receipts and payments accounts, the content is detailed within Schedule 2 of the 2006 Regulations. Charity trustees may wish to use schedule 2 as a checklist when preparing their report. Alternatively, the **Receipts and Payments Workpack** contains pro forma sheets for preparation of the report.

For fully accrued accounts, the required content is set out within the SORP. Charities preparing fully accrued accounts that are not subject to statutory audit (refer to flowcharts 1 and 2 within section 3) should be aware that there are concessions available within the SORP which allow charity trustees to prepare a simplified Trustees' Annual Report. An independent examiner, in carrying out their work, is required to consider whether any of the information contained within the accounts is inconsistent in any material respect with the Trustees' Annual Report.

In many cases, this may simply involve a review of any financial amounts stated within the Trustees' Annual Report and a comparison of this information with the financial statements. For example, the charity trustees may provide a brief financial overview of the charity for the year within their report which may include specifying the surplus or deficit for the year; an independent examiner would then check the stated surplus or deficit against the statement of receipts and payments or the statement of financial activities (fully accrued accounts) as appropriate. In other cases, it may be a slightly longer process, but this will depend on the extent of the information provided within the Trustees' Annual Report and the complexity of the financial statements.

### **Milestone 8**

- **Do the accounts, including the Trustees' Annual Report, include all the information required under the 2006 Regulations?**
- **Are the accounts in the appropriate statutory format?**

## **Step 6: Drawing conclusion and preparing a report**

Once the independent examiner has completed the necessary processes and procedures, they will need to reflect on all the evidence gathered and to consider any implications for their report.

At this stage, the examiner may have noted matters that necessitate some further discussion with the charity trustees. This may be to provide the charity trustees with an opportunity to amend the accounts before the examiner prepares the report which may, in turn, avoid a situation where an examiner may have to 'qualify' the report or make reference to any adverse findings from the examination.

The 2006 Regulations specify the content of the independent examiner's report to the charity trustees. It must include the following:

- the name and address of the independent examiner and the name of the charity concerned

- the signature of the independent examiner and details of any relevant professional qualifications or professional body of which the examiner is a member
- the date of the report and financial year in respect of which the accounts to which it relates have been prepared. The date of signing must be the same, or after, the date of signing of the Trustees' Annual Report and the financial statements by the charity trustees
- a statement that it is a report in respect of an examination carried out under section 44 (1)(c) of the 2005 Act
- a statement as to whether or not any matter has come to the attention of the examiner in connection with the examination which gives them reasonable cause to believe that in any material respect:
  - accounting records have not been kept in respect of the charity in accordance with section 44(1)(a) of the 2005 Act and regulation 4 of the 2006 Regulations
  - the accounts do not accord with those records
  - in the case of an examination of receipts and payments accounts, the receipts and payments account and statement of balances do not comply with regulation 9 of the 2006 Regulations
  - in the case of an examination of fully accrued accounts, the accounts do not comply with regulation 8 of the 2006 Regulations.
- a statement whether or not any matter has come to the independent examiner's attention in connection with the examination to which, in the independent examiner's opinion, attention should be drawn in the report in order to enable a proper understanding of the accounts to be reached
- a statement as to any of the following matters that have become apparent to the examiner during the course of the examination:
  - there has been any material expenditure or action

which appears not to be in accordance with the purposes of the charity

- any information or explanation to which they are entitled under regulation 13 of the 2006 Regulations has not been afforded to them
- whether any information contained in the accounts is inconsistent in any material respect with any report of the charity trustees prepared under section 44(1)(b) of the 2005 Act in respect of the financial year in question.

The final step in the independent examination process is for the examiner to stand back and be objective about the accounts and the work done to date. They must consider whether any issues have been identified and whether the accounts actually make sense in light of what they know about the charity and by comparing the accounts with the financial information with the **Trustees' Annual Report**.

They must ensure that they have identified all the unusual items or disclosures in the accounts. The examiner may need to seek explanations from the charity trustees for any issues that have not been resolved. The examiner should ensure that their own record of preparation, work done, explanations received and checks made is complete.

The examiner needs to:

- consider if the accounts look as they would expect from all the information they have gathered – do they make sense?
- check any large or unusual items that appear in the accounts or the accounting records.

The examiner will need to draw on their experience and exercise judgement as to what is 'unusual' for each charity.

Where no material issues have been identified and the examiner is satisfied with the results of the processes they have carried out, the reporting will be quite simple as there are no particular matters for the examiner to highlight to the reader of the accounts.

However, where issues have been noted with the format or content of

the accounts or the accounting records, then it will be necessary for the examiner to consider the implications for their report. This means that the examiner will need to weigh up the issues identified and:

- assess whether or not these indicate that in any material respect accounting records have not been maintained in line with statutory requirements,
- consider if the accounts do not agree to those records or there are any other issues in relation to matters on which they are required to report.

The examiner, as much as possible, needs to stand back and consider whether the accounts fairly and adequately represent what has happened in the charity in the financial period under review.

It is recognised that the drafting of the report in line with the regulatory requirements can sometimes be difficult for an examiner. See section 9 for an example Independent Examiners Report.

In most cases, the preparation of the independent examiner's report for inclusion in the accounts document will be the culmination of the examiner's work. However, in the next section, the continuing reporting duties of the independent examiner to OSCR are explained.

It is worth noting here that it is the responsibility of the charity trustees to submit the accounts to OSCR along with the **online annual return**.

### **Milestone 9**

- **Have I considered the findings of my work?**
- **Are there any implications for my report?**
- **Have I prepared my report in line with the requirements of the 2006 Regulations?**

# Section 7: Whistleblowing – continuing reporting duties for independent examiners

## Summary

Independent examiners (and auditors) are required to report certain matters to OSCR as part of their statutory reporting duties. This duty is distinct from the requirement for the independent examiner's report which is attached to the accounts document as described in section 6. It is important to note that the independent examiner's report is only submitted to OSCR with the annual accounts. It is the charity trustees' duty to ensure that this is done. However, relevant matters as discussed below should be reported to OSCR by the independent examiner as soon as they become apparent. This requirement allows information to be provided to OSCR to assist in the fulfilment of its regulatory purposes.

The **provisions within the 2005 Act** fall into two strands:

- matters that must be reported on the basis that the independent examiner has reasonable cause to believe that the matter is likely to be of material significance for the purposes of OSCR exercising its functions under sections 28 (inquiries about charities etc.), 30 (removal from the Register of a charity which no longer meets charity test) or 31 (powers of OSCR following inquiries) of the 2005 Act – often referred to as the 'statutory' reporting duty
- matters that the independent examiner may report as they have reasonable cause to believe they are relevant for OSCR in exercising any of its functions but are not captured by the mandatory reporting duty – often referred to as the 'discretionary' reporting duty.

Please read **Matters of Material Significance reportable to UK charity regulators: a guide for auditors and independent**

**examiners** on our website for more information.

## The statutory reporting duty

The reporting of a matter of material significance is a separate report from the independent examiner's report on the accounts. The 2005 Act requires the report to be made immediately the matter comes to the independent examiner's attention and it is recommended that the report should be made in writing although there is no legal obligation to do so. Reports of matters of material significance should be sent to OSCR at the following email address: [Section46@oscr.org.uk](mailto:Section46@oscr.org.uk).

It is not part of the reporting duty to require independent examiners to perform any additional scrutiny work as a result of the statutory duty nor are they required specifically to seek out reportable matters. Examiners should however include procedures within their planning processes to ensure that they have sufficient understanding to enable them to identify situations which may give reasonable cause to believe that a matter should be reported to OSCR.

In order to recognise whether a situation is likely to be of material significance to OSCR's functions, an understanding is needed of those matters which, either due to their nature or potential financial impact, are likely to require evaluation and, where appropriate, investigation by OSCR.

OSCR will always consider the following to be of material significance, and hence reportable:

- matters suggesting dishonesty or fraud involving a significant loss of, or a major risk to, charitable funds or assets
- failure(s) of internal controls, including failure(s) in charity governance, that resulted in a significant loss or misappropriation of charitable funds, or which leads to significant charitable funds being put at major risk
- matters leading to the knowledge or suspicion that the charity or charitable funds have been used for money laundering or such funds are the proceeds of serious organised crime or that the charity is a conduit for criminal activity
- matters leading to the belief or suspicion that the charity, its

trustees, employees or assets have been involved in or used to support terrorism or proscribed organisations in the UK or outside of the UK

- evidence suggesting that in the way the charity carries out its work relating to the care and welfare of beneficiaries, the charity's beneficiaries have been or were put at significant risk of abuse or mistreatment
- significant or recurring breach(es) of either a legislative requirement or of the charity's trust leading to material charitable funds being misapplied
- a deliberate or significant breach of an order or direction made by a charity regulator under statutory powers including suspending a charity trustee, prohibiting a particular transaction or activity or granting consent on particular terms involving significant charitable assets or liabilities
- the issue of a qualified independent examiners report identifying matters of concern to which attention is drawn.
- Evidence that significant conflicts of interest have not been managed appropriately by the trustees and/or related party transactions have not been fully disclosed in all the respects required by the applicable SORP, or applicable Regulations.

These matters are considered central to the integrity of a charity and as such will require evaluation and where appropriate investigation by the regulator. OSCR considers all such reports to have a very high intelligence value and takes a risk based and proportionate approach to inquiry work when deciding whether to open an inquiry.

It should also be noted that where the matter relates to terrorism, then the matter must also be reported to the police. Should the matter involve money laundering, independent examiners who are charging a fee for their service should also report the matter to the National Crime Agency under the requirements of the Money Laundering Regulations, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017. If the report concerns the abuse of vulnerable beneficiaries, a report should also be made to the Police and/or Social Services. See **Safeguarding Guidance: Keeping vulnerable beneficiaries safe** our website for more information.



## Other matters considered material may change from time to time

Where independent examiners make a report, they may not have complete information about the issue(s) but should be prepared to provide as much relevant information as possible about the matter(s) they are reporting. Reference may also be made as to whether or not the trustees are aware of the issue and/or what action has been taken in response.

## The discretionary reporting duty

Independent examiners also have a broad discretionary right to report those matters that they believe may be relevant to the work of OSCR but that do not fall under the statutory reporting duty.

OSCR considers such reports to have considerable intelligence value and welcomes these submissions. In order to assist independent examiners better understand the matters which we would consider relevant we have developed guidance which can be found on our website:

- **Reporting of relevant matters of interest to UK charity regulators**

Given the broad discretion permitted, it is not possible to list all instances for reporting. However, the examiner may usefully consider:

- issues identified in the course of the examination which were not considered material
- the areas where trustees are requested to provide additional information as part of OSCR's annual return.

Matters falling within this discretionary category are likely to be indicative of significant risks to charitable funds or their proper application and would therefore normally be relevant to the work of OSCR. Where such a matter arises, the independent examiner may discuss the matter with the trustees to identify whether it remains a matter of concern and whether the trustees have taken or are taking action which can reasonably be expected to remedy or mitigate the effect in the current or future years.

The range of matters to be included in this section is very wide and while the following examples can provide a guide, they are in no way exhaustive. The type of matters that may require reporting to OSCR could include:

- the cumulative impact on a charity of ignoring professional recommendations
- unexplained large discretionary redundancy payments above the statutory minimum
- smaller administrative or financial issues
- expenditure outwith the scope of the **charity's purposes**.

Although the independent examiner enjoys a discretion as to whether to make a report of a matter relevant to the work of OSCR, it is recommended that the examiner documents any relevant matters identified in the course of the independent examination and also the basis of any decision not to report a matter falling within this discretionary category.

#### **Milestone 10**

- **Are there any matters that I must report to OSCR?**
- **Are there any matters that I think may be of interest or use to OSCR?**
- **Have I made the required/appropriate reports to OSCR?**

## Section 8: Cross Border Charities

Charities that are registered both with OSCR and the Charity Commission for England and Wales (CCEW) are referred to as 'cross border charities' and are regulated by both bodies. Under OSCR's cross border monitoring regime, CCEW is considered to be the 'lead regulator' for inquiry purposes.

As there are differences in the accounting regimes in place within Scotland and England and Wales, it is important that cross border charities are familiar with both and understand that they are required to comply with the more stringent requirements, regardless of the jurisdiction in which these arise.

In practical terms, this means that, where the income of a cross border charity is £500,000 or more they will be subject to statutory audit, despite the fact that the audit threshold for charities in England and Wales is £1million.

In addition, there are formal requirements for the content of receipts and payments accounts under the regulatory regime in Scotland and cross border charities preparing receipts and payments accounts are required to comply with these requirements. OSCR has a receipts and payments workpack that smaller charities can use to prepare their receipts and payments accounts and CCEW will accept accounts prepared in accordance with the Scottish requirements, including those prepared using the workpack.

For English and Welsh charities that are subject to the independent examination regime, the Directions issued by CCEW must also be followed and the independent examiner must confirm that this is the case in his report.

There is no comparable regime in Scotland and therefore the six steps to be undertaken in the independent examination process within this guidance booklet are what OSCR considers to be best practice in this area.

Cross border charities that are subject to independent examination

must ensure that this is carried out in accordance with CCEW's Directions. However, in Scotland, there is also a requirement for an independent examiner to consider the information contained within the **Trustees' Annual Report** in order to identify any inconsistency with the financial statements; this is different from the position in England and Wales where this is only required in relation to accrued accounts. OSCR will consider that where CCEW's Directions have been followed and supplemented by a review of the Trustees' Annual Report to identify any inconsistency, that the steps undertaken are appropriate and in line with the relevant requirements under the 2006 Regulations.

OSCR recommends that cross border charities refer to CCEW's independent examination guidance: **Independent Examination of Charity Accounts – Examiner's Guide (CC32)** for details of the Directions and for example independent examiner's reports that are appropriate for cross border charities.

It is also important to note that there is a difference in the filing deadline within the two jurisdictions – in Scotland, the appropriate **online annual return** and accounts must be filed with OSCR within 9 months of the charity's year end date. In England and Wales, the deadline is currently 10 months after the end of the financial year.

# Section 9: Example independent examiner's reports

As the content of an Independent Examiner's Report is specified by the 2006 Regulations, it is important that the examiner uses the correct form of words in fulfilling his duty to provide such a report. On the basis that there may be different situations encountered by independent examiners, several different reports have been provided for guidance here. These are set out below along with an explanation of the circumstances to which each one would be applicable.

## Example 1: Unqualified report for a non-company charity preparing receipts and payments accounts

### **Independent Examiner's Report to the Trustees of 'ABC' Trust**

I report on the accounts of the charity for the year ended xx xxxx 20xx which are set out on pages xx to xx.

#### **Respective responsibilities of trustees and examiner**

The charity's trustees are responsible for the preparation of the accounts in accordance with the terms of the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006 (as amended). The charity trustees consider that the audit requirement of Regulation 10(1) (d) of the 2006 Accounts Regulations does not apply. It is my responsibility to examine the accounts as required under section 44(1) (c) of the Act and to state whether particular matters have come to my attention.

#### **Basis of independent examiner's statement**

My examination is carried out in accordance with Regulation 11 of the 2006 Accounts Regulations. An examination includes a review of the accounting records kept by the charity and a comparison of the

accounts presented with those records. It also includes consideration of any unusual items or disclosures in the accounts, and seeks explanations from the trustees concerning any such matters. The procedures undertaken do not provide all the evidence that would be required in an audit, and consequently I do not express an audit opinion on the view given by the accounts.

### **Independent examiner's statement**

In the course of my examination, no matter has come to my attention [other than disclosed below\*]

1. which gives me reasonable cause to believe that in any material respect the requirements:
  - o to keep accounting records in accordance with Section 44(1) (a) of the 2005 Act and Regulation 4 of the 2006 Accounts Regulations
  - o to prepare accounts which accord with the accounting records and comply with Regulation 9 of the 2006 Accounts Regulations

have not been met, or

2. to which, in my opinion, attention should be drawn in order to enable a proper understanding of the accounts to be reached.

Name:

Relevant Professional qualification/professional body:

Address:

Date:

\* Please delete the words in brackets if they do not apply. If the words do apply, set out those matters which have come to your attention.

## Example 2: Unqualified report for a non-company charity preparing fully accrued accounts

### Independent Examiner's Report to the Trustees of 'ABC' Trust

I report on the accounts of the charity for the year ended xx xxxx 20xx which are set out on pages xx to xx.

#### Respective responsibilities of trustees and examiner

The charity's trustees are responsible for the preparation of the accounts in accordance with the terms of the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006 (as amended). The charity trustees consider that the audit requirement of Regulation 10(1) (a) to (c) of the 2006 Accounts Regulations does not apply. It is my responsibility to examine the accounts as required under section 44(1) (c) of the Act and to state whether particular matters have come to my attention.

#### Basis of independent examiner's statement

My examination is carried out in accordance with Regulation 11 of the 2006 Accounts Regulations. An examination includes a review of the accounting records kept by the charity and a comparison of the accounts presented with those records. It also includes consideration of any unusual items or disclosures in the accounts, and seeks explanations from the trustees concerning any such matters. The procedures undertaken do not provide all the evidence that would be required in an audit, and consequently I do not express an audit opinion on the view given by the accounts.

#### Independent examiner's statement

In the course of my examination, no matter has come to my attention [other than disclosed below\*]

1. which gives me reasonable cause to believe that in any material respect the requirements:
  - o to keep accounting records in accordance with Section 44(1) (a) of the 2005 Act and Regulation 4 of the 2006 Accounts Regulations
  - o to prepare accounts which accord with the accounting records and comply with Regulation 8 of the 2006 Accounts Regulations

have not been met, or

2. to which, in my opinion, attention should be drawn in order to enable a proper understanding of the accounts to be reached.

Name:

Relevant Professional qualification/professional body:

Address:

Date:

\* Please delete the words in brackets if they do not apply. If the words do apply, set out those matters which have come to your attention.



## Example 3: Unqualified report for a charitable company

### Independent Examiner's Report to the Trustees of 'ABC' Trust

I report on the accounts of the charity for the year ended xx xxxx 20xx which are set out on pages xx to xx.

#### Respective responsibilities of trustees and examiner

The charity's trustees (who are also the directors of the company for the purposes of company law) are responsible for the preparation of the accounts in accordance with the terms of the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006 (as amended). The charity trustees consider that the audit requirement of Regulation 10(1) (a) to (c) of the 2006 Accounts Regulations does not apply. It is my responsibility to examine the accounts as required under section 44(1) (c) of the Act and to state whether particular matters have come to my attention.

#### Basis of independent examiner's statement

My examination is carried out in accordance with Regulation 11 of the 2006 Accounts Regulations. An examination includes a review of the accounting records kept by the charity and a comparison of the accounts presented with those records. It also includes consideration of any unusual items or disclosures in the accounts, and seeks explanations from the trustees concerning any such matters. The procedures undertaken do not provide all the evidence that would be required in an audit, and consequently I do not express an audit opinion on the view given by the accounts.

#### Independent examiner's statement

In the course of my examination, no matter has come to my attention [other than disclosed below\*]

1. which gives me reasonable cause to believe that in any material respect the requirements:
  - o to keep accounting records in accordance with Section 44(1) (a) of the 2005 Act and Regulation 4 of the 2006 Accounts Regulations
  - o to prepare accounts which accord with the accounting records and comply with Regulation 8 of the 2006 Accounts Regulations

have not been met, or

2. to which, in my opinion, attention should be drawn in order to enable a proper understanding of the accounts to be reached.

Name:

Relevant Professional qualification/professional body:

Address:

Date:

\* Please delete the words in brackets if they do not apply. If the words do apply, set out those matters which have come to your attention.

## **Example 4: Qualified report for a charity preparing receipts and payments accounts with a matter to be reported**

### **Independent Examiner's Report to the Trustees of 'ABC' Trust**

I report on the accounts of the charity for the year ended xx xxxx 20xx which are set out on pages xx to xx.

#### **Respective responsibilities of trustees and examiner**

The charity's trustees are responsible for the preparation of the accounts in accordance with the terms of the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006 (as amended). The charity trustees consider that the audit requirement of Regulation 10(1) (d) of the 2006 Accounts Regulations does not apply. It is my responsibility to examine the accounts as required under section 44(1) (c) of the Act and to state whether particular matters have come to my attention.

#### **Basis of independent examiner's statement**

My examination is carried out in accordance with Regulation 11 of the 2006 Accounts Regulations. An examination includes a review of the accounting records kept by the charity and a comparison of the accounts presented with those records. It also includes consideration of any unusual items or disclosures in the accounts, and seeks explanations from the trustees concerning any such matters. The procedures undertaken do not provide all the evidence that would be required in an audit, and consequently I do not express an audit opinion on the view given by the accounts.

#### **Independent examiner's statement**

In the course of my examination, no matter has come to my attention [other than disclosed below\*]

1. which gives me reasonable cause to believe that in any material respect the requirements:
  - o to keep accounting records in accordance with Section 44(1) (a) of the 2005 Act and Regulation 4 of the 2006 Accounts Regulations
  - o to prepare accounts which accord with the accounting records and comply with Regulation 9 of the 2006 Accounts Regulations

have not been met, or

2. to which, in my opinion, attention should be drawn in order to enable a proper understanding of the accounts to be reached.

The matter that has come to my attention is that, in the course of my examination of the accounting records of the charity, it was noted that some transactions relating to the restricted funds of the charity were not separately identifiable. This has led to the accounts only showing some of the income and expenditure that relates to these funds within the correct column. The charity trustees are aware of the importance of maintaining full records of such transactions going forward.

Name:

Relevant Professional qualification/professional body:

Address:

Date:

\* Please delete the words in brackets if they do not apply. If the words do apply, set out those matters which have come to your attention.

## Example 5: Qualified report for a cross border non-company charity preparing fully accrued accounts with a matter to be reported

### Independent Examiner's Report to the Trustees of 'ABC' Trust

I report on the accounts of the charity for the year ended xx xxxx 20xx which are set out on pages xx to xx.

#### Respective responsibilities of trustees and examiner

The charity's trustees are responsible for the preparation of the accounts in accordance with the terms of the Charities and Trustee Investment (Scotland) Act 2005, the Charities Accounts (Scotland) Regulations 2006 (as amended) and the Charities Act 2011. The charity trustees consider that the audit requirements of Regulation 10(1) (a) to (c) of the Charities Accounts (Scotland) Regulations 2006 and section 144 of the Charities Act 2011 do not apply. The charity is preparing accrued accounts and I am qualified to undertake the examination by being a qualified member of [named body].

It is my responsibility to:

- examine the accounts under section 44(1) (c) of the Charities and Trustee Investment (Scotland) Act 2005 and section 145 of the Charities Act 2011
- to follow the procedures laid down in the general Directions given by the Charity Commission under section 145(5)(b) of the Charities Act 2011
- to state whether particular matters have come to my attention.

#### Basis of independent examiner's statement

My examination is carried out in accordance with Regulation 11 of the Charities Accounts (Scotland) Regulations 2006 (the 2006 Accounts Regulations) and the general Directions given by the Charity

Commission. An examination includes a review of the accounting records kept by the charity and a comparison of the accounts presented with those records. It also includes consideration of any unusual items or disclosures in the accounts, and seeks explanations from the trustees concerning any such matters. The procedures undertaken do not provide all the evidence that would be required in an audit, and consequently I do not express an audit opinion on the view given by the accounts.

### **Independent examiner's statement**

In the course of my examination, no matter has come to my attention [other than disclosed below\*]

1. which gives me reasonable cause to believe that in any material respect the requirements:
  - o to keep accounting records in accordance with Section 44(1) (a) of the 2005 Act, Regulation 4 of the 2006 Accounts Regulations (as amended) and section 130 of the Charities Act 2011
  - o to prepare accounts which accord with the accounting records and comply with Regulation 8 of the 2006 Accounts Regulations (as amended) and the requirements concerning the form and content of accounts set out in the Charities (Accounts and Reports) Regulations 2008 of the Charities Act 2011

have not been met, or

2. to which, in my opinion, attention should be drawn in order to enable a proper understanding of the accounts to be reached.

The matter that has come to my attention is that the format of the accounts does not comply with the Charities SORP on the basis that a profit and loss account has been included and not a Statement of Financial Activities. As such, there is no distinction between the unrestricted and expendable endowment funds held by the charity on the face of the primary financial statements. There is however a

breakdown of what is contained within these funds at the year end date within the notes to the accounts.

Name:

Relevant Professional qualification/professional body:

Address:

Date:

\* Please delete the words in brackets if they do not apply. If the words do apply, set out those matters which have come to your attention.



The Scottish Charity Regulator (OSCR)  
2nd Floor  
Quadrant House  
9 Riverside Drive  
Dundee  
DD14NY

T 01382 220446  
E [info@oscr.org.uk](mailto:info@oscr.org.uk)  
 [@ScotCharityReg](https://twitter.com/ScotCharityReg)  
 [ScottishCharityRegulator](https://www.facebook.com/ScottishCharityRegulator)  
[www.oscr.org.uk](http://www.oscr.org.uk)

This booklet was published in April 2019 and updated in February 2020