

# Scottish Episcopal Church

## Independent Examination

All accounts should be subject to external scrutiny. The aim of such external scrutiny is to give readers a degree of confidence in the words and figures presented in the accounts and to confirm that they have been prepared in accordance with the appropriate regulations and accounting guidance. OSCAR has produced updated guidance, Scottish Charity Accounts: An Updated Guide to the 2006 Regulations to assist charities, their advisors, independent examiners and auditors understand the changes to the Charities Accounts (Scotland) Amendment Regulations 2010. Charity trustees must prepare accounts that comply with the Charities and Trustee Investment (Scotland) Act 2005 and Regulations and subject them to the appropriate external scrutiny.

The guidance can be found on the OSCAR website ([here](#)).

There are two types of external scrutiny to which charities' accounts could be subject:

### ***Audit***

An audit provides reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In undertaking an audit, a registered auditor must comply with the UK Auditing Practices Board's ethical standards and international Standards on Auditing (UK and Ireland). Charities with incomes in excess of £500,000 (or assets, before deduction of liabilities, of more than £3,260,000 (previously £2,800,000)) for financial years commencing on or after 1 April 2011 require to be Audited. Some charities constitutions may also require that their accounts are audited – irrespective of their financial size. (See note below if you think that your Charge's constitution might require an audit).

### ***Independent Examination***

An independent examination is a form of external scrutiny of the accounts which is less rigorous than an audit and offers an assurance that nothing has been found that needs to be brought to the attention of the readers of the accounts.

This note is intended to give guidance with regard to Independent Examination only – if an Audit is required your Auditor will be able to provide the necessary guidance.

The OSCAR Guidance for Charities and Independent Examiners is also a major source of information for independent examiners and a copy can be downloaded from the OSCAR website ([here](#)).

### **Who can be an Independent Examiner?**

If a Charge's gross income is less than £250,000 (previously £100,000) and it has prepared receipts and payments accounts, an individual does not need to be professionally qualified to undertake the role of independent examiner for these accounts. However, the charity trustees need to appoint ***someone independent of***

***the management and administration of the charity and whom they believe has the required skills and experience to carry out a competent examination of the accounts.*** The complexity of the accounts will obviously influence the decision of the trustees.

If Charge has prepared accrued / SORP compliant accounts and it is below the Audit threshold (i.e. its gross income is less than £500,000 or its assets before deduction of liabilities of less than £3,600,000) its accounts can also be subject to an independent examination. Given the complexities of accrued accounts the Independent Examiner will however need to be a member of a professional accountancy body or a full member of the Association of Charity Independent Examiners.

Independent means no connection with the charity trustees that might inhibit their ability to carry out an impartial examination. The following people would not normally be considered to be independent:

- the charity trustees or anyone else closely involved in the administration of the charity (so not a member of the vestry or the clergy team)
- a major donor or major beneficiary of the charity
- a close relative, spouse, partner or employee of any of the above

Best practice also suggests that a general member of the congregation, even if they have not been involved in the day to day decision making or administration of the charity, should not be the Independent Examiner for their own church. It is, however, recognised that there may be some difficulty in finding someone who is not a member of the congregation so the Vestry can appoint a member if they are satisfied that this person will act independently and not be inhibited by the trustees to carry out an impartial examination. It should therefore be clearly stated in the Vestry minutes the justification for appointing a member of the congregation to carry out the independent examination.

### **Finding an Independent Examiner**

You are unlikely to be offering a full market rate of pay to your Independent Examiner so you're asking someone to do you a favour and give time and energy for a charity they may have no particular affinity for. Ideally, the Independent Examiner would be someone who understands the Scottish Episcopal Church but do not rule out the possibility of obtaining the services of a treasurer / independent examiner from a church from another denomination. Acting as an independent examiner for a different church can be a very interesting and useful exercise and help you look at your own accounts with a fresh approach.

Chartered accountants working in practice may be reluctant to take on such work. They have far more requests for such help than they can possibly respond to and the requirements of their professional bodies mean that, even if they are doing the work for free, they still have to apply full professional standards which can make a small piece of work very onerous for them.

If you or anyone you know would be happy to act as an Independent Examiner for another church, please let the Diocesan office know.

## **Working with an Independent Examiner**

Make contact with your Independent Examiner as soon as possible. Agree timescales and deadlines, what documentation you will give them and what work you want them to do (e.g. they may be happy to prepare the formal accounts for you from your accounting records).

The Independent Examiner will need to see your accounting records, your bank statements and, possibly, invoices, cheque books and paying in books. They will also need to see a copy of your governing constitution and, possibly, minutes of vestry meetings. Have all these things ready in a pack for the Independent Examiner – do not wait for them to ask you for them.

The Independent Examiner has a right of access to any books, documents or other records that relate to the charity which they consider necessary to carry out their work. They may also request information from past or present charity trustees or employees of the charity.

## **Responsibilities of Independent Examiners**

An Independent Examiner reviews the accounting records kept by the charity and compares them with the accounts prepared from those records. The Independent Examiner then writes a report which provides the information required by the Regulations and provides an assurance whether or not anything has been found that needs to be brought to the attention of readers of the accounts.

## **Independent Examiner's Checklist**

A sample Independent Examiner's Checklist for Receipts and Payment Accounts is available from the SEC website (in [Excel](#) or [PDF](#) format). It will provide the trustees with some background information on the areas to be covered during the independent examination.

The Independent Examiner will find the checklist a useful tool so it is important the Examiner obtains a copy of it prior to starting the examination.

The Association of Charity Independent Examiners (ACIE) has also devised an Independent Examination File for examiners working with charities in Scotland. Not all of this File will be applicable to every charity (e.g. there are distinctions between Receipts & Payments Accounts and Accruals Accounts). Users who are familiar with files from other accountancy (or audit) work may only wish to use parts of the File. Please [contact us](#) should you wish more information regarding the ACIE checklist.

In carrying out their work, examiners must be aware of, and comply with, the codes, regulations, rules and standards (including ethical requirements) of any professional body of which they are a member.

## **Drawing conclusions 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 drafts his 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 Updated Guide to the 2006 Regulations in section 3.3 specifies the content of the independent examiner's report to the charity trustees and a sample report is shown in Appendix 1: Example accounts.

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 if the accounts make sense in the light of what they know about the charity and by comparing 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.

## **Duty of independent examiners to report matters to OSCR**

Under the Act independent examiners **must** report to OSCR any matter they become aware of regarding a charity, or any *connected organisation*, which they believe is likely to be of material significance to OSCR in carrying out its functions. If they believe the matter may not be of material significance but may still be relevant to OSCR carrying out its functions, they **may** still report the matter.

Examples of what will be of material significance to OSCR carrying out its functions and what will be relevant are stated in Section 4 in the OSCR Updated Guide to 2006 Regulations.

## **What if the Charge constitution states that its accounts should be audited?**

If the constitution states an auditor should be appointed then a registered auditor should be appointed to carry out an audit. The income level threshold (even if under £250,000) will have no bearing on the type of external scrutiny required in this specific case. The Vestry may however consider that the benefits of having an audit are outweighed by the costs. It is however anticipated that for most Charges an independent examination will meet their external scrutiny requirements – especially if their accounts are prepared on a Receipts and Payments basis. On that basis, it would be appropriate for the constitution to be changed to state that the annual accounts will be subject to external scrutiny in compliance with the appropriate

accounting regulations. Such wording should provide sufficient flexibility to enable the appointment of an Independent Examiner or Auditor (depending on income levels etc) without the need to amend the constitution in the future. Any change to the constitution must be carried out in accordance with the terms of the constitution and with consideration of any professional advice received. Notification of the change to the constitution must also be sent to OSCR.

In addition, some funding bodies require the charities they fund to have their accounts "audited". The Vestry may wish to discuss with their funding bodies what is meant by the term "audit" and whether or not external scrutiny by an independent examiner as required under the Regulations would be sufficient.

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