

What is Independent Examination?

Updated January 2008

Definition

Independent Examination (IE) is an alternative to a financial full audit for smaller charities - a legally acceptable form of external scrutiny of their end of year accounts. The definitions of 'smaller' vary in different parts of the UK (see below).

Which charities are eligible for Independent Examination?

- Registered charities
- Excepted charities (often churches or scout or guide organisations)
- At the moment, mainly charities that are not also registered as companies (see below)
- Charities whose governing documents/constitutions do not specify an 'audit'
- Charities where there is not a donor or funder who requires an 'audit'
- Charities that are 'smaller' ...

Definitions of 'smaller' charities In England and Wales

Income and expenditure have to be in the range of £10,000 to £250,000 per year for the year for which the IE is being carried out and for the two preceding financial years.

As part of the implementation of the Charities Act 2006, the upper limit will rise to £500,000; will apply to income only; and will apply to the year in question only. These rules will apply to accounting periods beginning on or after 27 February 2007, ie, to financial year-ends of 26 February 2008 onwards.

Asset tests

So far, 'smaller' has been defined by income (and expenditure). However, the assets which a charity owns also help define whether a charity require an IE or an audit - or they will do shortly. If a charity's assets are £2.8m or more, then as part of the implementation of the Charities Act 2006, an audit will be required for accounting periods beginning on or after 27 February 2007, ie, for financial year-ends 26 February 2008 onwards, if the charity's annual income is over £100,000;

Charitable companies

Charitable companies are not eligible for independent examination; they must follow the provisions of the Companies Act and Regulations made under it.

What are the differences between Audit and Independent Examination?

As well as the difference in who can carry out an Independent Examination outlined below, the other major differences lie in the level of scrutiny and the nature of the report:

- an independent examiner does not scrutinise a charity's accounts to the same level as an audit (although the Charity Commission's Directions still take the examiner through a 12-stage process)
- an independent examiner writes a report which gives negative assurance ('no matter has come to my attention ...') rather than positive assurance (a 'true and fair' view).

Benefits of Independent Examination?

- it is less work for all concerned
- therefore, it should be cheaper
- allowing charities to spend more time/money on good causes rather than on scrutiny

NB: an eligible charity can opt for an audit rather than an IE - but its Trustees should be able to justify that choice, particularly bearing in mind the extra expense incurred

Who can be an Independent Examiner?

The Trustees of a charity seeking an Independent Examination have to be confident that the person conducting the IE is independent and has the requisite ability and the practical experience to carry out a competent examination of the accounts. In England and Wales, at the moment, an Independent Examiner does not have to have a formal qualification, although the Charity Commission recommends that:

- they are a qualified accountant - or are 'an individual with similar qualifications in charity finance at an appropriate level' - for accounts in the £100,000 to £250,000 per year range (or where the charity's gross assets are over £1m)
- and that if the accounts are to be prepared on an accruals basis under this threshold, then the requisite understanding of the relevant accounting principles is demonstrated.
- once the upper limit for IE in England and Wales has risen to £500,000, anyone examining accounts over £250,000 will have to have a professional qualification from a prescribed list, which includes the Association of Charity Independent Examiners (ACIE).

For further information, contact Association of Charity Independent Examiners (ACIE) via their website at www.acie.org.uk