

Introduction to Independent Examination

The Charities Act 1993 (now consolidated into the Charities Act 2011) brought in a 'lighter touch' external scrutiny for small charities rather than a full statutory audit. However, it's important to know which charities can apply this regime, and when.

The following questions, with answers and explanations, will help you decide.

Question 1

Part 1

Charitable company A has a gross income of £450,000 and gross assets of £2.5 million for the financial year ending 31 March 2011. Is an Independent Examination appropriate?

Yes

No

[Click to display/hide the solution and explanation.](#)

Answer

Yes

Explanation

Charitable companies have been able to opt for an Independent Examination for accounting periods commencing after 1 April 2008. Gross income must be under £500,000, and the charitable company must otherwise be exempt from audit under the Companies Act 2006. If gross income is below £25,000, any form of external scrutiny is voluntary unless the charitable companies governing document requires one.

The same rules and thresholds apply to non company charities.

Part 2

If charitable company A had gross assets of £3.5 million, is an Independent Examination still appropriate?

Yes

No

[Click to display/hide the solution and explanation.](#)

Answer

No

Explanation

Where gross assets exceed £3.26 million, a statutory audit is required when gross income exceeds £250,000.

Question 2

The trustees of charitable company A, with a gross income of £450,000 and assets of £2.5 million, want to appoint Mr Brown as their Independent Examiner (IE). He's known to be competent, as he used to be their treasurer some years ago. He's a retired bank manager, but doesn't hold any accountancy qualifications. Can the trustees appoint Mr Brown?

Yes

No

[Click to display/hide the solution and explanation.](#)

Answer

No

Explanation

Where gross income exceeds £250,000, an IE must be a member of one of the accounting bodies listed in the 2011 Act. This comprises all the major UK accountancy bodies, including AAT. Members must check with their accounting body that they hold the relevant membership level and practising certificate.

Also, IEs must have no connection with charity trustees that might inhibit the impartial conduct of the examination. Even if the gross income had been much lower, it is possible that Mr Brown is not independent; for example, if his wife remains as a trustee or if he, or his family, are major donors to the charity, or beneficiaries of the charity's work.

Question 3

Unincorporated charity B has the following income:

Voluntary donations	£170,000
Grants	£300,000
Investment income	£2,500
Fundraising profits	£25,000 (being income of £30,000 and costs of £5,000)
Gain on disposal of investment	£15,000

The gross assets are £1.5 million.

Can charity B appoint an Independent Examiner?

Yes No

[Click to display/hide the solution and explanation.](#)

Answer

No

Explanation

The calculation of gross income is $£170,000 + £300,000 + £2,500 + £30,000 = £502,500$.

Gains on either the revaluation or disposal of fixed assets and investments are ignored in the calculation.

Costs cannot be netted off against income.

Therefore, an auditor must be appointed.

Question 4

Part 1

Small unincorporated charity C has gross income of £75,000, which varies little from year to year.

The new IE has prepared and produced an Independent Examination report based on receipts and payments accounts. The Honorary Treasurer prefers accruals accounts, and has stated that these accounts are incorrect. Who is right?

A - The Examiner B - The Honorary Treasurer C - Neither

[Click to display/hide the solution and explanation.](#)

Answer

C

Part 2

If charity C was a company, what would your answer be?

A - The Examiner

B - The Honorary Treasurer

C – Neither

[Click to display/hide the solution and explanation.](#)

Answer

B

Explanation

Unincorporated charities with income under £250,000 may prepare receipts and payments accounts instead of accruals accounts as long as the trustees at a quorate meeting formally elect to do so. It is certainly not the choice of the Examiner, but neither is it the choice of a single trustee acting alone. The Examiner may assist in accounts preparation and then conduct the examination as long as he is able to retain his independence in both tasks.

A charitable company, whatever the gross income level, must produce accruals accounts that comply with the SORP: Accounting and Reporting by Charities (updated July 2008) and the Companies Act 2006.