

# Pontardawe Arena Partnership t/a Glantawe Outdoor Education Academy July 2019

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**This is a statement of the current operational position of the Pontardawe Arena Partnership charity 1106812 and a Not for Profit Company Limited by Guarantee, 4435289**

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## Project description

Pontardawe Arena Partnership over the past five years has changed its strategic plan while remaining true to the original articles and principles of community benefit. There has been a far greater increase of focus on disengaged and disadvantaged members of the community and the Charity has added the trading name of “Glantawe Outdoor Education Academy” to the Charity Commission Website in order to more accurately describe activities.

The charity operates programmes within Glantawe Riverside Park:

1. For the benefit of the local community – the park facilities and building are maintained in good condition by local volunteers who have steadfastly improved the park from an overgrown and deteriorating parcel of land into the attractive leisure facility with open grassland and seating areas that it is today. The facility is continually being improved and maintained and funding has been raised for ground keeping equipment to maintain and continue to reclaim grassland for the enjoyment of local inhabitants. We operate a team of volunteer workers who are keenly maintaining the park, among which are disabled and mentally challenged individuals. The volunteers are managed by a volunteer therapist, who teaches country skills such as fence and hedge-laying.
2. For the benefit of the inhabitants of Neath Port Talbot - particularly for those disengaged and disadvantaged - by providing programmes that result in national qualifications that are achieved through contact with the natural environment in the park. We are tackling poverty, employment and well being at grass-root level, and have experienced many successes with the young people we serve. The hard and soft skills with qualifications we provide are not available otherwise and last our students all their lives. These qualifications are delivered by adult practitioners - who are self-employed directly as a result of the charity operating these programmes - and our aim is to encourage young people to return to us and become practitioners themselves. We are an Agored Cymru accredited Center for delivering qualifications, and have recently taken on a quality manager to maintain our high level of excellence in delivering qualifications. We are also in partnership with Neath College, and have designed a directly-funded post-16 qualification in Outdoor Skills, to provide for succession following our programmes.

Currently the charity’s programmes are used by schools throughout Neath Port Talbot, and are in operation 5 – 7 days a week. The building facilities are open to the public at this time with the grounds open throughout the year. The Park is extensively used as a result of the work we have done, and the number of individual visitors has been calculated to have maintained at around 19000.

We are operating in three programme areas:

1. Voluntary Programmes for 18+ yrs people who are mentally disabled, ex-offenders, or otherwise disabled or disadvantaged where we provide work skills in a real working park within a nurturing environment and give support to get them into employment.

2. Programmes for all Secondary Schools in Neath Port Talbot where disengaged young people are engaged in a natural environment and provided with national qualifications outside the normal classroom - where they are not expected to get any.

3. Primary School Programmes where we have started to provide the same natural engagement strategy, as our research has found evidence of disengagement in children as young as six who are being segregated from normal classrooms and are in danger of being excluded from mainstream education. We have experienced quite marked positive behavioral changes with this demographic in a remarkably short time, leading us to be cautiously optimistic about working with these groups. Although we work with groups that have already been segregated (and labeled) by the current educational system our strategy must be to prevent this from happening and maintain the classroom integrity. We will be working with entire year groups from two Primary Schools in Pontardawe to maintain class integration across the range of pupils rather than the segregation approach generally taken.

## Background

The Pontardawe Arena Partnership established in 2000 to benefit the local community within the Swansea Valley, particularly in areas of social and economic deprivation by all or any of the following means:

- (a) The advancement of education, training or retraining, particularly by utilising the positive effects of outdoor education within wilderness therapy methodologies among unemployed and disengaged people - thus providing enhanced self respect, confidence, valuable qualifications and work experience.
- (b) The creation of training and employment opportunities by the provision of workspace, buildings and/or land for use on favourable terms
- (c) The maintenance, improvement or provision of public amenities:
- (d) The provision of recreational facilities for the public at large or those who by reason of their youth, age, infirmity or disablement, financial hardship or social and economic circumstances, have need of such facilities
- (e) By such other means as may from time to time be determined, subject to prior agreement of the Charity Commissioners for England and Wales

The Company is managed by a board of trustees, headed by the Chairman, the Chair is elected at the AGM and is in post supported by a committee elected from the membership. All are volunteers. The group abides by its Articles and Memorandum and maintains a web site ([www.arenapontardawe.com](http://www.arenapontardawe.com)). Trustees are responsible for ensuring Charity Commission rules are adhered to. Arena Pontardawe has a bank account in the name of the organisation as shown on its governing documents. Cheques must be signed by two out of three people who are not related. Staff salaries and related matters are handled on our behalf by K Tanner, Accountants. Neath.

The Arena representatives attend meetings with the Local Authority, other Statutory Organisations, networking and seminar events. It has representatives on Local Authority forums, consultation groups, societies and associations, local and national, establishing a network throughout the community and region.

The charity originally was formed to support events and an all-weather arena in Pontardawe, but changing circumstances and the increasingly important need for more direct intervention in individuals well-being resulted in the current structure and mission.

Arena Pontardawe Partnership formed Glantawe Outdoor Education Academy to empower people to lead more successful and fulfilling lives than they may have without our intervention. We are accomplishing this is through outdoor education learning activities within our park using a team of practitioners and voluntary workers. We engage with individuals who are disadvantaged by circumstance, disability, and society or otherwise and inspire them to be better equipped for life and gain increased employability currency.

We are an We are an Agored Cymru (AC) approved centre using OE as an engagement strategy that takes in those who are not suited to normal educational routes, and provide opportunities to gain qualifications and practical skills through contact with the natural environment - we dare to make education enjoyable and arguably significantly increase their future employment prospects, health and future well-being.

Further development could be to refer to other practical educational routes or to take more practical skills, for example land management, dry stone walling, hedge laying or use of tooling such as chainsaws, brush cutters etc. All attract transferrable qualifications and skills.

We also encourage mentoring by more advanced students of newer entrants and provide opportunities for development beyond the academy through to higher education.

## **Overall aims and outcomes**

1. To provide outdoor educational programmes for young people that will engage, address their individual needs, and facilitate their developmental process while

giving opportunities to achieve nationally recognised qualifications at Levels 1,2 and 3. We are in discussions with Agored Cymru regarding suitable level 1 and 2 courses for year 2 students probably within their new Essential Skill Suite of courses. We currently have 8 (MA and BA) degree-standard volunteers that hold a minimum of Level 3 Certificate in Education and training or CertEd, and a further 10 being developed. We are ready to deliver our unique courses immediately.

2. To provide opportunities for individuals to develop and become self-employed in outdoor education and deliver OE Programmes.

3. To allow persons who have taken part in programmes to return, develop and pass on their knowledge to others and become teachers themselves.

4. To develop volunteers in order to be able to deliver a quality and reliable product.

5. To investigate further opportunities primarily with Agored Cymru to engage and create educational programmes to meet changing needs.

6. To develop Park maintenance strategies and habitats for wildlife and plants that can be observed and appreciated.

7. To encourage development of a permanent presence within the Park so that it can be used as a true visitor centre for passing users, recognising the strategic importance of the location between the sea and mountains

8. To increase the attractiveness and facilities within the park, such as the provision of natural play areas, refurbishing of the car park area and replacement of the car-park bridge.

9. To create true sustainability in all areas and to be mindful of succession, in order to pass on ownership of the programmes to users whenever appropriate.

### **Needs and Characteristics of the people we help**

The Welsh Index of Multiple Deprivation (WIMD) places Neath Port Talbot (NPT) at an approximate median line with regard to characteristics examined, but specifically highlighting LSOAs (Lower Layer Super Output Areas) in the most deprived 10% in Wales:

The current education system does not satisfy the needs of all in the area, with anecdotal significant dropout in Secondary and Tertiary education programmes. Absenteeism is high at 10% and 4.4% of 15 year olds do not achieving the Key Stage 4 Level 2 inclusive standard (WIMD). For NPT his results in 30.9% who have no qualifications or practical skill, who then arguably have poor employment prospects.

MALE mortality rates in Neath Port Talbot are the sixth highest in 348 council areas in England and Wales, and also has the eighth highest suicide rate of any

local authority in England and Wales (ONS).

We would provide an appropriate alternative to the current educational model. This needs to provide practical skills, personal development and access to achievable qualifications within a framework that is acceptable and fun. This would significantly increase employability currency, leading in turn to richer and healthier lives.

### **How we determined need for this programme**

We need to characterise the *primary* demographic we seek to aid as those who are either in danger of becoming, or are not in training education or employment - the category known popularly as NEET. The impact we will have must be directly proportional to the number of takers for the project, but we are confident in reaching around 50 - 80 participants, increasing incrementally to around 140 - our aim will be to prepare these participants for work and life and will judge our success on employment take-up.

We can evidence the need in a number of ways, firstly by the sheer numbers of organisations that want to work with us but mostly lack funding to do so and secondly through our underpinning research, which is from a number of sources that both define the NEET and potential NEET problem and identify Outdoor Education as a positive factor. These are:

1. Governmental and National Body Research
2. Local anecdotal research
3. Personal Masters research paper on disengagement
4. Discussions with Organisations both local and beyond.
5. Neath Port Talbot Local Government statistics
6. Direct Letters of Support.

#### **1. Governmental and National Body Research**

Welsh Government.(2011) Young People not in Education, Employment or Training. National Assembly for Wales: Paper number: 11/051 Available at: [http:// www.assemblywales.org/11-051.pdf](http://www.assemblywales.org/11-051.pdf)

Edcomms (2009) Attitudinal Barriers to Engaging Young People in Positive Activities. Research Report DCSF-RR140.

DCSF (2009) Positive Activities Qualitative Research with Young People. Research Report No DCSF-RR141, Solutions Research.

Astbury, R. and Knight, B. (2003) Fairbridge Research Project – Final Report, Available from <http://www.ces-vol.org.uk/index.cfm?format=440> [Accessed 20 April 2012].

Community First categorise Pontardawe as containing 21-30% Most deprived population (Community First Website).

## **2. Local anecdotal research**

We are in close contact with local organisations such as PCSO's, Chamber of Trade and consistently discuss problems with residents all of which echo the lack of suitable resource and facilities to tackle a perceived increase in anti-social behaviour in the area and beyond. We also attend local police meetings to discuss such current issues. Local Government financial cuts are seen as contributing to the existing and future lack of facilities. We are also praised over our initiatives to create meaningful and valuable learning initiatives and have letters of support from residents to support this. We have developed partnerships in particular with Western Bay Youth Justice and Early Intervention Service - Western Communities First Team, and Local schools such as Cwmtawe Community School where each expresses the overwhelming need for facilities such as those we can provide – at a low cost and local to the area. In this we are both innovative and accessible in our approach.

## **3. Personal Masters research paper on disengagement**

My own research concentrated on reasons for disengagement and benefits of outdoor education, where I interviewed young people in Neath Port Talbot with regard to their own experiences with social disengagement and how their perceptions changed with both time and reflection of how Outdoor Education (OE) positively impacted on their lives.

## **4. Discussions with Organisations both local and beyond.**

Some of the groups who have expressed an opinion on the positive effects of OE are: Alltwen Primary School, PATCH group – Pontardawe, Cwmtawe Community School, Duke of Edinburgh Award Providers, Neath Port Talbot Social Service, Swansea Social Service, Amman and Gwendraeth Valley Youth Groups, Ysgol Gyfun Ystalyfera, East Cluster Communities First Group Swansea, Port Talbot YMCA – Youth Group, Swansea Youth Offender Team – We are also in discussion with Denise Lewis, (Western Communities First team), Danielle Hackett and Mark Forde (Western Bay Youth Justice and Early Intervention Service), with meetings in progress and high expressions of interest in the project. It is also worth noting that we have addressed the possibility of conflict with existing projects, for example will not duplicate but actually compliment the ESF Projects – 'Cam Nesa' that targets NEETS and the ESF 'Cynnydd' project that targets individuals who are at risk of becoming NEET.

## **5. Neath Port Talbot (NPT) Local Government statistics**

There is much documentation in NPT and in Wales generally supporting the need for our project, such as:

1. The ENGAGE programme in NPT which uses similar strategies to us but with less emphasis on engagement through outdoor interaction - last academic year saw a further reduction in the number of places available to young people due to budget restraints. All 25 places were filled by year 10 and 11 young people from schools across the county. All the young people who attended gained a nationally recognised qualification, with 8 year 11's

gaining level 2 qualifications. The project was originally funded through ESF – but with the lack of funding need is apparently not being adequately met. (NPT Youth Engagement Strategy 2013-2023)

2. The annual NEETS figure based on destinations of year 11 leavers was 3.8% in 2014. Although this is a small reduction further investment and development is needed as NPT is currently the 4th worst performing authority in Wales. (CHILDREN, YOUNG PEOPLE AND EDUCATION CABINET BOARD REPORT OF THE HEAD OF PARTICPATION – C. MILLIS - 18th JUNE 2015)
3. Wales has a higher proportion of people who were not in education, employment or training (NEET) among the 16-24 year old group than England. Being NEET is a major disadvantage to young people. (Ysgol Cymraeg Pontardawe - Strategic Equality Plan 2012 – 2016 )

There is little direct evidence regarding the specific area of Pontardawe, but many indirect indicators such as Youth Engagement and Progression Framework Implementation Plan and media sources (Wales still has one of the lowest levels of employment in the UK - that accounts for 24.2% of 16-64 years olds. - ANALYSIS by Sarah Dickins, BBC Wales economics correspondent 14.10.15)

There is no direct organisation that looks after our type of organisation, but the responsibility lies with a number of bodies such as OEAP, (Outdoor Education Advisors' Panel, National Guidance for the management of outdoor learning, off-site visits and learning outside the classroom), The Adventure Activities Licensing Regulations 2004, Council for Learning Outside the Classroom, The Management of Health and Safety Regulations 1999, Health and Safety Executive, information on a range of health and safety issues.

### **Strategic Fit**

This project is an integral component of the infrastructure complementing our Outdoor Education programmes that support social inclusion, poverty reduction, and economic development in the Pontardawe Area and surrounding communities by attacking problems at a base level. In addition the build will be completed using groups of disengaged young people who will gain national qualifications in addition to the benefits associated with Outdoor Education. Outdoor Education is recognised for promoting improved communication and language skills, physical development and stamina, self-confidence and self esteem building, independence, problem solving, new physical practical skills, social skills and knowledge of the natural environment.

This is recognised by The National Youth Work Strategy for Wales 2014 –2018 who single out the Duke of Edinburgh Award and John Muir Trust (both of which the Academy includes within programmes) as suitable outdoor education accreditation bodies who embed developmental programmes such as GOEA because they evidence skills in team working, decision making and communication skills.

Together with new qualifications that young people arguably otherwise would never have had, we are preparing the citizens of the future with robust positive



employability prospects. Although we are committed to learner-led programmes where we will tailor events and qualifications to individuals, we have stated outcomes over the duration of our programmes for activities attended and qualifications gained.

We will help those young people and local inhabitants most deprived in rural Wales and those that have limited scope to change their circumstances. We believe that education in a nurturing environment is the key to founding good quality of life, and subsequently increase employability prospects. This can only contribute to strengthening the local economy within a more sustainable community (Welsh Government's Vibrant and Viable Places: New Regeneration Framework (March 2013) Past participants taking part in our programmes have been from backgrounds described to us as deprived - these are young people who have developed a suspicion of any authority figure, and have disengaged from education and normal social behaviour. Outdoor Education within a safe environment empowers young people to take risks and be more aware of possibilities and open to changing their circumstances. They develop a confidence in themselves and their futures. Our presence helps to develop the resilience and capability of rural communities so that they are better able to cope with and adapt of change' through the increased and more diverse cognitive development process experienced by the young people in their journey with us. We create awareness that everyone can develop high aspirations of life and believe they can achieve a better future.

We would also seek to raise finance to increase the size of the existing building - almost doubling the available area and incorporating a new inspirational space, which would include hay-bale walls and cob lining. This new centre will provide the focus for many community activities and remove current disincentives to hire - certainly the two areas will allow young people to learn in a conducive and inspirational atmosphere while it's ok to bring wet clothes and wellies inside in another.

We have a strong 10-year + plan for the "Glantawe Outdoor Education Academy" that has clear goals and targets realistic accomplishments. This build project is fundamental to our plan, and will inspire local young people and others to a brighter future. Our overall business strategies of facilitating distinctive Business Growth, & Specialisation of purpose, together with our ambition for long term success and a determination for increasing job creation closely mirror the Swansea Bay City Region Economic Regeneration Strategy 2013-2030.

Our park and the new build will increase growth in green tourism and leisure though the innovative and inspirational nature of our structure and educational project - for example National Cycle Trail 43 follows the edge of our park and our plans include the installation of a negative footprint energy system that will serve as a shining example for the Pontardawe Area and an inspiration to visitors. Once complete, the new build coupled with our outdoor education courses will be a beacon for natural tourism and generate new business for the community of Pontardawe. Being on the cycle trail, our facilities surrounded by beautiful parkland will provide reason for visitors (particularly cyclists) to come to the area

– National Cycle Trail 43 connects Swansea and the sea to the Brecon Beacons and beyond – joining Route 46 at the Heads of the Valley Road.

Additionally, our large car park (100+ cars) will allow visitors to park and ride up the valley or down. We are also conveniently placed amid many running trails of different distances to satisfy the most adventurous runner where those activities can also be centred on the Park. We will explore the possibility of setting up walking, cycling, riding, fishing and jogging groups with volunteers in accordance with Neath Port Talbot County Borough Council (NPTCBC) RDP's Think Links, Think Rural, Thinks Sustainability – Final Report (December 2014).

The Glantawe Outdoor Education Academy is situated on a previous industrial tinplate works – this new build project and activities above will serve to illustrate what is possible using vibrant regeneration strategies – again serving as a model and example to others.

This is an innovative community based project that:

Adds value to local identity, natural and cultural resources by engaging with young people and others who do not find mainstream education convenient or appropriate, by providing real and meaningful Innovative alternatives using the natural environments and inspirational venues away from their conventional and normal situations. Our partnerships allow us to provide our innovatory programmes, and allow us to fill a widening gap left by dwindling Local Governmental resources. The financial constraints being experienced by the Local authority (NPT) such as alternative curriculum provision, reduction in social services, reduction in DofE resource, reduction in available funding for organisations such as us, tourism etc., has left a void that is currently unable to be filled through governmental sources. Without organisations such as GOEA, these provisions for young people would remain unfulfilled. GOEA will fill a much-needed gap in these dwindling resources and provide a real and useful service for the young people who are the citizens of the future.

Certainly we are maximising the potential green economy of the Glantawe Riverside Park in which the Academy is based – our immediate plans also include the use of green energy to power the building, using solar energy coupled with a ground sourced heat pump to create a negative energy footprint. We could be exporting surplus energy, and will serve as an example for study and community replication.

Our philosophy of encouraging all to work, learn and play in the Academy as an enjoyable and satisfying experience pervades all aspects of our work. We will continue to promote the Academy as a rich and exciting place to join and form partnerships with. This includes local government, local businesses, youth groups, participants – all who come into contact with us. We will actively promote the local area and Wales as a whole as a brilliant place to live, work and play.

This open culture will certainly create and promote an environment that will engender creativity and freedom of thought, leading without doubt to people reaching their full potential and using their creativity in founding new ventures.

Unfortunately the valleys ethos seems to be that people expect to have available on their doorstep. This is fuelled by the knowledge that previous generations had jobs closer to home in heavy industry or manufacturing. This knowledge has created the mentality that work should be available close to home hence creating a negative perception of travelling far to work. Despite there being jobs available in urban areas in the service industry, people are reluctant to travel to fulfil these opportunities. Neath Port Talbot County Borough Council (NPTCBC) RDP's Think Links, Think Rural, Thinks Sustainability – Final Report (December 2014). At GOEA we can significantly contribute to an individuals employment currency in order for there to be better paid jobs available, making travel more appealing and decreasing (at least) employment poverty.

Above all, our task is to allow all to reach their full potential by creating opportunities in play and education where trust and a safe environment can overcome many of the social barriers created by circumstance and adverse social or family situations.

### **Who has directly benefitted**

6 - Adults who have received training and professional development to allow them to set up their own businesses within the park and deliver educational programmes

248 - Disengaged young people from local schools

1 - Youth Offending programme

3 - Disabled group from Pontardawe

These are included within the overall figures quoted above

### **Supporting Information Illustrating Need for the Project**

GOEA also adds value to local identity, natural and cultural resources by engaging with young people and others who do not find mainstream education convenient or appropriate, by providing real and meaningful Innovative alternatives using the natural environments and inspirational venues away from their conventional and normal situations. Our partnerships allow us to provide our innovatory programmes, and allow us to fill a widening gap left by dwindling Local Governmental resources.

The financial constraints being experienced by the Local authority (NPT) such as alternative curriculum provision, reduction in social services, reduction in DofE resource, reduction in available funding for organisations such as us, tourism etc., has left a void that is currently unable to be filled through governmental sources. Without organisations such as GOEA, these provisions for young people would remain unfulfilled. GOEA will fill a much-needed gap in these dwindling resources and provide a real and useful service for the young people who are the citizens of the future. Above all, our task is to allow all to reach their full potential by creating opportunities in play and education where trust and a safe environment can overcome many of the social barriers created by circumstance and adverse social or family situations.

## How the programme benefits Social Opportunities / Economic Activity / The Environment / Heritage & Culture

This programme will impact on each of these criteria in a number of ways, and supports social inclusion, poverty reduction, and economic development in the Pontardawe Area and surrounding communities by attacking problems at a base level – Outdoor Education is recognised for promoting improved communication and language skills, physical development and stamina, self-confidence and self esteem building, independence, problem solving, new physical practical skills, social skills and knowledge of the natural environment. This is recognised by The National Youth Work Strategy for Wales 2014 –2018 who single out the Duke of Edinburgh Award and John Muir Trust (both of which the Academy includes within programmes) as suitable outdoor education accreditation bodies who embed developmental programmes such as GOEA because they evidence skills in team working, decision making and communication skills.

Together with new qualifications that young people arguably otherwise would never have had, we are preparing the citizens of the future with robust positive employability prospects. Although we are committed to learner-led programmes where we will tailor events and qualifications to individuals, we have stated outcomes over the duration of our programmes for activities attended and qualifications gained.

We will help those young people and local inhabitants most deprived in rural Wales and those that have limited scope to change their circumstances. We believe that education in a nurturing environment is the key to founding good quality of life, and subsequently increase employability prospects. This can only contribute to strengthening the local economy within a more sustainable community (Welsh Government's Vibrant and Viable Places: New Regeneration Framework (March 2013) Past participants taking part in our programmes have been from backgrounds described to us as deprived - these are young people who have developed a suspicion of any authority figure, and have disengaged from education and normal social behaviour. Outdoor Education within a safe environment empowers young people to take risks and be more aware of possibilities and open to changing their circumstances. They develop a confidence in themselves and their futures. Our presence helps to develop the resilience and capability of rural communities so that they are better able to cope with and adapt of change' through the increased and more diverse cognitive development process experienced by the young people in their journey with us. We create awareness that everyone can develop high aspirations of life and believe they can achieve a better future.

The Glantawe Outdoor Education Academy is situated on a previous industrial tinplate works – this project and activities above will serve to illustrate what is possible using vibrant regeneration strategies – again serving as a model and example to others.

## Unique Nature of Project

This project is unique both in the Locality of Pontardawe, the Swansea Valley and Neath Port Talbot. There are commercial companies that provide outdoor education facilities (eg Adventure Britain based in Seven Sisters, L&A in Port Talbot, Mountain and River Activities in Resolven and many other similar OE providers) but these are based on short burst adventurous activities, weekends, stag and hen parties etc., but do not address the long term interests or educational needs of participants, particularly those at risk or in danger of becoming at risk. We also provide Forest School activities that are mirrored with NPT Forest schools centred in Caswell, Swansea, but here again there is no embedding of any educational process or long term programmes similar to GOEA.

There is much research published on the benefits of Outdoor Education outside the classroom, for example, the Ofsted report "Learning outside the classroom How far should you go?" (October 2008) stated that "where there was provision for exciting, direct and relevant learning activities outside the classroom. Such hands-on activities led to improved outcomes for pupils and students, including better achievement, standards, motivation, personal development and behaviour. The survey also found examples of the positive effects of learning outside the classroom on young people who are hard to motivate. "

Schools do not provide sufficient opportunities for sufficiently robust "hands on" learning outside the classroom to take place, and are often at a loss for how to satisfy the needs of groups of young people in danger of becoming NEET.

Long term effects of Outdoor Education and natural activities are generally considered longer lasting than short-term activities, and arguably can draw comparisons with Summer camps which have contact time in weeks instead of months – Research published by Philliber Research Associates (2005) where over 5000 families took part in the survey found that there were significantly longer term positive benefits from prolonged contact compared to short term activities. This included increased confidence and self-esteem, improved social skills, independence and leadership qualities; they became more adventurous and willing to try new things.

At Glantawe Outdoor Education Academy, we will accommodate young people through long-term programmes that combine natural and inspirational settings with achievable educational goals tailored for the individual that will encourage these developmental processes. We allow each participant to gain what they are able and achieve personal developmental levels that may not be possible without our intervention. We will complement the existing schooling system evidenced by the eagerness of Cwmtawe Community School and others to use our facilities, our unique nature can be evidenced by the interest and readiness of established organisations to use our future planned facilities – all have expressed interest and excitement in the overall project outcomes of gaining real work skills and ethos together with qualifications. This is not available in normal school curricula and will be a flagship project for Pontardawe, Cwmtawe Community School, the other groups of young people who will take part, and Neath Port Talbot in General.

## Other Information

We have a proven track record of delivery of successful past project/community events.

This project has achieved a number of awards-

- 2018 – WCVA Wale Volunteer of the Year Award
- 2019 - Green Flag Award for our work in the Park and the local environment.
- 2018 - Green Flag Award for our work in the Park and the local environment.
- 2017 - Green Flag Award for our work in the Park and the local environment.
- 2016 - Green Flag Award for our work in the Park and the local environment.
- 2015 - Green Flag Award for our work in the Park and the local environment.
- 2014 - Green Flag Award for our work in the Park and the local environment.
- 2013 - Trustee National winner of the prestigious WCVA 'Trustee of the Year' Award.
- 2013 - Green Flag Award for our work in the Park and the local environment.
- 2012 - Winners NPT 'Action for Wildlife'.
- 2012 - Highly Commended 'Green Business of the Year'.
- 2011 - Winners of the Neath Port Talbot 'Green Project of the Year'.
- 2011 - Highly Commended - 'Action for Wildlife' category.

As a result the current steering committee has developed and attracted individuals with a broad range of life and qualified skills that include but are not limited to teachers, managers, outdoor education professionals, behaviorists, local government officers, and land management specialists. This skills set will be continually critically examined to ensure best fit for the Project. The current steering committee is superbly qualified to manage the next phase of this critically important strategy and continues to display a strength and dedication to the Project that will maximise the chance of success.

We have forged strong partnerships with local organisations who have pledged and demonstrated support for the project, for example:-

Ysbrud Y Coed (Alun Wyn Apo Christi)  
Remploy  
Swansea University  
RCTrainingWales  
Trinity St Davids University Carmarthen,  
Down To Earth, Murton  
Forest Schools – NPT/Swansea  
Hendrefelin School  
Dwr-Y Felyn School  
Llangatwg Community School  
Llangiwg Primary School  
Ysgol Gynradd Cymraeg Pontardawe  
Alltwen Primary School  
Ysgol Gynraedd Pontardawe

Cefn Coed psychiatric hospital  
Employment Service  
Cwmtawe Community School  
The Duke of Edinburgh Award  
West Glamorgan Local Group  
Hope Rescue  
Neath Port Talbot Social Services  
Swansea Canal Society  
Swansea Social Services  
Amman and Gwendraeth Valley Youth Groups  
Ysgol Gyfun Ystalyfera  
East Cluster Communities First Group Swansea  
Port Talbot YMCA – Youth Group  
Youth Justice & Early Intervention Service  
And others..

GOEA Delivers a wide range of programmes using Outdoor Education to NEET, disengaged (or in danger of becoming disengaged) groups of young people, schools, youth groups, disabled persons local communities and the general public. We will provide national qualifications and employability skills through outdoor educational (OE) programmes devised for disengaged and young persons that will fully prepare them for a fulfilling and valuable life and dare to make education an enjoyable process.

We foster and encourage opportunities for individuals to become skilled and confident as self-employed persons providing outdoor education and other programmes within the 25-acre park and woodland.

Creation of opportunities for individuals to return as facilitators/teachers and pass on skills and knowledge to new groups thus creating sustainability and passing project ownership to new generations.

Overall the strategy is one of social empowerment, to provide an environment and facility that will allow people to grow in self-respect, ability and confidence to not only become more rounded and valuable citizens in themselves but to inspire others to follow in their footsteps, creating social pride and a more cohesive society.

We believe firmly in inspiring young people to value a socially connected vibrant, viable and sustainable community but we need the people, environment and structures that will facilitate this process.

We recognise that there is no organisation (charitable or commercial) in the Swansea Valley and Neath Port Talbot areas offering outdoor education courses with the expected long-term positive outcomes planned for the Academy. Our mission to increase skills and opportunities is again echoed in the Swansea Bay City Region Economic Regeneration Strategy 2013-2030, which also highlights the multiple areas of deprivation and poverty. Perhaps unsurprisingly the report also

comes to the same conclusions as us in that any strategy must deliver growth for future generations.

We actively encourage volunteers to take part in GOEA activities, help create our learning community and be able to provide educational, skills development and self-employment opportunities for them to assist in their personal development and confidence. We also are mindful of the Neath Port Talbot Single Integrated Plan – 2013 – 2023 and would suggest that Outdoor Education is a growth market and together with associated benefits such as volunteer development and creation of employment potential conforms to the vision of a stronger and more prosperous economy. The Academy and surrounding parkland is certainly a key site for development as we will take this concept further - we are in discussions with Agored Cymru to provide pathways to higher education in future years with the progression to an academy providing full time education through Outdoor Education.

As an Academy, we also believe in the benefits of the Duke of Edinburgh Award programme, and have embarked on a course of action that will result in our being an independent provider for the Award – we have already successfully completed a pilot programme for the Bronze award, and have progressed on to Gold for 2017/18. This supported by the Neath Port Talbot Youth Development Officer.

Over the past three years we have gradually built up our knowledge and abilities, ensuring our practitioners have a standardised ability of project delivery within a methodology that embraces individual needs both academic and personal.

There are more than a few outcomes from OE programmes, some could be measured but the majority not. It is difficult to establish levels of cognitive development for example or how programmes affect later life. Research has revealed that participants often took many years to actually process and understand the positive impact of OE. There is arguably a relationship between the OE methodology, risk taking and cognitive development that would be perceived but almost impossible to measure. We generally do not have contact with participants following our programmes, but perceptions are almost without exception positive during and on conclusion of programmes.

For example we had one participant from a Youth Offending Team who was described as being uncommunicative in the extreme – which did not help that individual with any mitigation of sentencing – following three sessions with us, “at final panel X was praised for completing the order successfully. X spoke very well and was a very different person from the first panel when X was withdrawn and did not speak. We feel that the Riverside programme was a positive engagement for her during a very difficult time in life. “

Indisputably young people enjoy this freedom from the classroom, which is perhaps close to a concept of play from their perspective? We can use this by



bridging the gap from play/enjoyment/freedom to actually engaging with a formalised educational process.

One example I would use as evidence of engagement beyond what we recognise as the initial phase of group engagement and trust formation is a group we currently have a group of 20 young people that have been brought to us as “not at all interested in getting an education” – following the first 4 sessions at GOEA, all bar 1 have elected to join our programme and are working towards the Agored Cymru Essential Skills for Work and Life (ESfWL).

We have recently become an Agored Cymru Approved Centre and will be registering our first candidates in the coming week.

Demonstrating success past this point will be based on achievement as well as continued engagement – dropout rates so far have been close to nil, and we hope that this will continue. Demonstrating success in the future may not be so nebulous as we are entering the realms of pass/fail, attendance. Dropout rates etc., all of which we will use our past experience to minimise.

### Outcomes

Outcomes can be broadly sectioned into subjective and objective. Outdoor education can produce a range of soft options that can be difficult to measure apart from a subjective comparison before and after the event. Each participant is the subject of an individual appraisal following each session, and each has a personal portfolio that charts their journey with the Academy.

Hard outcomes are simpler to measure and will be the results of academic achievement and employment. We will also evaluate each candidate and ensure they are aware of their progress, strengths and weakness in order that they are best informed to make career decisions.

Primary outcomes will be the empowerment of young people through outdoor education to gain national qualifications. However, our outcomes will pass beyond the hard outcomes of academic success - the particular benefits in this kind of group include improved communication and language skills, physical development and stamina, self-confidence and self esteem building, independence, new physical practical skills, social skills and knowledge of the natural environment. This is arguably subjective, but will certainly form part of our evaluation process. Employment currency is a prime objective, and the attainment of employment or self-employment will certainly demonstrate success for the individual.

We can also further measure success indirectly, through direct feedback from clients such as: "Just an email to let you know that I have had some great feedback from some parents to say that the project has been having a very positive affect on their mood and behaviour. They are very happy when coming home from the project and excited about informing them of their day."

Finally, clients gaining employment and/or increased well-being as a result of our programmes is perhaps the final evidence of success.

### Why are we well placed to deliver outcomes?

To deliver the sort of programmes we have described then critical criteria need to be satisfied. The environment needs to be as far removed from a normal classroom as possible, and learning needs to be presented in a way that is both acceptable and relevant to each person.

We are well placed within our mixed environments where we have proven to be able to deliver learning events that are effective for the individual. We are also well-experienced outdoor education professionals who have in depth experience of delivering learning and other experiences outside the classroom.

More importantly, we have an ethos that allows each learner to develop at their own speed in their chosen direction guided by personal abilities. We believe that given a chance all can be valued members of society.

### Complementary strategies

This project will complement existing strategies as shown elsewhere in this report as an innovative community based project that:

Adds value to local identity, natural and cultural resources by engaging with young people and others who do not find mainstream education convenient or appropriate, by providing real and meaningful Innovative alternatives using the natural environments and inspirational venues away from their conventional and normal situations. The financial constraints being experienced by the Local authority (NPT) has left a void that is currently unable to be filled through governmental sources. Without organisations such as GOEA, these provisions for young people would remain unfulfilled. GOEA will fill a much-needed gap in these dwindling resources and provide a real and useful service for the young people who are the citizens of the future.

The open culture at GOEA creates and promote an environment that will engender creativity and freedom of thought, leading without doubt to people reaching their full potential and using their creativity in founding new ventures.

Despite there being jobs available in urban areas in the service industry, people are reluctant to travel to fulfill these opportunities. At GOEA we can significantly contribute to an individuals employment currency in order for there to be better paid jobs available, making travel more appealing and decreasing employment poverty.

### Access to Services

We provide an expanding requirement for volunteers from the community, which will be satisfied as the project becomes more widely known. We do not preclude anyone at any level in the GOEA project and will provide the opportunity to become skilled and qualified in their chosen direction – increasing employability currency where we can, or just encouraging the ability to live more fulfilling and healthier active outdoor lifestyles. We will conform to the **Welsh Government**

**Volunteering Policy - August 2015** in helping people fulfil their potential no matter what their background or circumstance. We will publicise this requirement and opportunities at the Academy through local, press, word of mouth, Volunteering Wales Website, NPTCVS and volunteering champions. We will Develop a suitable infrastructure which will contain in accordance to the **Welsh Government Volunteering Policy** recommendations.

In all cases we will encourage volunteers, participants and others to take an active part in the activities of the Academy in accordance with their own needs and developmental choices. We anticipate that voluntary involvement will increase significantly as local knowledge of our activities grows – this will encourage healthier lifestyles and decreased isolation through increased activity and higher levels of self-fulfilment experienced through group and individual achievement. This arguably will lead to greater sense of ownership and pride – which is something we have already witnessed through engagement with local young people who visit the park. **Welsh Government Think Links, Think Rural, Think Sustainability** - Final Report (December 2014) suggests that young people perceive a lack of tourist centre/hub, something apart from the Pontardawe Youth Club, When asked what kinds of attractions they would like, the most popular suggestion made was for places to eat and drink as a tourism attraction. This was closely followed by opportunities for indoor attractions and walking and cycling trails. At GOEA within the Glantawe Riverside Park, we are able to provide solutions to most of these problems as our facilities become sufficiently robust. We can only provide such benefits such as these through providing inspirational environments, people and places to form learning communities – the new build project and subsequent capabilities will form such a critical component in regenerating not only places but also people’s minds - making our community a more vibrant and inclusive place.

In line with the **Welsh Government Vibrant and Viable Places New Regeneration Framework** (11 March 2013) we intrinsically link regeneration, attitudes, success and well-being with the skills and capacities of individuals, families and communities. Our partnership with Cwmtawe Community School will engender engagement with under 16 pupils and our partnerships with Youth Offending Teams, Youth groups and the community, opportunities to offer life-changing programmes leading to a local culture with higher aspirations and a belief in a better future. For others, we will create a skilled and confident existing and future workforce that will become a product of outdoor education mixed with qualifications and the life experience embedded in our programmes.

### **Fuel Poverty**

At GOEA we understand that cost of fuel poverty is a primary demotivational factor here in Wales, which can lead to the downward spiral that accepts unemployment as a normal component of life.

We are unable to influence the hardware of providing fuel for heating, lighting and vehicles, but through our programmes can certainly increase positive attitudes, self-respect with practical and academic skills that enhance employability prospects. We encourage individuals to take responsibility for their actions – or inactivity – to take charge of their lives, increasing their income and life skills to

become valued members of society.

Whereas we do not directly provide direct “nuts and bolts” support to individuals, we believe that this process is far more valuable as it confronts some of the basic causes of fuel poverty, such as unemployment, demotivation and lack of qualification.

### **In-work poverty**

The report **Monitoring poverty and social exclusion in Wales 2015** By Adam Tinson and Tom MacInnes, funded by the Rowntree Foundation (September 2015) Claims that an average of 700,000 people were in poverty in Wales in the three years to 2013/14, equivalent to 23 per cent of the population. Compared with ten years earlier, there are more people of working age (particularly young adults) in poverty and fewer children and pensioners. Poverty has risen in working families and fallen in workless families. The Summer Budget 2015 has not provided much aid for younger adults in that the new national living wage (NLW) does not apply to those under 25, and there were housing benefit cuts for those aged 18 to 21. This is on top of other areas of public policy, such as sanctioning, which disproportionately affect young people.

The Welsh Government **Tackling Poverty Action Plan - Annual Report 2015** states that young people who are not in education, employment or training (NEET) between the ages of 16 and 24 years are more likely to be living in poverty. These then with young people who are in danger of becoming NEET are arguably a priority to reduce in work poverty. This demographic is a primary focus of our programmes, as it directly impacts prosperity and future prospects by tackling the base cause of the reasons for their not being in employment education or training.

There is little doubt that anyone who takes part in our long-term courses will derive personal developmental benefits as described earlier in this document. The embedding of educational qualifications with personal development will arguably result in an individual who is more valuable to an employer.

This principle will also include adults, especially those who are volunteers – we can offer education and training to become practitioners and deliverers of ‘Outdoor’ alternative curriculum provision whilst also learning skills and creating pathways appropriate for the ‘Green Economy’. Currently, we perceive through anecdotal evidence that the outdoor activities are perceived as “play” activities, whereas outdoor education in fact offers some real career prospects – the Wales government website

<http://gov.wales/newsroom/tourism/2014/140512outdoor-toruismsurvey/?lang=en>

Claims that Welsh Government figures show that outdoor activity tourism in Wales is worth £481 million to the economy and supports 8,243 Welsh jobs. The **Economic Impact of Outdoor Activity Tourism in Wales Final Report** From Visit Wales (March 2014) states that Wales is perceived as a good destination for a variety of outdoor activities and abilities. 54% of visitors staying overnight revealed that they would not have made their visit to Wales if they were not taking part in the activity. Our pathways to further employment include educating all persons to the possibility of alternative pathways to employment – which may be more appropriate under many circumstances.

Perhaps a third opportunity to reduce in work poverty could come from providing opportunities within the Academy, both as volunteers or practitioners - we currently offer the opportunity for young people to return following completion of a programme and be trained as facilitators in their own right. We can offer teacher-training opportunities for suitable candidates and aim on passing ownership of the project back to the community at every opportunity. Previous similar projects held over a 12-year period with a Duke of Edinburgh Award programme bear out these statements, and there are many examples of young people whose horizons have been widened through outdoor education and past on through life to become doctors, teachers and in one case a university lecturer. Of course it could be argued that this would have happened anyway, but having witnessed the developmental process personally, I would maintain that we at least gave them a helping nudge in the right direction.

We would claim that individuals passing through GOEA programmes will certainly gain more employment currency, achieve wider perspective on life and create better opportunities to be better placed to succeed in the job market

### **Digital Inclusion**

Although GOEA can be perceived as a practical outdoor process, embedded in our recording and evidential systems is the use of computer equipment. We assist students with the basic writing and data entry skills where appropriate, and provide laptops and free wi-fi for students to enter their assessment evidence.

**Company registration number: 04435289**

**PONTARDAWE ARENA**

**Unaudited financial statements**

**5 April 2019**

# PONTARDAWE ARENA

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## **PONTARDAWE ARENA**

### **Directors and other information**

<b>Directors</b>	Mr John Jones Julie Clapham Susan Smith
<b>Company number</b>	04435289
<b>Registered office</b>	1 Bryn Celyn Pontardawe Swansea SA8 4LG
<b>Accountant</b>	R J Tanner Gellimarch Farm Cadoxton Neath SA10 8AF



## PONTARDAWE ARENA

### Directors report Year ended 5 April 2019

The directors present their report and the unaudited financial statements of the company for the year ended 5 April 2019.

#### **Directors**

The directors who served the company during the year were as follows:

Mr John Jones  
Julie Clapham  
Susan Smith

#### **Small company provisions**

This report has been prepared in accordance with the provisions applicable to companies entitled to the small companies exemption.

This report was approved by the board of directors on 16 May 2019 and signed on behalf of the board by:



Mr John Jones  
Director

**PONTARDAWE ARENA**

**Chartered accountant's report to the board of directors on the preparation of the  
unaudited statutory financial statements of PONTARDAWE ARENA  
Year ended 5 April 2019**

In order to assist you to fulfil your duties under the Companies Act 2006, I have prepared for your approval the financial statements of PONTARDAWE ARENA for the year ended 5 April 2019 which comprise the statement of income and retained earnings, statement of financial position and related notes from the company's accounting records and from information and explanations you have given me.

As a practising member of the Institute of Chartered Accountants in England and Wales, I am subject to its ethical and other professional requirements which are detailed at <http://www.icaew.com/en/members/regulations-standards-and-guidance/>.

My work has been undertaken in accordance with the ICAEW Technical Release 07/16 AAF.



R J Fanner  
Accountant and Taxation Specialist

Gellimarch Farm  
Cadoxton  
Neath  
SA10 8AF

16 May 2019

**PONTARDAWE ARENA**

**Statement of income and retained earnings  
Year ended 5 April 2019**

	<b>Note</b>	<b>2019 £</b>	<b>2018 £</b>
<b>Turnover</b>		79,280	54,404
Cost of sales		(54,617)	(37,425)
<b>Gross profit</b>		24,663	16,979
Administrative expenses		(20,310)	(8,141)
<b>Operating profit</b>		4,353	8,838
<b>Profit before taxation</b>	<b>5</b>	4,353	8,838
Tax on profit		-	-
<b>Profit for the financial year and total comprehensive income</b>		4,353	8,838
<b>Retained earnings at the start of the year</b>		53,993	45,155
<b>Retained earnings at the end of the year</b>		58,346	53,993

All the activities of the company are from continuing operations.

**The notes on pages 7 to 10 form part of these financial statements.**

**PONTARDAWE ARENA**

**Statement of financial position  
5 April 2019**

	Note	2019 £	£	2018 £	£
<b>Fixed assets</b>					
Tangible assets	6	16,206		14,819	
			16,206		14,819
<b>Current assets</b>					
Debtors	7	125		275	
Cash at bank and in hand		51,612		40,912	
		51,737		41,187	
<b>Creditors: amounts falling due within one year</b>	8	(9,597)		(2,013)	
<b>Net current assets</b>			42,140		39,174
<b>Total assets less current liabilities</b>			58,346		53,993
<b>Net assets</b>			58,346		53,993
<b>Capital and reserves</b>					
Profit and loss account			58,346		53,993
<b>Shareholders funds</b>			58,346		53,993

**Cash in hand at bank comprises of Protected Funds of £37,721 and the remaining balance of £14,016 as trading funds.**

For the year ending 5 April 2019 the company was entitled to exemption from audit under section 477 of the Companies Act 2006 relating to small companies.

Directors responsibilities:

- The members have not required the company to obtain an audit of its financial statements for the year in question in accordance with section 476;
- The directors acknowledge their responsibilities for complying with the requirements of the Act with respect to accounting records and the preparation of financial statements.

These financial statements have been prepared in accordance with the provisions applicable to companies subject to the small companies' regime and in accordance with FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

**The notes on pages 7 to 10 form part of these financial statements.**

**PONTARDAWE ARENA**

**Statement of financial position (continued)**  
**5 April 2019**

These financial statements were approved by the board of directors and authorised for issue on 16 May 2019, and are signed on behalf of the board by:



Mr John Jones  
Director

Company registration number: 04435289

**The notes on pages 7 to 10 form part of these financial statements.**

## PONTARDAWE ARENA

### Notes to the financial statements Year ended 5 April 2019

#### 1. General information

The company is a private company limited by shares, registered in United Kingdom. The address of the registered office is 1 Bryn Celyn, Pontardawe, Swansea, SA8 4LG.

#### 2. Statement of compliance

These financial statements have been prepared in compliance with the provisions of FRS 102, Section 1A, 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

#### 3. Accounting policies

##### Basis of preparation

The financial statements have been prepared on the historical cost basis, as modified by the revaluation of certain financial assets and liabilities and investment properties measured at fair value through profit or loss.

The financial statements are prepared in sterling, which is the functional currency of the entity.

##### Turnover

Turnover is measured at the fair value of the consideration received or receivable for goods supplied and services rendered, net of discounts and Value Added Tax.

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership have transferred to the buyer, usually on despatch of the goods; the amount of revenue can be measured reliably; it is probable that the associated economic benefits will flow to the entity and the costs incurred or to be incurred in respect of the transactions can be measured reliably.

##### Taxation

The taxation expense represents the aggregate amount of current and deferred tax recognised in the reporting period. Tax is recognised in the statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in capital and reserves. In this case, tax is recognised in other comprehensive income or directly in capital and reserves, respectively.

Current tax is recognised on taxable profit for the current and past periods. Current tax is measured at the amounts of tax expected to pay or recover using the tax rates and laws that have been enacted or substantively enacted at the reporting date.

Deferred tax is recognised in respect of all timing differences at the reporting date. Unrelieved tax losses and other deferred tax assets are recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Deferred tax is measured using the tax rates and laws that have been enacted or substantively enacted by the reporting date that are expected to apply to the reversal of the timing difference.

## PONTARDAWE ARENA

### Notes to the financial statements (continued) Year ended 5 April 2019

#### **Tangible assets**

Tangible assets are initially recorded at cost, and are subsequently stated at cost less any accumulated depreciation and impairment losses.

Any tangible assets carried at revalued amounts are recorded at the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

An increase in the carrying amount of an asset as a result of a revaluation, is recognised in other comprehensive income and accumulated in capital and reserves, except to the extent it reverses a revaluation decrease of the same asset previously recognised in profit or loss. A decrease in the carrying amount of an asset as a result of revaluation is recognised in other comprehensive income to the extent of any previously recognised revaluation increase accumulated in capital and reserves in respect of that asset. Where a revaluation decrease exceeds the accumulated revaluation gains accumulated in capital and reserves in respect of that asset, the excess shall be recognised in profit or loss.

#### **Depreciation**

Depreciation is calculated so as to write off the cost or valuation of an asset, less its residual value, over the useful economic life of that asset as follows:

If there is an indication that there has been a significant change in depreciation rate, useful life or residual value of tangible assets, the depreciation is revised prospectively to reflect the new estimates.

#### **Impairment**

A review for indicators of impairment is carried out at each reporting date, with the recoverable amount being estimated where such indicators exist. Where the carrying value exceeds the recoverable amount, the asset is impaired accordingly. Prior impairments are also reviewed for possible reversal at each reporting date.

When it is not possible to estimate the recoverable amount of an individual asset, an estimate is made of the recoverable amount of the cash-generating unit to which the asset belongs. The cash-generating unit is the smallest identifiable group of assets that includes the asset and generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

## PONTARDAWE ARENA

### Notes to the financial statements (continued) Year ended 5 April 2019

#### Financial instruments

A financial asset or a financial liability is recognised only when the company becomes a party to the contractual provisions of the instrument.

Basic financial instruments are initially recognised at the transaction price, unless the arrangement constitutes a financing transaction, where it is recognised at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Debt instruments are subsequently measured at amortised cost.

Where investments in non-convertible preference shares and non-puttable ordinary shares or preference shares are publicly traded or their fair value can otherwise be measured reliably, the investment is subsequently measured at fair value with changes in fair value recognised in profit or loss. All other such investments are subsequently measured at cost less impairment.

Other financial instruments, including derivatives, are initially recognised at fair value, unless payment for an asset is deferred beyond normal business terms or financed at a rate of interest that is not a market rate, in which case the asset is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Other financial instruments are subsequently measured at fair value, with any changes recognised in profit or loss, with the exception of hedging instruments in a designated hedging relationship.

Financial assets that are measured at cost or amortised cost are reviewed for objective evidence of impairment at the end of each reporting date. If there is objective evidence of impairment, an impairment loss is recognised in profit or loss immediately.

For all equity instruments regardless of significance, and other financial assets that are individually significant, these are assessed individually for impairment. Other financial assets are either assessed individually or grouped on the basis of similar credit risk characteristics.

Any reversals of impairment are recognised in profit or loss immediately, to the extent that the reversal does not result in a carrying amount of the financial asset that exceeds what the carrying amount would have been had the impairment not previously been recognised.

#### 4. Employee numbers

The average number of persons employed by the company during the year amounted to Nil (2018: 3).

#### 5. Profit before taxation

Profit before taxation is stated after charging/(crediting):

	<b>2019</b>	2018
	<b>£</b>	£
Depreciation of tangible assets	3,191	2,623



**PONTARDAWE ARENA**

**Notes to the financial statements (continued)**  
**Year ended 5 April 2019**

**6. Tangible assets**

	Plant and machinery	Fixtures, fittings and equipment	Total
	£	£	£
<b>Cost</b>			
At 6 April 2018	10,775	15,163	25,938
Additions	4,200	379	4,579
<b>At 5 April 2019</b>	<u>14,975</u>	<u>15,542</u>	<u>30,517</u>
<b>Depreciation</b>			
At 6 April 2018	6,383	4,737	11,120
Charge for the year	2,148	1,043	3,191
<b>At 5 April 2019</b>	<u>8,531</u>	<u>5,780</u>	<u>14,311</u>
<b>Carrying amount</b>			
<b>At 5 April 2019</b>	<u>6,444</u>	<u>9,762</u>	<u>16,206</u>
At 5 April 2018	<u>4,392</u>	<u>10,426</u>	<u>14,818</u>

**7. Debtors**

	2019	2018
	£	£
Trade debtors	<u>125</u>	<u>275</u>

**8. Creditors: amounts falling due within one year**

	2019	2018
	£	£
Trade creditors	3,001	1,413
Other creditors	6,596	600
	<u>9,597</u>	<u>2,013</u>

**9. Controlling party**

John Jones, Julie Clapham and Susan Smith are directors

**PONTARDAWE ARENA**

**The following pages do not form part of the statutory accounts.**

**PONTARDAWE ARENA**

**Detailed income statement  
Year ended 5 April 2019**

	<b>2019</b>	2018
	<b>£</b>	£
<b>Turnover</b>		
Grants	27,750	11,100
NPT Grant	40,001	28,242
Hire	11,529	15,062
	<u>79,280</u>	<u>54,404</u>
<b>Cost of sales</b>		
Freeland contractors	(54,617)	(37,425)
	<u>(54,617)</u>	<u>(37,425)</u>
<b>Gross profit</b>	24,663	<u>16,979</u>
<b>Gross profit percentage</b>	31.1%	31.2%
<b>Overheads</b>		
Administrative expenses	(20,310)	(8,141)
	<u>(20,310)</u>	<u>(8,141)</u>
<b>Operating profit</b>	4,353	8,838
<b>Operating profit percentage</b>	5.5%	16.2%
<b>Profit before taxation</b>	<u>4,353</u>	<u>8,838</u>

**PONTARDAWE ARENA**

**Detailed income statement (continued)**  
**Year ended 5 April 2019**

	<b>2019</b>	<b>2018</b>
	<b>£</b>	<b>£</b>
<b>Overheads</b>		
<b>Administrative expenses</b>		
Staff training	(743)	-
Insurance	(2,304)	(1,235)
Light and heat	(1,263)	(409)
Cleaning	(32)	(7)
Repairs and maintenance	(7,332)	(455)
Printing, postage and stationery	(603)	(217)
Advertising	(48)	(252)
Telephone	(880)	(597)
Companies House fees	-	(13)
Motor expenses	(97)	(91)
Legal and professional	(46)	(116)
Consultancy fees	(1,649)	(1,250)
Accountancy fees	(720)	(600)
General expenses	(579)	(276)
Subscriptions	(823)	-
Depreciation of tangible assets	(3,191)	(2,623)
	<u>(20,310)</u>	<u>(8,141)</u>



**CHARITY COMMISSION**  
FOR ENGLAND AND WALES

## **GUIDANCE**

# Independent examination of charity accounts: Directions and guidance for examiners (CC32)

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DECEMBER 2017

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2. Independent examination at a glance
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4. Additional guidance when applying the Directions to the independent examination of smaller charity groups
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1. Flowchart: charity eligibility requirements for independent examination
2. Calculation of gross income
3. Extract from the 2008 Regulations
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6. Preparation of the trustees' annual report and filing with the Commission
7. Principles of fund accounting
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## 1. Introduction

### The role and contribution of the independent examiner

Charity law requires all charity trustees to prepare accounts for their charity. The trustees of registered charities must also prepare a trustees' annual report (the report). The report and accounts tell donors and others interested in the work of the charity what the charity is set up to do, what it has done in the year and how it raised and spent its money. The role of the independent examiner is to provide an independent scrutiny of the accounts. The examiner plays a part in maintaining public trust and confidence in charities.

### What is this guidance about?

This guidance explains the Directions the examiner must follow to carry out an independent examination. The Directions are mandatory and apply to examinations of both registered charities and those charities currently excepted from registration. It also explains the examiner's separate legal duty to report any matters of material significance to the Commission.

Separate guidance on independent examination is given to charity trustees. The trustees are responsible for appointing their charity's independent examiner. See: Independent examination of charity accounts: trustees (CC31).

### Previous guidance

This guidance, first published in September 2017, updated the Commission's previous publication published in June 2015. It contains the new Directions that take into account the increase in threshold for independent examination for reporting periods (financial years) ending on or after 31st March 2015 and the revised list published on 13 April 2017 of reportable matters of material significance to the charity regulator.

The updated guidance and Directions must be followed by independent examiners when carrying out their independent examination. For independent examiner's reports signed by the examiner and dated on or after 1 December 2017 the new Directions and guidance must have been followed for the independent examination to have been done correctly. The date from which the new Directions was mandatory is 1 December 2017.

Examiners were encouraged to follow the new Directions and guidance straight away and not wait for the mandatory date of 1 December but the Commission will accept independent examiner's reports based on the old Directions and guidance if these are signed on or before 30 November 2017. From 1 December if an examiner has not followed the new Directions and guidance then they have not carried out their independent examination properly.

Following feedback from an independent examination advisory group member this guidance has been restyled with typographical errors corrected. No substantive changes to the Directions or guidance have been made.

## How to use this guidance

Before starting an independent examination the examiner must understand the responsibilities of both the examiner and the trustees in relation to the scrutiny, preparation and filing of accounts. A successful examination will be dependent on understanding what an examination involves, who may undertake it and the examiner having the relevant skills and experience to undertake a competent examination.

Section 2 gives an 'at a glance' summary as to what independent examination is about. It is an introduction to the role and the requirements for carrying out an independent examination.

Section 3 sets out the Commission's Directions to independent examiners. These are the procedures that must be followed by the examiner. For each Direction guidance is provided that sets out how the requirements of the Directions are met and the recommended procedures that may assist in undertaking the examination.

Section 4 sets out the separate legal duty to report matters of material significance directly to the Commission and refers the examiner to the supporting guidance issued by the UK charity regulators.

Section 5 sets out the discretionary power of the examiner to report relevant matters to the Commission.

Additional information is provided in the appendices for reference where needed, including example examiner's reports (see appendix 4).

## Terms used in this guidance

The guidance and Directions use a number of terms that will be familiar to accountants. Examiners should refer to the glossary (appendix 8) where an unfamiliar accountancy or technical term is used. The terms material, significant and material significance are important terms for the examiner to understand.

## 'Must', 'should' and 'recommended' or 'may': what the Commission means

In this guidance:

- 'must' means something is a legal or regulatory requirement or duty that the independent examiner must comply with or must follow in the conduct of their examination.
- 'should' means guidance that is good practice which the Commission expects the independent examiner to follow when carrying out their examination.
- 'recommended' or 'may' means a recommendation or practice that the Commission believes that independent examiners may find helpful in carrying out their independent examination. The examiner has discretion to exercise their own judgment and follow different practices where they consider that these are more suitable for the charity's circumstances.

The independent examiner must record the approach taken to each of the Directions and carefully consider their separate duty to report matters of material significance to the Commission.



## 2. Independent examination at a glance

**Independent examination is a form of external scrutiny:** An independent examination is a form of external scrutiny that provides a limited check on specific matters. This limited form of check (sometimes referred to as 'negative assurance') contrasts with an audit. The examiner is only required to confirm whether any material matters of concern have come to their attention, whilst an auditor is required to provide an opinion on whether a charity's accounts give a 'true and fair view'.

The auditor is required to plan their work to identify material fraud or to plan to test the internal financial controls operating in the charity. An auditor builds up a body of evidence to support a positive statement as to whether the accounts give a 'true and fair view'. An audit is carried out in accordance with international auditing standards and the audit guidance issued by the Financial Reporting Council.

An examination is therefore a limited form of scrutiny compared to an audit. It provides less assurance in terms of the depth of work which is to be carried out and is limited as to the matters on which the examiner reports.

**The charity has to be eligible to have an independent examination:** To maintain public confidence in the work of charities charity law sets out the reporting, filing and external scrutiny obligations on trustees. Charity law requires those charities with a gross income of more than £25,000 to have some form of external scrutiny of their accounts. This threshold is subject to change from time to time as the regulations made under the 2011 Act are updated.

The trustees may opt for an independent examination provided an audit is not required by charity law or for some other reason (see section 3).

**The content of an independent examination is specified:** What you must do is set out in the Directions made by the Commission and the content of the examiner's report is set out in the 2008 Regulations. The 2008 Regulations and Directions are mandatory and apply to examinations of both registered charities and those charities currently excepted from registration.

An examination involves a review of the accounting records kept by the charity and a comparison of the accounts presented with those records. It also involves a review of the accounts and the consideration of any unusual items and/or disclosures provided. The examiner must also consider whether any matters of concern have come to the examiner's attention as a result of the independent examination that should be included in their report to enable a proper understanding of the accounts to be reached.

**The examiner needs to have the right skills:** An independent examination can be carried out by any person who is independent (see section 3), has the necessary knowledge and experience (see appendix 5) and provided the gross income of the charity is £250,000 or less.

If the gross income of the charity exceeds £250,000, then only persons who are members of one of the listed bodies can undertake the examination (see appendix 5).

The role of the examiner does require an understanding of what accounts are, what they are intended to do, and some analytical skills. If new to charity accounting the examiner should undertake the necessary reading or learning needed to understand charity accounts. It is also necessary for the examiner to read and understand the Directions and guidance for independent examination issued by the Commission (see section 3).

**Preparation is essential:** The examiner must take the time to read the Directions (see section 3) before starting their independent examination.

Careful planning is the key to a successful examination. The necessary steps are explained in this guidance. The key points to bear in mind include:

- reading and following the Directions and related guidance
- liaising with the trustees to ensure the accounting records are available
- agreeing responsibilities with the trustees, for example, who will prepare the accounts and file them with the Commission
- agreeing a timetable for the examination with the trustees
- ensuring the examination takes place at a time when trustees and key staff are available to answer any questions that may arise

**The examiner concludes their work by reporting to the trustees:** At the conclusion of the independent examination the examiner makes a report to the charity trustees. Charity law requires the examiner's report to comment on three specific things: the accounting records kept, whether the accounts agree with those records, and whether the format of the accounts is correct. The examiner should also comment on the accounts if they have other concerns about them.

If one or more other matters come to the examiner's attention which are of material significance to the Commission's regulatory functions then a separate report is made directly to the Commission (see section 5). The examiner can also choose to report any concern that they believe may be relevant to the work of the Commission (see section 6).

### 3. The Commission's Directions and guidance

All examiners must follow the Directions below. The Directions have legal force as they are made by the Commission under section 145(5) (b) of the 2011 Act which places three specific duties on the examiner:

- firstly they must carry out the independent examination in accordance with the Commission's Directions
- secondly they must make their independent examiner's report to the charity's trustees
- thirdly they must consider if matters of material significance have come to their attention during the independent examination which give rise to a legal duty to report direct to the Commission (see section 5)

The examiner must follow all the Directions that apply. In the case of receipts and payments accounts Direction 7 does not apply and Directions 8 and 9 only apply in part. The Directions provide the procedural basis for an independent examination. Examiners should note that a charitable incorporated organisation (CIO) is not a company and so independent examiners of CIOs should always follow the guidance in this document for non-company charities.

Direction	Direction heading (first line of the Direction)	Applicable to receipts and payments	Applicable to accruals accounts
1	Check whether the charity is eligible to have an independent examination	√	√
2	Check for any conflict of interest that prevents the examiner from carrying out their independent examination	√	√
3	Record your independent examination	√	√
4	Plan the independent examination	√	√
5	Check that accounting records are kept to the required standard	√	√
6	Check that the accounts are consistent with the accounting records	√	√
7	If the accounts are prepared on an accruals basis and one or more related party transactions took place the examiner must check if these were properly disclosed in the notes to the accounts.	-	√
8	Check the reasonableness of the significant estimates and judgments and accounting policies used in accounting for the types of fund held and in the preparation of the accounts	Part	√

Direction	Direction heading (first line of the Direction)	Applicable to receipts and payments	Applicable to accruals accounts
9	The examiner must check whether the trustees have considered the financial circumstances of the charity at the end of the reporting period and, if the accounts are prepared on an accruals basis, check whether the trustees have made an assessment of the charity's position as a going concern when approving the accounts	Part	√
10	Check the form and content of the accounts	√	√
11	Identify items from the analytical review of the accounts that need to be followed up for further explanation or evidence	√	√
12	Compare the trustees' annual report with the accounts	√	√
13	Write and sign the independent examination report	√	√
-	Statutory duty to report matters of material significance to the Commission	√	√
-	Examiner's discretion to report relevant matters to the Commission	√	√

This section sets out:

- each of the 13 Directions
- guidance on operational procedures and methods which will help examiners to meet the requirements of each of the Directions

Subsequent sections explain:

- the additional guidance applicable when examining smaller charity groups in section 4
- the examiner's legal duty to report matters of material significance to the Commission in section 5
- the examiner's discretion to report relevant matters to the Commission in section 6

**The Directions must be followed and are reproduced in bold print**, with the explanatory guidance set out in light print below. The guidance distinguishes between the legal requirements that must be followed and practice that should be followed. Also other recommendations are made on practices which the examiner may find helpful. This includes examples that are intended to illustrate a particular point and which are not to be seen as the only way a particular matter is dealt

with or representing a comprehensive treatment of a matter. Judgment will need to be exercised by examiners in the applying the Directions in the context of their work and the particular circumstances of the charity that they are examining.

The charity law references given are to sections of the 2011 Act, the 2008 Regulations, and the Directions. The references provided to company law are to sections of the Companies Act 2006.

## Independent examination checklist (CC32a)

Examiners are recommended to use the checklist as an aid to undertaking their examination. For ease of use the checklist is published separately.

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### Direction 1

**Check whether the charity is eligible to have an independent examination.**

**The examiner must check to see if the charity is permitted to have an independent examination or whether it is required to have an audit by charity or company law or for any other reason. If the trustees have chosen to prepare the accounts on a receipts and payments basis, the examiner must check that the charity is eligible for receipts and payments accounts.**

### Guidance

- 1.1. If the income of a charity is more than £25,000 then charity law requires the trustees to have an external scrutiny of the accounts. For most charities independent examination is an option but the examiner needs to check that an audit is not required (refer to appendix 1).

### Check that an audit is not required:

- 1.2 The examiner should check that the charity's gross income (for the definition of gross income see appendix 2) for the reporting period (financial year) and aggregate value of assets are below the threshold for audit and so the trustees are allowed to have an independent examination instead.
- 1.3 The examiner should consider at an early stage of the examination the level of gross income disclosed by the accounting records and/or by the 'trial balance'. Gross income for threshold purposes must be calculated in accordance with the methods set out in appendix 2. If accounts have been previously prepared on the accruals basis then the level of income should be considered first on the accruals basis. A non-company charity that has previously prepared accounts on an accruals basis should only change to receipts and payments basis if both its income on an accruals basis and money received are £250,000 or less. Where accounts have been previously prepared on the receipts and payments basis then the level of income should be considered on the basis of money actually received.
- 1.4 The charity must have an audit for financial years ending on or after 31 March 2015 if either its gross income exceeds £1m or, its gross income exceeds £250,000 and the aggregate value of assets (before deduction of liabilities) exceeds £3.26 million. The examiner should also check the governing document and ask the trustees whether an audit may be required for another reason.

## **Check if subsidiaries or branches have been taken into account**

- 1.5 The examiner should check that the charity is not a parent charity with one or more subsidiaries (eg a subsidiary trading company). If the aggregate gross income of the parent charity and its subsidiaries after consolidation adjustments exceeds £1m group accounts (consolidated accounts) must be prepared and an audit is required. Below this threshold group accounts can be prepared on a voluntary non-statutory basis and be independently examined (see section 4).
- 1.6 If the charity operates branches as part of the charity then any income received by the branches must be included when calculating the gross income of the charity.

## **Check if accruals accounts are required**

- 1.7 If the charity is not a charitable company (a charitable company incorporated under company law) then receipts and payments accounts may be prepared provided that the gross income is £250,000 or less and accruals accounts are not required by the charity's governing document, a condition of funding, or for any other reason. If the receipts and payments option is not available or has not been taken then accruals accounts must be prepared following the applicable SORP.

## **The examiner is able to carry out the examination**

- 1.8 It is important to check personal eligibility to carry out the examination before starting the examination (see Direction 2 and appendix 5).

## **Keeping the charity's income under review**

- 1.9 The examiner must remain alert to any additional information which may come to their attention during the course of the examination which indicates that an income and/or asset threshold has been crossed. If the charity is not eligible for independent examination then the accounts should be referred back to the trustees so that they can appoint an auditor.
- 1.10 The reasonable steps taken to confirm the income of the charity and the outcome of that research must be documented in accordance with Direction 3.
- 1.11 The thresholds for audit, independent examination and for receipts and payments accounts are kept under review. Prior to the independent examination taking place the thresholds should be confirmed. At the time of publication, the details of the current thresholds can be found in the guidance **Charity reporting and accounting: the essentials November 2016 (CC15d)**.

## **Checking for any audit dispensation**

- 1.12 Where the trustees have requested and obtained in advance from the Commission approval for an independent examination instead of an audit, the examiner must obtain a copy of the approval letter from the Commission and make reference to it in the examiner's report.

## **If a company, check for the audit exemption statement**

- 1.13 The examiner must check that the trustees of a charitable company (company charity) in electing for an independent examination have made the audit exemption statement required by section 475 of the Companies Act 2006.

## **Establishing early on that an independent examination can be carried out**

1.14 By carrying out these checks at an early stage this should prevent the work of the examiner being duplicated by professional audit which would add to the expense for the charity. If the charity is not eligible for independent examination then the accounts must be referred back to the trustees.

### **Legal references**

1.15 Trustees may elect for independent examination (under Charities Act 2011 section 145(1)). Trustees of eligible non-company charities may elect for the preparation of receipts and payments accounts (under section 133). For either election to be valid, the charity must be within the relevant income bands specified by legislation.

1.16 The examiner is required to check that:

- an examination is required under section 145(1) of the Charities Act 2011
- section 144(1) (audit) of the Charities Act 2011 does not apply to the charity
- the current thresholds for audit are not exceeded. These thresholds are currently set out in section 144 of the Charities Act 2011 as amended by the Charities Act 2011 (Accounts and Audit) Order 2015
- where the charity is a small company charity, it is exempt from audit in accordance with section 477 of the Companies Act 2006
- where accounts are prepared on a receipts and payments basis under section 133 of the Charities Act 2011, that the charity trustees have elected to prepare accounts under this sub-section
- if the charity has subsidiaries, the group income is below the threshold for the preparation of group accounts (section 138 of the Charities Act 2011). The current threshold is specified in The Charities Act 2011 (Group Accounts) Regulations 2015

1.17 If the requirement for an 'audit' is found in the governing document of a charity which has been written prior to 1 March 1992, then the examiner may infer that the inclusion of a reference to an accounts scrutiny provision in the governing document of a charity is simply evidence of an intention on the part of the founder to impose a more stringent obligation than that which would be imposed by statute at that time. Prior to the Charities Act 1993 there was no statutory framework for charity audit. Unless reference is explicitly made to an audit by a 'qualified auditor' or audit by a 'qualified accountant' (for example audit by a chartered accountant) then the term 'audit' may be taken to simply mean the requirement for some form of an independent scrutiny. In this case an independent examination may be undertaken in preference to an audit but the decision to construe the governing document in this way must be made by the trustees and should be advised to the examiner in writing. Trustees are recommended to consider amending the governing document to clarify that an external scrutiny could be undertaken by independent examination or audit.

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## Direction 2

**Check for any conflict of interest that prevents the examiner from carrying out their independent examination.**

**The examiner must not be influenced, or perceived to be influenced, by either close personal relationships with the trustees of the charity, being a major donor or having control or significant influence over a major funder to the charity, or through day to day involvement in the administration of the charity being examined. The examiner must ensure that there are no matters and no potential matters that would reasonably give rise to a perception of their independence that would affect their ability to carry out the examination in a wholly objective manner.**

### Guidance

- 2.1 The appointment of the independent examiner is a personal one with a named person appointed as the examiner. It is the examiner who conducts the independent examination and signs their report. For an examiner to be independent they must have no connection with the charity trustees which might inhibit the impartial conduct of the examination. This is not the same as having no connection with the charity; an examiner can be a member or supporter of the charity and often some involvement brings an added quality of personal enthusiasm and familiarity with the charity which can be advantageous but they should not be a material donor to the charity.
- 2.2 The examiner must be independent of the charity which they are examining. Independence means that the examiner is not influenced, or perceived to be influenced, by either close personal relationships with the trustees of the charity or by a day to day involvement in the administration of the charity being examined. Whether a connection with the charity amounts to a close personal relationship with the trustees of the charity that affects the examiner's independence will depend upon the particular circumstances.

### Confirm ability, experience and qualification

- 2.3 An examiner who is a member of the charity may act as an examiner, subject to their having the necessary ability, experience and, where required, an accountancy qualification (see appendix 5).

### Check for any involvement in the day to day administration of the charity

- 2.4 An example of day to day involvement is acting as the charity's book-keeper. Of itself, the right to take part in, or attend as a member, an annual general meeting (AGM) does not stop someone from acting as the examiner and conducting an independent examination
- 2.5 An examiner cannot independently review his or her own work and so the person who is the charity's book-keeper cannot be the charity's examiner. In very limited circumstances an organisation employing the examiner or the firm in which the examiner is a partner can provide both book-keeping and independent examination services provided all of the following criteria are met:
  - the examiner is a member of one of the approved bodies (see Direction 1 and appendix 5) and that body has adopted/ is subject to the provisions of the Revised Ethical Standard 2016 issued by the Financial Reporting Council (FRC)



- there is documentary evidence in respect of the book keeping arrangements that the trustees had the necessary understanding to be 'informed management' and the trustees have made such judgments and decisions that are needed in relation to the presentation and disclosure of information in the financial statements (accounts) examined
- the independent examiner was not the book-keeper nor does the examiner report directly to the book-keeper
- the provision of book-keeping services and the fact that the examiner has applied the FRC's Revised Ethical Standard are both disclosed in the independent examiner's report

### **The examiner may assist in preparing the accounts**

2.6 Whilst the charity trustees are responsible for the preparation of accounts, on occasion the examiner may also prepare the statutory accounts on behalf of the trustees. This should not compromise the examiner's independence provided that the examiner ensures that the requirements of the Directions are met and:

- the accounting records have been maintained by another person
- the examiner has had no direct involvement in the day-to-day management or administration of the charity
- the trustees review and approve those accounts

2.7 The examiner may also assist the trustees to remedy defects, errors and omissions in the accounting records but when so doing the examiner must consider the implications for their report (see Directions 5 and 13). The trustees are responsible for the accounts of the charity and so the trustees must still review and approve the accounts once prepared.

### **Check for any conflict of interest**

2.8 If the examiner considers that they have a conflict of interest or would not be perceived as being independent then they should not carry out the independent examination. Examples where the examiner should consider if they would be perceived as sufficiently independent include:

- the examiner having served on a sub-committee that oversees the finances of the charity or its fundraising in the year they are to review
- the examiner is dependent as a beneficiary on the charity
- the examiner is a material donor to the charity
- the examiner has accepted hospitality or gifts from the charity or the charity's trustees

## Check for any close relationship with the trustees

2.9 The examiner should consider the following definition of related parties and consider whether any of these relationships apply to them such that either the examiner's independence is affected or could be perceived to be affected. The following persons are classed as related parties:

- A. any charity trustee and custodian trustee of the charity;
- B. a person who is the donor of any land to the charity (whether the gift was made on or after the establishment of the charity); and
- C. any person who is:
  - 1. a child, parent, grandchild, grandparent, brother or sister of any such trustee (A) or donor (B) of land
  - 2. an officer, agent or a member of the key management personnel of the charity (or a related entity, for example its subsidiary)
  - 3. the spouse or civil partner of any of the above persons (A, B, C1 and C2);
  - 4. carrying on business in partnership with any of the above persons (A, B, C1, C2 and C3)
  - 5. a person, or a close member of that person's family, who has control or joint control over the reporting charity
  - 6. a person, or a close member of that person's family, who has significant influence over the reporting charity

'Close member of a person's family' refers to:

- a. that person's children or spouse
- b. the children, stepchildren or illegitimate children of that person's spouse or domestic partner
- c. dependents of that person
- d. that person's domestic partner who lives with them as husband or wife or in an equivalent same-sex relationship

2.10 If the examiner has delegated certain tasks to their own employees to carry out, those staff involved should meet the same standard of independence of the charity as the examiner and have relevant experience and knowledge (see appendix 5).

## Legal references

2.11 An independent examiner is described in section 145(1)(a) of the Charities Act 2011 as 'an independent person who is reasonably believed by the charity trustees to have the requisite ability and practical experience to carry out a competent examination of the accounts'.

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## Direction 3

### Record your independent examination.

**The examiner must keep a record of their examination and the conclusions reached which is sufficient to allow a third party unconnected with their work to conclude that they have followed the Directions (including Directions 1 and 2).**

#### Guidance

- 3.1 The examiner's working papers must provide details of the work undertaken and support any conclusions reached, and record any matters where the examiner has had to make a judgment including judgements made under Directions 8 and 11.
- 3.2 Working papers should normally be retained by the examiner for six years from the end of the financial year to which they relate, and should provide a sufficient record of what the examiner has done. If the examiner ceases to act and is requested to transfer their records to the new examiner, the new examiner should provide a written assurance that they will retain these records for the requisite 6 years before any records are transferred. This is necessary because in the event the Commission requires copies of the examiner's records or needs the examiner to answer questions about the examination the Commission will look to the examiner who signed the independent examination report to provide them.

#### The working papers that you should have

- 3.3 The examiner's working papers should include:
  - a communication with the trustees which confirms their appointment as the independent examiner
  - a note that the examiner has the qualification where required (independent examinations where gross income exceeds £250,000) to carry out the examination and, if a member of a professional body, the examiner has met the requirements of any practicing certificate and has maintained their membership and registration
  - confirmation that the charity is eligible for the independent examination and that that an audit is not required by law, the charity's governing document or for another reason
  - their analytical review (see Direction 11)
  - notes as to how any areas of concern identified have been resolved, including meetings with trustees and charity staff, together with details of any verification procedures used
  - where verification procedures have been used, details of checks or vouching carried out during the examination, the conclusions reached and any areas of concern identified
  - the approved accounts (see Direction 6)
  - the trustees' annual report. The examiner must note that where accruals accounts are prepared consideration of the trustees' annual report is required by the 2008 Regulations (see Direction 12)
  - relevant information that the examiner relied upon and/or considered in carrying out their examination. For example copies of the governing document, trustees' meeting minutes and a record of any discussions with the charity's trustees and the charity's staff
  - copies of any written assurances that the examiner has required of the trustees confirming amounts included within the accounts
  - the examiner's conclusions about what they have found out during the independent examination that support their report to the trustees (Direction 13)

- details of any matters identified as matters of material significance the examiner reported to the Commission (see section 5) or any relevant matters (see section 6) that the examiner chose to report to the Commission

### **Extra considerations if charging a fee**

- 3.4 Examiners charging a fee or receiving any form of payment are recommended to issue a letter of engagement to the trustees and retain evidence that this has been accepted by the trustees (for example, a copy of the engagement letter signed by a representative of the trustees). Examiners charging a fee are providing services that are covered by the Money Laundering Regulations and so must comply with the separate reporting requirements of those regulations (see appendix 9).

### **Consider if there are matters to report directly to the Commission**

- 3.5 Where the examiner has cause to resign or is unable to complete their independent examination, they must consider the circumstances carefully and decide if there is a duty to report a matter of material significance (see section 5) to the Commission.
- 3.6 If the examiner has been prevented from completing the examination or has been obstructed by trustees or charity staff in carrying out their examination this should be treated as a matter of material significance and reported to the Commission.
- 3.7 Even if there is no duty to report, the examiner should consider whether they have identified matters which they wish to report because they consider them to be relevant to the work of the Commission. Further guidance on reporting relevant matters to the Commission is provided in section 6.

### **Legal references**

- 3.8 Section 156 of the Charities Act 2011 requires that the examiner must report matters that the examiner has reasonable cause to believe are likely to be of material significance for the purposes of the exercise by the Commission of certain of its statutory functions (see section 5).
- 3.9 Section 156 also provides that where the examiner has reasonable cause to believe a matter is likely to be relevant for the purposes of the exercise by the Commission of any its functions (see section 6) then the examiner can report it.

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## Direction 4

### Plan the independent examination.

In order to plan the specific examination procedures appropriate to the circumstances of the charity, the examiner must review:

- the charity's constitution
- the way the organisation is controlled and managed
- whether action has been taken on any previous recommendations for improvement
- the accounting records and systems
- the charity's structure, its funds and how fund balances changed in the year
- the charity's activities in the year and spending and the financial risks the charity faces

### Guidance

- 4.1 For a proper examination to be carried out it is important for the examiner to have an understanding of what the charity is aiming to do and how it goes about doing it. The examiner should know about the structure, objectives of the charity and the activities undertaken. The examiner should use this knowledge to plan their independent examination and to provide background to their analytical review (Direction 11).
- 4.2. The examiner should always plan to vouch some transactions as a way of testing whether the accounting records have been kept to the required standard (see Direction 5) and to check that one or more significant items shown in the accounts agree with the accounting records kept (see Direction 6).
- 4.3 The examiner should consider which material items, if any, may require some form of vouching or evidence to check that those items are not misstated in the accounts. The risk of misstatement may be due to fraud/theft/financial crime or some other factors including:
- a lack of formal trustee meetings
  - an absence of minute keeping or appropriate record keeping
  - a failure to carry out the recommended annual review of charity's internal financial controls
  - over-reliance on an individual to handle the charity's accounts and finances
- These factors may all provide evidence that the charity is not well run. A charity that is not well run is likely to have poor accounting records and also to have errors in its accounts.
- 4.4 The examiner should keep in mind any concerns that they identify for their report (Direction 13) and any separate matters for reporting to the Commission (see sections 5 and 6).
- 4.5 The examiner is recommended to include in their planning work:
- A review of the charity's governing document of the charity, paying particular attention to the charity's objects, powers and obligations
  - consideration of the way the charity is controlled and managed by looking at any delegation of authority to staff to make decisions, including the control of/ spending of charitable funds and entering into legal agreements or making commitments and the extent to which the trustees exercise some oversight of these decisions

- discussions with the trustees on any actions taken to follow through on any recommendations the examiner made following the previous year's independent examination (or audit) and the reasons why trustees have not accepted or put into effect any of the recommendations made
- consideration as to whether the charity operates through one or more local branches and how the accounting records for the branches are kept and how the spend, income, liabilities and assets of the branches are included in the charity's accounts
- discussions with trustees about the roles of any staff employed and how staff pay is determined and whether any of the staff employed are related parties
- obtaining details of the accounting records maintained and methods of recording financial transactions
- obtaining details of the internal financial controls that the trustees have put in place
- reviewing the minutes of trustees' meetings to find out about details of major events, plans, decisions and any changes to membership of the trustee body
- discussions with trustees and, where appropriate, the charity's staff, to understand the activities, structure, aims and objectives by which the charity seeks to achieve its objects for the public benefit and to gain an insight into any special circumstances and problems affecting the charity
- consideration of the different types of fund administered by the charity, unrestricted, restricted and endowment funds
- discussions with the trustees and, where appropriate, the charity's staff, about the charity's funds and the accounting records and accounting systems maintained by the charity including the operation of any bank accounts
- discussions with the trustees on the current financial situation of the charity and if accruals accounts are prepared, why the trustees consider the charity is a going concern (see Direction 9), together with any financial and non-financial risks to the charity which the trustees have set out in their risk management policy/risk registers or consider significant to the operation of the charity

- 4.6 Normally a discussion with one of the trustees provides all the information or explanations required. Sometimes several conversations may be needed as the examiner needs to check certain facts or matters that they have discovered require further explanation.
- 4.7 Having made an initial assessment from the planning stage, the examiner is then recommended to consider this information along with their conclusions about the accounts (Directions 6, 7, 8 and 10) and the trustees' annual report (Direction 12) and the charity's financial circumstances (Direction 9). This will help the examiner to identify the main items that need checking and those items to which particular attention is needed and which items will be a part of the analytical review (Direction 11) and the explanations that may be required.
- 4.8 Examiners of charities that operate across two or more charity law jurisdictions (cross border charities) should also refer to the Charity Commission Northern Ireland, Office of the Scottish Charity Regulator, or the Charity Regulatory Authority (Republic of Ireland) for information as to their requirements.

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## Direction 5

### Check that accounting records are kept to the required standard.

**The examiner must ensure that accounting records have been kept in compliance with the relevant legislative requirements.**

#### Guidance

- 5.1 The trustees are responsible for maintaining adequate accounting records to fulfil their legal obligations. The records of the charity must include those of any branch that is part of the charity. The examiner must review the accounting records to identify any material failure to maintain such records in accordance with the trustees' legal duty.
- 5.2 The accounting records kept by the charity should:
- be up to date at the time the accounts are prepared
  - be readily available
  - provide the basic information from which the charity's financial position can be understood on any selected date and at the end of the reporting period (financial year)
- 5.3 The accounting records kept by the charity must contain:
- details of all income/money received and payments/expenditure made, the date, and the nature of the income/money received or payments/expenditure and a record of any stocks and fixed assets held
  - details of any assets and liabilities at the end of the reporting period
  - if the charity has one or more branches which are administered separately but are part of the charity details of the income, expenditure, assets and liabilities of each branch
- 5.4. The examiner should check whether records including vouchers (invoices, receipts, claims and similar paperwork) have been kept to support the accounts (see Direction 6). The examiner should ask the trustees to explain how they have ensured that the accounting records kept are a complete record. Smaller charities may not have very detailed records but trustees must keep a record of transactions in the reporting period and a record of any unpaid invoices and amounts due but not yet received.
- 5.5 The review procedures are aimed at identifying any significant failure to maintain records in a manner consistent with the legal requirements and are not intended to identify every omission or insignificant error in the keeping of accounting records. Evidence of the completeness of those records may also come from any vouching undertaken following the analytical review (Direction 11). The absence of well-kept and well organised accounting records, capable of ready retrieval, gives rise to a significant risk of misstatement, loss from fraud and theft, or the misappropriation of charitable funds.
- 5.6 If the examiner identifies and remedies defects, errors and omissions in the accounting records during their examination then the trustees must agree to the amendments to the accounting records. The examiner should consider what amendments have been needed when making their report (see Direction 13).

## Legal references

- 5.7 For trustees of non-company charities their duty to maintain accounting records is set out in section 130 of the 2011 Act. The accounting records kept must be sufficient to show and explain all the charity's transactions and:
- disclose at any time, with reasonable accuracy, the financial position of the charity at that time
  - enable the trustees to ensure that, where any statements of account are prepared by them under section 132(1), those statements of accounts comply with the requirements of the regulations under section 132(1)
- 5.8 Charitable companies are required by section 386 of the Companies Act 2006 to maintain accounting records that contain:
- entries from day-to-day of all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place
  - a record of the assets and liabilities of the company
- 5.9 Charitable companies dealing in goods must also maintain stock records. The particular requirements for which are set out in section 386(4) of the Companies Act 2006.
- 5.10 The examiner must review the accounting records maintained in accordance with section 130 of the 2011 Act, or, in the case of a charity that is a company, the accounting records maintained in accordance with section 386 of the Companies Act 2006. This is done in order to identify any incidence of a material failure to maintain such records and any material misstatement of transactions in those records.



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## **Direction 6**

**Check that the accounts are consistent with the accounting records.**

**The examiner must compare the accounts of the charity with the charity's accounting records in sufficient detail to reasonably conclude that the accounts are not materially inconsistent with the accounting records.**

### **Guidance**

- 6.1 The examiner must compare the accounts with the underlying accounting records to consider whether the accounts that have been prepared properly, show what income the charity has received and how it has spent its charitable funds. If transactions relate to restricted or endowment funds then the examiner must ask the trustees to explain how these have been spent in accordance with the specific purposes of those funds and confirm how the trustees ensure that these transactions are accurately recorded and identified in the accounts.
- 6.2 The examiner should check that the accounting records kept include source documents (eg invoices, supplier statements, purchase orders, Gift Aid records etc).
- 6.3 The examiner should have identified material items in the accounts from their analytical review (see Direction 11) and identified the transactions that make up those material items. The examiner should seek an explanation from the trustees for items identified in their analytical review and consider if they need to vouch one or more of the material items that they have identified to the accounting records kept.

### **Manual record kept**

- 6.4 Where manual paper records are kept a direct comparison with those records including bank statements, cash book and petty cash book and the summary of income and expenditure (or spend) of the charity should be carried out. Records kept for receipts and payments accounts may amount to bank statements, a file of receipts and invoices, and a simple listing of transactions in a book, or on paper, or entries in a spreadsheet of amounts paid and received with an explanation by each amount.

### **Computerised records kept**

- 6.5 Where computerised accounting records are kept and/ or an accounts software package is used then the examiner should review a number of significant transactions including, if applicable, journal entries, to check the accuracy of the transactions entered against the source record or documentary evidence. A review of bank reconciliations, payroll summaries and control accounts is recommended to provide a useful check as to the completeness of posting to the accounts from the primary accounting records where the transaction was first recorded (the books of prime entry).

### **Identifying concerns**

- 6.6 When concerns arise during the course of the examination (for example following the analytical review) and these matters cannot be resolved by seeking explanations from the trustees or the charity's staff, and/ or the explanations given are considered insufficient then vouching of those matters to source documents should be carried out where this is necessary to identify that the transaction was correctly reported in the accounts.

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## Direction 7

**If the accounts are prepared on an accruals basis and one or more related party transactions took place the examiner must check if these were properly disclosed in the notes to the accounts.**

**The examiner must check that the trustees have considered if there were any related party transactions in the reporting period and check whether the trustees have made the disclosures required by the applicable Statement of Recommended Practice (SORP) in the notes to the accounts.**

### Guidance

- 7.1 The trustees are legally responsible for a charity's management and administration. In carrying out this role the trustees must make decisions exclusively in the interest of the charity and any private benefit to a trustee or a related party must be authorised, necessary and incidental to the charity fulfilling its charitable purposes.
- 7.2 The Commission's casework experience is that unauthorised trustee benefit, unauthorised remuneration, and related party transactions contrary to the interests of the charity can be a significant issue for some charities resulting in a loss of charitable funds.
- 7.3 The requirement to publicly disclose related party transactions differs depending upon the format of the accounts prepared.

### **If receipts and payments accounts prepared**

- 7.4 Trustees preparing receipts and payment accounts are not legally required to include in the accounts a note disclosing related party transactions. If the trustees have added such a note to the accounts then it forms a part of the accounts and the examiner is recommended to consider the note if its contents are relevant to any concerns that they have identified (see Direction 13) when making their report.

### **If accruals accounts prepared**

- 7.5 If accruals accounts are prepared, then the examiner must ask the trustees if they have considered and identified any related party transactions that took place. Accruals accounts are prepared following the applicable Statement of Recommended Practice (SORP). The SORP requires the disclosure of related party transactions in the notes to the accounts.
- 7.6 The examiner should then check that the trustees included a note in the accounts with the required disclosures and also check if the disclosures made fully comply with the requirements of the applicable SORP. Partial, incomplete or omitted disclosures are evidence of serious non-compliance with the SORP. The SORP considers these types of transaction as being always material. If there are concerns then the examiner must consider their duty to report (see section 5) and the implications for their examiner's report (Direction 13).
- 7.7 If there were no related party disclosures then the SORP requires this fact to be disclosed in the notes to the accounts or if there have been related party transactions then certain particulars must be disclosed in the notes to the accounts. For trustee expenses and trustee remuneration if there have been none paid then this fact is also disclosed in the notes to the accounts. If there have been such payments then certain particulars must be disclosed in the notes to the accounts.

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## Direction 8

**Check the reasonableness of the significant estimates and judgments and accounting policies used in accounting for the types of fund held and in the preparation of the accounts.**

**The examiner must:**

- **check whether the separate funds of the charity have been correctly accounted for and reported correctly in the accounts**
- **check the reasonableness of any significant estimates or judgments that have been made in preparing the accounts**
- **where accruals accounts are prepared, check that the accounting policies adopted are consistent with the applicable Statement of Recommended Practice: Accounting and Reporting by Charities (SORP) and are appropriate to the activities of the charity**

## Guidance

- 8.1 Fund accounting is a distinctive feature of charity accounting (see appendix 7). It is essential that the trustees have a good understanding of the types of charitable fund they are administering and any restrictions on their use. The accounts should always separately identify the types of fund and the transactions for each fund.
- 8.2 The examiner must therefore understand what the different types of fund are so as to be able to confirm that trustees have understood the different types of fund held by the charity, and ensured these have been accounted for correctly and are able to confirm to the examiner that no material breach of trust has taken place in the use of charitable funds in the reporting period.

### **If receipts and payments accounts prepared**

- 8.3 Where receipts and payments accounts are prepared, the accounts are a factual report of cash transactions in the reporting period and so few judgements are made. The only fundamental accounting concepts which apply are fund accounting (see appendix 7) and that of consistency of presentation within the accounts. Accounting policies and judgmental issues have less relevance since the receipts and payments account is simply a factual record of money received and spent. The Statement of Assets and Liabilities can be a simple schedule of information. In compiling the Statement of Assets and Liabilities some estimation and judgment may be required if values are entered for assets and liabilities.
- 8.4 Further guidance on the form and content of receipts and payments accounts can be found in the Commission's Receipts and payments accounts pack (CC16):  
<https://www.gov.uk/government/collections/receipts-and-payments-accounts-pack-cc16>.

### **If accruals accounts prepared**

- 8.5 Accounts prepared on an accruals basis involve the use of accounting policies and estimates that determine how transactions and events are reflected in the accounts. Judgement may be necessary to arrive at monetary values to be included in accounts, for example the length of time over which an asset is to be depreciated. The accounting policies adopted should ensure relevant, reliable, comparable and understandable presentation of the accounts. The accounting policies adopted, and any estimates or judgments made in preparing the accounts, may have a material effect on both the financial activities and state of affairs disclosed by those accounts.
- 8.6 The examiner should check if the accounts have been prepared on a going concern basis (see Direction 9). Where the accounts are not prepared on a going concern basis, the examiner should consider the alternative basis upon which they are prepared and ensure that the basis of preparation is adequately disclosed in the accounting policies section of the notes to the accounts.
- 8.7 The examiner must carefully consider if the accounts accord with the methods and principles of the applicable SORP. A departure from the methods and principles of the SORP must be considered as a matter to report upon in the examiner's report (Direction 13). Where accounts are produced under the SORP the trustees must prepare the accounts to give a 'true and fair' view. When accruals accounts are prepared the examiner is not required to provide an opinion as to whether the accounts give a 'true and fair' view.
- 8.8 Further guidance as to the form and content of accruals accounts for smaller charities can be found in the Commission's SORP FRS 102 accounts packs:
- For non-company charities: <https://www.gov.uk/government/collections/accruals-accounts-pack-cc17-sorp-frs-102>
  - For charitable companies: <https://www.gov.uk/government/collections/accruals-accounts-pack-cc17-sorp-frs-102-for-charitable-companies>
- 8.9 Where the accounting policies are not consistent with the applicable SORP this should be drawn to the attention of the charity's trustees. The applicable SORP requires a departure from its recommendations to be explained in the notes to the accounts. A departure is only justifiable if it is necessary in order to give a 'true and fair' view and such circumstances will be rare. In the case of a departure the examiner will need to check that the explanation required by the applicable SORP has been provided. Where the examiner considers that a material departure has not been adequately justified or explained, they must report upon it (Direction 13).

### **Action to take if concerns are identified with the accounts**

- 8.10 The examiner should evaluate the reasonableness of any estimates or judgments made in preparing the accounts where these are material to the accounts. The examiner is not required to attempt to quantify any misstatements but if they find any misstatements they should consider the implications for their report (see Direction 13).

8.11 The examiner is recommended to review:

- transfers to or from restricted fund accounts
- valuation of gifts in kind
- valuation of fixed asset investments where no market prices exist
- estimates resulting from transactions not being fully recorded in the accounting records
- where an activity based approach has been adopted, the allocation of costs between the various expenditure headings shown in the Statement of Financial Activities (SoFA)

## Legal references

8.12 Charities registered in England and Wales that are not companies are allowed under section 133 of the Charities Act 2011 to prepare receipts and payments accounts provided the charity's gross income is not over £250,000.

8.13 If preparing receipts and payments accounts, a Charitable Incorporated Organisation (CIO) must include two obligatory notes. The Charitable Incorporated Organisations (General) Regulations 2012 require the following information to be given by way of note:

- a) particulars of any guarantee given by the CIO, where any potential liability under the guarantee is outstanding at the date of the statement of assets and liabilities; and
- b) particulars of any debt outstanding at the date of the statement of assets and liabilities which is owed by the CIO and which is secured by an express charge on any of the assets of the CIO.

8.14 Charities preparing their accounts to give a 'true and fair' view under UK Generally Accepted Accounting Practice are required by Financial Reporting Standard FRS 100: Application of Financial Reporting Requirements, to apply the applicable SORP in accordance with the circumstances set out in the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102).

8.15 Where accounts are prepared under section 132 of the Charities Act 2011 (the accruals basis) or under the Companies Act 2006 section 396 the trustees must prepare accounts to give a 'true and fair' view.

8.16 Where accounts are prepared under section 132 of the Charities Act 2011 (the accruals basis), non-company charities are required by regulation 8 of the Charities (Accounts and Reports) Regulations 2008 to prepare accounts that give a 'true and fair' view in accordance with the methods and principles set out in the SORP.

The 2008 Regulations have yet to be updated for the applicable SORP issued in July 2014 that took effect for reporting periods (financial years) beginning on or after 1 January 2015. To assist trustees, preparers of charity accounts and examiners, the Commission issued guidance on how to deal with this issue in **Charity accounting and reporting- the essentials - November 2016 (CC15d)**.

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## Direction 9

**The examiner must check whether the trustees have considered the financial circumstances of the charity at the end of the reporting period and, if the accounts are prepared on an accruals basis, check whether the trustees have made an assessment of the charity's position as a going concern when approving the accounts.**

**Where accruals accounts are prepared, the examiner must ensure that the disclosures about going concern required by the applicable Statement of Recommended Practice (SORP) are made and that the trustees' assessment of going concern is reasonable given the available information. In particular the examiner must check if any material uncertainties related to events or conditions that cast significant doubt on the charity's ability to continue as a going concern are disclosed in the notes to the accounts.**

**Where either receipts and payments or accruals accounts are prepared, the examiner must consider whether the trustees have assessed what invoices, bills and commitments remain outstanding at the end of the reporting period and whether the trustees have identified if they can settle these as and when they fall due.**

### Guidance

- 9.1 It is the responsibility of the trustees to manage the charity's money and other resources properly. In doing this the trustees should identify whether the charity is able to pay its bills and meet any liabilities as they fall due.
- 9.2 The term 'going concern' refers to the ability of a charity to meet its liabilities as they fall due and so it is a continuing situation that applies for as long as the charity is operating. It applies to non-company and company charities alike. The relationship between going concern and accounts preparation differs depending upon whether accruals accounts or receipts and payments accounts are prepared.
- 9.3 All registered charities must disclose their reserves policy in the trustees' annual report or the trustees' reason(s) for not having one. By managing reserves well the trustees should ensure that the charity is able to settle its bills and meet its liabilities in a timely way but if this is not the case the charity may be in financial difficulty. The level of reserves the charity has may indicate that the charity could be facing financial difficulty, for example if the level of reserves has fallen sharply since the previous year, is at a low level, or is falling year on year.
- 9.4. The setting of the reserves policy and the trustees' assessment as to the adequacy of the level of reserves held at the end of the reporting period provides evidence that the trustees have considered the financial circumstances of the charity. The examiner should ask the trustees about the charity's reserves policy and the adequacy of those reserves and check if there is a material discrepancy between the accounts and the level of reserves referred to in the trustees' annual report (see Direction 12).

## **If receipts and payments accounts prepared**

- 9.5 Where receipts and payments accounts are prepared, the accounts are a factual report of cash transactions in the reporting period. In preparing receipts and payments accounts the trustees are not required to make a judgment as to whether the charity is a going concern but in preparing the Statement of Assets and Liabilities it is expected that the trustees will be able to identify if the charity is able to pay bills, invoices, charges or meet other liabilities as they fall due.
- 9.6 If the examiner has cause to believe that the trustees, in approving the Statement of Assets and Liabilities, have made no assessment of the charity's financial circumstances and/ or the charity may be in financial difficulty then the examiner considers reporting this fact to the Commission (see sections 5 and 6) and should consider what to say in their examiner's report (Direction 13). Evidence of a charity in financial difficulty includes frequently not paying bills, invoices, and charges or meeting other liabilities as they fall due.

## **If accruals accounts prepared**

- 9.7 Where accruals accounts are prepared then these are prepared on a going concern basis unless the accounts have been prepared on an alternate basis. The applicable SORP requires that the accounts are prepared on an alternate basis if the charity is not a going concern. When prepared on a going concern basis any material uncertainties about going concern must be disclosed in the notes to the accounts. The applicable SORP provides that the trustees make their assessment of going concern looking at least 12 months ahead from the date that they approve the accounts.
- 9.8 Where the accruals accounts are prepared on a going concern basis, the examiner must check that the trustees have carried out an assessment of going concern that meets the requirements of the applicable SORP. This includes setting out the assumptions upon which the trustees are relying in reaching their conclusion that the charity is a going concern. The assessment of the charity's financial situation as a going concern is a decision the trustees jointly take when approving the accounts. The trustees may take the advice of the Honorary Treasurer and/or the charity's finance officer about it.
- 9.9 The trustees should have documented their assessment of going concern as part of the accounts preparation process. This documentation might take the form of a cash-flow forecast, budgetary projections setting out expectations of income and expenditure or a discussion at a trustee meeting of financial risks and/or reserves.
- 9.10 The absence of any consideration by the trustees of going concern should be taken by the examiner as a cause for concern and a matter requiring further work (Directions 8, 10 and 11). If the examiner is concerned that the trustees' assessment that the charity is a going concern is not adequately documented, then the examiner must consider their duty to report (see section 5) and the implications for their examiner's report (Direction 13).
- 9.11 Even if the trustees have documented their reasoning as to why the charity is a going concern, should the examiner have cause to believe that the charity may be in financial difficulty then the examiner considers reporting this fact to the Commission (see sections 5 and 6). They should also consider what to say in their examiner's report (Direction 13).

## Legal references

9.12 The accounts are approved by the trustees and where accounts are prepared under section 132 of the Charities Act 2011 (the accruals basis), non-company charities are required by regulation 10 of the Charities (Accounts and Reports) Regulations 2008 to have the balance sheet signed by at least one of the trustees of the charity. Similarly for charitable companies, section 414 of the Companies Act 2006 requires company's annual accounts must be approved by the board of directors and the balance sheet signed on behalf of the board by a director of the company.



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## Direction 10

### Check the form and content of the accounts.

The examiner must carry out such procedures as the examiner considers necessary to provide a reasonable basis on which to conclude whether or not the accounts have been properly prepared. The examiner must:

- where receipts and payments accounts have been prepared check that the charity can lawfully prepare such accounts, that all the accounting statements are present and that the funds of the charity are correctly identified; or
- where accruals accounts are prepared check that they comply with the applicable Statement of Recommended Practice: Accounting and Reporting by Charities (SORP) and the applicable accounting standard; and
- if the charity is a company, check that the accounts also comply with the applicable company law requirements.

## Guidance

### If receipts and payments accounts prepared

- 10.1 Non-company charities with a gross income of £250,000 or less are eligible to prepare receipts and payments accounts and the trustees can choose whether to prepare the accounts on a receipts and payments basis or accruals basis provided there are no other requirements that require accruals accounts (see Direction 1).
- 10.2 The 2008 Regulations do not specify the form and content of accounts prepared on a receipts and payments basis. On occasion, the examiner may encounter receipts and payments accounts which are accompanied by a balance sheet instead of a Statement of Assets and Liabilities. Provided that no non-cash items have been put through the receipts and payments accounts then the trustees should rename it as a Statement of Assets and Liabilities, otherwise the accounts must be regarded as accruals accounts and examined accordingly.

### If accruals accounts prepared

- 10.3 Where accruals accounts are prepared the examiner will require access to the applicable SORP and an understanding of its methods and principles to ensure compliance with the 2008 Regulations. The applicable SORP requires all charities preparing accruals accounts to prepare a Statement of Financial Activities (SoFA), balance sheet, and accompanying notes to the accounts. The SORP also requires larger charities with an income greater than £500,000 to prepare a Statement of Cash Flows.

- 10.4 The examiner should review the accruals accounts in sufficient detail to be able to identify any significant non-compliance with the methods and principles of the SORP. The review procedures should be sufficiently detailed to enable the examiner to identify whether or not any non-compliance with the 2008 Regulations or the SORP has been identified. If the examiner comes across a concern with the accounts they should seek an explanation from the trustees and consider the implications for their report (see Direction 13).

### **If the charity is also a company**

- 10.5 For charitable companies section 396 of the Companies Act 2006 requires the preparation of individual accounts. In the case of not-for-profit undertakings, including charities, the Companies Act 2006 section 474(2) substitutes an income and expenditure account for the profit and loss account. In addition a balance sheet is required and additional information must be provided in the notes. The applicable SORP requires all charities preparing accruals accounts to prepare a SoFA, balance sheet, and accompanying notes to the accounts. A charitable company will therefore usually submit a SoFA that incorporates an income and expenditure account, it may however opt to submit both an income and expenditure account and a SoFA. In such cases the examiner must review the two statements for consistency.

### **Legal references**

- 10.6 The trustees may elect to prepare accounts on a receipts and payments basis under section 133 of the Charities Act 2011 provided the charity is not a charitable company and falls below the applicable income threshold. The current threshold was set by provision 9 of the Charities Acts 1992 and 1993 (Substitution of Sums) Order 2009 at £250,000.
- 10.7 The examiner should carry out such procedures as the examiner considers necessary to provide a reasonable basis on which to decide whether or not the accounts prepared under section 132 of the 2011 Act comply with the form and content requirements of the 2008 Regulations including their preparation in accordance with the methods and principles set out in the applicable Statement of Recommended Practice: Accounting and Reporting by Charities (SORP).
- 10.8 Where accounts are prepared under section 132 (the accruals basis), the 2008 Regulations require the accounts to be prepared in accordance with the method and principles of the SORP. The 2008 Regulations concerning the content of accounts do not apply to the accounts of charitable companies.
- 10.9 In the case of a charity that is a company the examiner must check whether or not the accounts are prepared in accordance with sections 396 of the Companies Act 2006. The trustees of a charitable company must prepare accounts to give a 'true and fair' view and this will generally involve compliance with accounting standards and accounts prepared in accordance with the methods and principles of the SORP.
- 10.10 Charities preparing their accounts to give a 'true and fair' view under UK Generally Accepted Accounting Practice are required by Financial Reporting standard FRS 100: Application of Financial Reporting Requirements to follow the applicable SORP.

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## Direction 11

**Identify items from the analytical review of the accounts that need to be followed up for further explanation or evidence.**

**The examiner must carefully consider if, during the course of their examination, items were found that were material to the accounts which need further explanation or supporting evidence. If the examiner is concerned that the charity's accounts could be materially misstated then the examiner must undertake sufficient additional work to be satisfied that any such item has been explained and correctly included in the accounts. The examiner must be alert to any related party transactions that require separate disclosure in the accounts. Where the examiner is not satisfied on any item then the examiner must refer to it in their independent examiner's report.**

### Guidance

- 11.1 A central part of a successful independent examination is reviewing what the examiner has learned about: the charity (Direction 4), the quality of the accounting records kept (Direction 5), the accounts and their preparation (Directions 7, 8 and 9) and content of the accounts (Direction 10). This understanding will help in carrying out the analytical review and may identify matters that require additional explanation or confirmation by vouching the item(s).
- 11.2 The examiner must undertake an analytical review of the accounts to identify any material changes between the reported and previous reporting period that require explanation. The analytical review should be documented in the examiner's working papers.

### If receipts and payments accounts prepared

- 11.3 For receipts and payments accounts the analytical review involves comparing the analysis of the cash received and the cash spent in the current year with the previous year to identify any significant changes from year to year. The examiner is recommended to look for material items, differences or changes which require further explanation.

### If accruals accounts prepared

- 11.4 For accruals accounts the analytical review involves both the Statement of Financial Activities (SoFA), the Statement of Cash Flows, where required, and the balance sheet. The analytical review should include a comparison of the current year with the previous year for items of income and the expenditure and the movement in balance sheet values. The examiner of accruals accounts should be looking for material values which require further explanation and review. It is recommended that the examiner looks carefully at the accounts to see if they reveal any significant or unusual items, unexpected fluctuations, or inconsistencies with other financial information.

### Taking action to get the evidence required

- 11.5 In undertaking the analytical review the examiner may decide they have all the necessary explanations or confirmations that they need and so no further action is needed. For those items identified for which the examiner does not have the necessary explanation or confirmation the examiner must undertake further work to obtain the required explanation or confirmation or to identify that such information cannot be obtained. If not obtained then the

examiner must consider their duty to report (see section 5) and the implications for their report (Direction 13).

11.6 In carrying out the analytical review, the examiner is recommended to:

- consider any conclusions that they have drawn from their planning work about what might need looking at (see Direction 4)
- compare the accounts with those for comparable prior reporting periods which may include a number of prior years
- if the charity has branches, consider the information relating to each branch of the charity as well as considering the overall totals for the charity shown in the accounts
- compare the accounts with any budgets or forecasts that have been produced
- consider whether income/ cash received is consistent with known fundraising sources, for example the history of cash collections or fundraising events, grants received, income from trading, or income from the sale of donated goods
- consider whether the expenditure/ payments made are consistent with the activities and the objects of the charity - it is important to have obtained a proper understanding of the nature of the charity's activities and affairs for this aspect of the review to be successful
- consider whether the liabilities and current assets disclosed are consistent with the scale and type of activities undertaken, or in the case of receipts and payments accounts whether all significant assets and liabilities are listed
- consider whether there is any evidence that internal financial controls are either not present or not operating as they should
- consider whether fixed asset investments are producing income consistent with the nature of assets held
- consider whether any tangible fixed assets held are consistent with the scale and type of activities undertaken by the charity
- where accruals accounts are prepared confirm with the trustees that there are no post balance sheet events requiring adjustments to be made to the accounts or disclosure in the notes to the accounts

11.7 Where analytical review procedures identify any unusual items, unexpected fluctuation or inconsistency then explanations should be sought from the charity trustees or, where appropriate, the charity's staff. These explanations should be documented (see Direction 3).

11.8 Only if the explanations provided by the charity trustees, or where appropriate the charity's staff, do not satisfy the examiner, should additional procedures be necessary. It is important to document in the working papers what items the examiner found which required further explanation or review and any additional procedures undertaken to confirm those items or matters.

11.9 Recommended additional procedures that may apply are:

- physical inspection of a tangible fixed asset
- verification of title to an asset
- inspection of third party documentary evidence (eg invoice, contract or agreement) to verify an expense or liability or to confirm an amount of income received or receivable
- third party certification of a bank balance, or other asset held including the custody of investment certificates
- checking of a post year end receipt or payment to confirm recoverability of a debt or the amount of a liability

11.10 The examiner is recommended to consider whether they need to undertake additional analytical procedures in addition to those set out in this guidance to suit the charity's specific circumstances. This is an area where the examiner exercises their judgment and draws on their experience as to what is reasonable given the size and nature of the charity's activities.

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## Direction 12

### **Compare the trustees' annual report with the accounts.**

**The examiner must compare any narrative information or figures in the trustees' annual report with the accounts in order to identify any material inconsistency between the trustees' annual report and the accounts.**

### **Guidance**

- 12.1 The trustees' annual report (or for a charitable company the combined trustees' and directors' report) provides a report of the charity's activities during the financial year. The legal requirements concerning the trustees' annual report that apply to registered charities are set out in the 2008 Regulations. The trustees must prepare the report (see appendix 6). Charities not registered with the Commission are encouraged to prepare a trustees' annual report as good practice. Charity reporting and accounting: the essentials (CC15d) - sets out the required contents of the trustees' annual report.
- 12.2 Trustees are required to report on public benefit in their report. They must confirm they have read the Commission's guidance (PB3 Public benefit: reporting).
- 12.3 The examiner must carry out procedures to identify inconsistencies between the trustees' annual report and the accounts which the examiner judges to be misleading or which contradict the financial information contained in the accounts. The examiner should check that the level of reserves stated in the trustees' annual report is consistent with the accounts (see Direction 9).
- 12.4 Where material inconsistencies are identified these should be drawn to the attention of the charity trustees. If no appropriate amendment is made to the trustees' annual report then the examiner must consider the implications for their report (Direction 13).
- 12.5 It is recommended that the examiner compares any amounts stated in the trustees' annual report with the accounts for consistency with those in the accounts and also consider whether the figures for income and expenditure reported in the accounts are consistent with the nature or scale of activities described in the trustees' annual report.

### **Legal references**

- 12.6 When accounts are prepared under section 132 of the Charities Act 2011, or in the case of a charity which is a company under section 396 of the Companies Act 2006, the examiner must compare the accounts to any financial references in the charity trustees' annual report (if any); identify any major inconsistencies and consider the significance such matters will have on a proper and accurate understanding of the charity's accounts.
- 12.7 The examiner is required by regulations 31 or 32 of the Charities (Accounts and Reports) Regulations 2008 to comment where any information contained in the accounts is inconsistent with any report of the trustees and so must make a comment in their examiner's report. However, if accounts are prepared on the receipts and payments basis under section 42(3) there is no requirement placed on the examiner to comment on whether an inconsistency is present.

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## Direction 13

### Write and sign the independent examination report.

**The examiner must review the conclusions from their independent examination and then prepare and sign their independent examiner's report. The content of their report must cover all the matters required by the 2008 Regulations. If the examiner has identified a matter of concern because one or more of the specific matters listed in the 2008 Regulations or in this Direction are present or remain unresolved then the examiner must bring it to the attention of trustees in their independent examiner's report.**

### Guidance

#### Preparation for writing the report

- 13.1 The examiner's report is the outcome of an independent examination and is addressed to the trustees. It either confirms that all the matters the examiner is required to review as set out by the 2008 Regulations have been met, or identifies which requirements have not been met, together with any matters that need reporting for the benefit of the reader's understanding of the charity's accounts.
- 13.2 The report draws on the findings from the independent examination. The examiner needs to consider carefully the conclusions drawn from their examination, and the impact of these conclusions on their report. Appendix 4 provides illustrative examples of independent examiner's reports. It is the examiner's report and in signing it the examiner takes responsibility for the independent examination fulfilling the requirements of the 2008 Regulations and the Directions. This responsibility cannot be delegated to, or reliance placed upon, another person.
- 13.3 The examiner may rely on the work of others when undertaking their independent examination but when signing their report the examiner takes sole responsibility for the conduct of the examination. The examiner is recommended to satisfy themselves that any reliance they placed on the work of others is documented and that they have checked that is of sufficient quality such that they can rely upon it.
- 13.4 Examiners examining accounts of charities that operate across two or more charity law jurisdictions (cross border charities) must modify their report so as to fulfil the legal requirements of each jurisdiction. Appendix 4 includes example independent examiner's reports for UK cross-border charities.
- 13.5 The 2008 Regulations set out the legal requirements for an independent examiner's report. The Regulations (appendix 3) specify the content that must be covered in the report. The examiner is recommended to follow the format of the sample reports set out in appendix 4. There is no requirement on the examiner to expand their report beyond the matters specifically referred to in the 2008 Regulations (see appendix 3) and Directions. If helpful for the understanding of trustees the examiner is recommended to state in their report that an independent examination is not an audit.

## The required contents of the report

13.6 In their examiner's report the examiner must state:

- the examiner's name and address and the name of the charity concerned
- the financial year of the accounts to which their report relates and where the charity is a charitable company, that the accounts do not require an audit in accordance with Part 16 of the Companies Act 2006
- if the gross income exceeds £250,000, the membership or qualification which enables him or her to act as an independent examiner
- if a member of the listed bodies (see section appendix 5) the professional qualification that the examiner holds
- in the event of the independent examination being allowed by dispensation in place of an audit, the date when the Commission dispensed with the requirement for an audit
- that the report relates to an independent examination carried out under section 145 of the 2011 Act and that the examination has been conducted in accordance with the Directions given by the Commission

13.7 In addition to making these statements, the examiner must state whether or not any matter has come to their attention, in connection with the examination, which gives reasonable cause to believe that in any material respect:

- accounting records for non-company charities have not been kept in accordance with section 130 of the Charities Act 2011, or
- where the charity is a charitable company, the accounting records have not been kept in accordance with section 386 of the Companies Act 2006, and
- the accounts do not accord with the accounting records
- where the accounts are prepared on an accruals basis for a non-company charity under section 132 of the Act 2011 and those accounts do not comply with the requirements of the 2008 Regulations regarding the form and content of charity accounts; (a charity's accounts consist of a SoFA and balance sheet with a Statement Cash Flows prepared by larger charities, the notes to the accounts, and the accounts are prepared in accordance with the methods and principles set out in the applicable SORP) or
- where the accounts are prepared for a charitable company, the accounts do not comply with section 396 of the Companies Act and the methods and principles of the applicable SORP.

13.8 Also the examiner must consider whether any matters of concern have come to the independent examiner's attention in connection with the examination to which, in the examiner's opinion, attention should be drawn in the report to enable a proper understanding of the accounts to be reached.

### **Matters of concern to include in the report to enable a proper understanding of the accounts to be reached.**

13.9 In considering if there is a matter of concern to which attention should be drawn in the report to enable a proper understanding of the accounts to be reached, the examiner must consider the findings from their examination to identify any matter that should be reported. It is expected that only significant matters will be reported.



- 13.10 In particular the 2008 Regulations require the examiner to provide a statement if any of the following specific matters of concern have become apparent to the examiner during the course of the examination:
- any material expenditure or action which appears not to be in accordance with the trusts of the charity or the specific purposes placed on the use of restricted funds; or
  - any failure to be provided with information and explanation by any past or present trustee, officer or employee that is considered necessary for the examination; or
  - in the case of accruals accounts any material inconsistency between the accounts and the trustees' annual report, and in the case of a charitable company with the director's report.
- 13.11 In order to identify any material expenditure or activities undertaken outside the objects of the charity, an understanding of the stated objects of the charity, as set out in its governing document, is necessary. Small or immaterial levels of expenditure on purposes outside of the objects of the charity will not generally be included in the examiner's report. Material expenditure, or significant actions, contrary to the trusts of the charity should be commented upon in the examiner's report and the examiner should also consider if they constitute matters of material significance reportable to the Commission (see section 5). Where identified they must be commented upon in the examiner's report but the examiner need not carry out specific checks or procedures to identify such breaches.

#### **Matters for resolution if possible prior to making the report**

- 13.12 Unless in adhering to the requirements of the money laundering regulations (see appendix 9) the risk of 'tipping off' applies or the matter concerns terrorism then the matter(s) should be brought to the attention of the charity trustees first with a view to seeking an amendment or adjustment to the accounts. If concerns remain then the matter(s) must be included in the examiner's report if it is significant with an explanation as to what the concern is together with the financial effect on the accounts.
- 13.13 Where the concern relates to non-compliance with the required form and content of the accounts or material inconsistency with the applicable SORP, the matter should be raised first with the charity trustees with a view to seeking an amendment or adjustment to the accounts but if concerns remain the matter must be addressed in the examiner's report. Where reported the matter concerned should be fully explained together with the financial effects on the accounts.
- 13.14 Any failure to be provided with information and explanations may seriously hamper an examination. If information and explanations requested are not provided to the examiner's satisfaction this fact must be included in the examiner's report. A refusal to provide information or explanations is a serious matter and a separate report to the Commission must be considered (see section 5 of this guidance).
- 13.15 In the case of accounts prepared on an accruals basis any major inconsistency between the accounts and the trustees' annual report may give rise to misunderstanding. This should be brought to the attention of the charity trustees with a view to resolving the discrepancy. If the trustees decline to agree to change their trustees' annual report or where concerns still exist this must be stated in the examiner's report.

## Signing the report

- 13.16 The examiner must not sign their report before the trustees have approved and signed the trustees' annual report and the accounts. Until the trustees have approved and signed the accounts, the accounts are draft and not final.
- 13.17 The examiner must date and sign the trustees' copy of their examiner's report. For the version of the examiner's report which is filed with the Commission their signature may be typed. Electronic typed signatures are accepted by the Commission when filing the report, accounts and examiner's report. The examiner may choose to add the name of any business or firm in addition to signing in their own name.
- 13.18 The examiner must list relevant qualifications and, if the charity's income exceeds £250,000, they must also name the listed body of which they are a member (see appendix 5). Examiners who are members of a listed body must name that body in their report.
- 13.19 The trustees are responsible for filing the independent examiner's report together with the trustees' annual report and the accounts with the Commission (see appendix 6). The annual return is used by the Commission to gather information about trustees and the charity and completion of it relies on the accounts having been prepared. The examiner can file the accounts if the trustees authorise this but the trustees will still need to complete the annual return. Any authority to file should be given in writing by the trustees.
- 13.20 The examiner must also consider whether a separate report of a matter needs to be sent to the Commission. This separate duty is explained fully in section 5 of this guidance.
- 13.21 Only in very limited circumstances will the inclusion of concerns in the examiner's report to the trustees lead to it being considered a 'qualified report' by the Commission (see section 5). An examiner's report is only said to be a 'qualified report' if the examiner has identified in their report a concern when making the statements required by the 2008 Regulations. These matters are set out in paragraphs 13.7 and 13.10 above.
- 13.22 Provided the examiner has followed the Directions and associated guidance there is no requirement to undertake additional work. An independent examination is not an audit and the examiner is only required to consider a limited number of specified matters in their report and to confirm that nothing has come to their attention in the course of their examination which leads them to conclude that certain requirements have not been met. The report provides 'negative' assurance requiring the examiner to only comment on a matter where they have found that one or more of the requirements have not been met.

## Legal references

- 13.23 The examiner must in making their report fulfil all the requirements of the 2008 Regulations. Regulation 31 requires that the examiner to state that the matters set out in regulation 31(h) and 31(i), and regulation 31(j) are fulfilled or not and to state whether or not any additional matter is reported as required by regulation 31 (i) (see appendix 3).
- 13.24 For NHS charities independently examined by an examiner appointed by the Auditor General for Wales, the equivalent requirements are set out in regulation 32 of the 2008 Regulations (see appendix 3).

## 4. Additional guidance when applying the Directions to the independent examination of smaller charity groups

**Examiners must note that if the preparation of group accounts (also known as consolidated accounts) is required by charity law then currently those accounts must be audited. A smaller charity group therefore refers to those group accounts prepared on a voluntary basis. The Commission will accept voluntary group accounts for filing provided all the requirements set out in this section are met.**

### Guidance

If the trustees choose to prepare group accounts (also known as consolidated accounts) on a voluntary basis then the examiner should advise them that this is not a legal requirement and that these accounts are therefore 'non statutory accounts'. If the trustees wish to file these non-statutory accounts with the Commission then the examiner should advise the trustees that they and the examiner must fulfil all of the Commission's requirements.

The Commission will only accept the filing of non- statutory group accounts with an independent examination if all of the following requirements are met:

- the income and assets of the group are both below the audit requirements set out in charity law for a single charity (see Direction 1) when applied to the group;
- the accounts are prepared on an accruals basis
- the trustees' annual report fulfils all the SORP requirements as they apply to the reporting of parent and subsidiaries
- the independent examination covers the accounting records of the charity parent and all its subsidiaries
- the independent examination report refers to the parent charity and the group
- the examiner is a member of a listed body (see appendix 5)
- the examiner has followed all the Directions (see section 3) and undertaken all the additional procedures set out in this section when undertaking their examination
- the independent examiner documents (Direction 3) their reliance on any work carried out by others and the examiner accepts ultimate responsibility for the conduct of the independent examination
- the examiner applies the legal duty to report matters of material significance to the charity parent and its subsidiaries, associates and joint ventures
- the examiner is satisfied that they have obtained all the necessary assurances required from the charity parent and its subsidiaries, associates and joint ventures
- if the parent charity is a company then the group accounts must also comply with company law
- the examiner has drawn to the attention of the trustees the Commission's right to reject the accounts on or after filing if all the criteria are not fully met and require the preparation of statutory accounts

In the event that all of the above requirements have not been fully met either on the filing of the non-statutory accounts or an omission comes to light subsequent to the filing of those accounts then the Commission reserves the right to reject the non-statutory accounts. On rejection the Commission will require the trustees to prepare a set of charity only accounts in accordance with the legal requirements of the Charities Act 2011 accompanied by a replacement charity only independent examination report.

The examination of group accounts requires a high level of accountancy skill including an understanding of accounting standards and consolidation principles. For more information on group accounts refer to the relevant section of the applicable SORP.

This section sets out the additional procedures the examiner should undertake when carrying out an independent examination of group accounts. Provided these additional procedures are followed then the independent examination is considered compliant with the Directions.

### **Additional procedures for Direction 3: Record your independent examination**

The examiner should keep a record of the work they undertook in reviewing the accounting records of the parent charity, its subsidiaries and other consolidated undertakings including any assurances sought and given.

The examiner should record the reasons for the exclusion of any subsidiary from the accounts and evaluate the reasons given against the criteria for excluding subsidiaries from inclusion in consolidated accounts set out in the SORP and the FRS 102 accounting standard. For any subsidiaries that are excluded from the group accounts the examiner should record that they have checked that the parent charity's interest in each excluded subsidiary is presented in the group accounts as an investment.

The examiner is recommended to record accounting entries of any subsidiary, joint venture or associate included within the group accounts. This may include the trial balance showing the items included in the group accounts for any subsidiary, joint venture or associate, any intra group transactions that have been netted off and any adjustments made to items upon consolidation to comply with the requirements of the SORP.

The examiner is recommended to obtain copies of the accounts of all subsidiaries of the parent charity, any joint venture and any associate. This will provide helpful contextual information for the examiner to assist their analytical review and in checking the reasonableness of the judgments made when including items in the group accounts.

### **Additional procedures for Direction 5: Check that accounting records are kept to the required standard**

The examiner should discuss with the trustees and the person who prepared the group accounts what steps they have taken to satisfy themselves that the transactions and results reported in the group accounts for any consolidated subsidiary, joint venture or associate are real and that accounting records exist to support those transactions.

If the examiner is not satisfied that there is a factual basis for the inclusion of any subsidiary, joint venture or associate in the group accounts or is not satisfied with the explanations given then they should consider the implications for their report (Direction 13).

### **Additional procedures for Direction 6: Check that the accounts are consistent with the accounting records**

The examiner should check that the group accounts are consistent with the accounting records of the parent and group undertakings including any trial balance and any published subsidiary only accounts.

The examiner should follow up any matter for which they cannot gain reasonable explanations or information from the trustees of the parent charity and/ or with the relevant member of the group

directly where this is necessary to the conduct of their examination and/or in compiling their examiner's report. Section 154 of the 2011 Act provides for the examiner to have a right of access with respect to books, documents, and other records (however kept) which relate to the parent charity or any member of the group. Similarly the examiner is entitled to require information and explanations from past or present trustees, officers or employees of the parent charity or any member of the group.

**Additional procedures for Direction 9: The examiner must check whether the trustees have considered the financial circumstances of the charity at the end of the reporting period and, if the accounts are prepared on an accruals basis, check whether the trustees have made an assessment of the charity's position as a going concern when approving the accounts**

The examiner should check when the group accounts are prepared on a going concern basis that the assets and liabilities of the group when taken as a whole support that conclusion. If the trustees have prepared the group accounts on a going concern basis then the going concern principle applies to each subsidiary and to any valuation of associates and joint ventures that are consolidated and to the investment interest reported in any non-consolidated subsidiaries.

If a subsidiary, joint venture or associate has been consolidated but is of itself not a going concern then the basis of its inclusion must be set out in the accounting policies for the group accounts. A subsidiary, joint venture or associate company is a separate legal entity to the charity. Normally any excess of liabilities over and above the assets of a company cannot be claimed by creditors from the parent charity but the examiner should check whether the parent charity has offered any guarantees or entered into any legal arrangement to meet the liabilities of a subsidiary, joint venture or associate. If such a guarantee or legal arrangement is in place then the examiner should also check that any potential liabilities arising from that guarantee or legal arrangement at the balance sheet date or arising from an adjustable post balance sheet event are reported in the notes to the accounts together with any related party transactions.

**Additional procedures for Direction 13: Write and sign the independent examination report**

The 2008 Regulations (appendix 3) make no separate provision for the independent examination of smaller groups and so there are no additional matters for the examiner to report upon. The examiner should modify the wording of their report to the extent necessary to be clear that their examination was of the group accounts. An example is provided in appendix 4.

In writing their report the examiner should consider their conclusions with reference to their review of the group accounts and the trustees' annual report.

## 5 Statutory duty to report matters of material significance to the Commission

**Sections 156 and 159 of the Charities Act 2011 place a duty upon the independent examiners of both non-company and company charities to make a report to the Commission, where in the course of their examination, they identify a matter, which relates to the activities or affairs of the charity or of any connected institution or body, and which the examiner has reasonable cause to believe is likely to be of material significance for the purposes of the exercise by the Commission of its functions listed in section 156(3) of the Charities Act 2011.**

### Guidance

In addition to undertaking an independent examination of the accounts, the examiner has a separate legal responsibility to report to the Commission if they identify a matter of material significance to the regulatory functions of the Commission. This duty applies to both company and non-company charities which are registered with the Commission and to charities which are currently excepted from registration with the Commission. The examiner exercises their judgement after reading this section.

Examiners must report matters of material significance that they come across in undertaking their independent examination and following the Directions. Normally the matter will relate to the year that the examiner is reporting upon. If a matter comes to light relating to a previous financial year which would give rise to a duty to report, then the examiner must make a report unless they are certain that it has already been reported by them or the charity's previous examiner and they have a copy on file of the Commission's response to that report.

The examiner is not required to undertake additional work over and above following the Directions and is not required to actively go looking for matters of material significance that need to be reported.

The Commission, the Office of the Scottish Charity Regulator (OSCR), and the Charity Commission for Northern Ireland (CCNI) have agreed a list of nine matters of material significance that must always be reported by an independent examiner:

<b>Dishonesty &amp; Fraud</b>	matters suggesting dishonesty or fraud involving a significant loss of, or a material risk to, charitable funds or assets.
<b>Internal Controls &amp; Governance</b>	failure(s) of internal controls, including failure(s) in charity governance that resulted in, or could give rise to, a material loss or misappropriation of charitable funds, or which leads to significant charitable funds being put at major risk.
<b>Money Laundering &amp; Criminal Activity</b>	knowledge or suspicion that the charity or charitable funds including the charity's bank account(s) 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.
<b>Support of Terrorism</b>	matters leading to the knowledge 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, with the exception of matters related to a qualifying offence as defined by Section 3(7) of the Northern Ireland (Sentences) Act 1998.
<b>Risk to charity's beneficiaries</b>	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.
<b>Breaches of law or the charity's trusts</b>	single or recurring breach(es) of either a legislative requirement or of the charity's trusts leading to material charitable funds being misapplied.
<b>Breach of an order or direction made by a charity regulator</b>	evidence suggesting 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.
<b>Modified audit opinion or qualified independent examiner's report</b>	on making a modified audit opinion, emphasis of matter, material uncertainty related to going concern, or issuing of a qualified independent examiner's report identifying matters of concern to which attention is drawn, notification of the nature of the modification/qualification/emphasis of matter or concern with supporting reasons including notification of the action taken, if any, by the trustees subsequent to that audit opinion, emphasis of matter or material uncertainty identified /independent examiner's report.
<b>Conflicts of interest and related party transactions</b>	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.

The examiner must refer to this separate guidance: **Matters of Material Significance reportable to UK charity regulators** for further information about when and how they must report to the regulator. The guidance can be accessed via the Commission's webpages: <https://www.gov.uk/government/news/reporting-matters-of-material-significance-guidance-for-auditors-and-examiners>

It should also be noted that not all the concerns an examiner might choose to report (see Direction 13 and also section 6) will lead to their report to the trustees being considered by the Commission as being a 'qualified report'. The Commission considers that an examiner's report is only said to be a qualified report when the examiner identified one or more concerns that specifically relate to their making all the statements required by the 2008 Regulations (see Direction 13).

If the examiner is subject to reporting under the money laundering regulations (see appendix 9) and the reportable matter is to do with money laundering or financial crime that falls within the Proceeds of Crime Act and/ or money laundering regulations then to avoid tipping off taking place the examiner must omit these matters from their examiner's report. This may result in the report not meeting the definition of a qualified report (see Direction 13).

The examiner is not limited to reporting on just the nine listed matters above and should use their judgement as to whether any other matters require reporting as a matter of material significance after having read the **Matters of Material Significance reportable to UK charity regulators** guidance. Appendix 4 includes examples of separate reporting to the Commission.



## 6 Examiner's discretion to report relevant matters to the Commission

**Sections 156 and 159 of the Charities Act 2011 provide for discretionary reporting to the Commission, where in the course of their examination, the examiner identifies a matter, which relates to the activities or affairs of the charity or of any connected institution or body, and which the examiner has reasonable cause to believe is likely to be relevant for the purposes of the exercise by the Commission of any of its functions**

The examiner has the discretion to make a report to the Commission where the examiner becomes aware of a matter and has reasonable cause to believe the matter is likely to be relevant to the exercise of any of the Commission's functions. This applies whether the examination is of a non-company or company charity. The matter would be one that is not found within the list of matters of material significance where there is a duty to report to the Commission (see section 5) and the examiner has judged it should be reported.

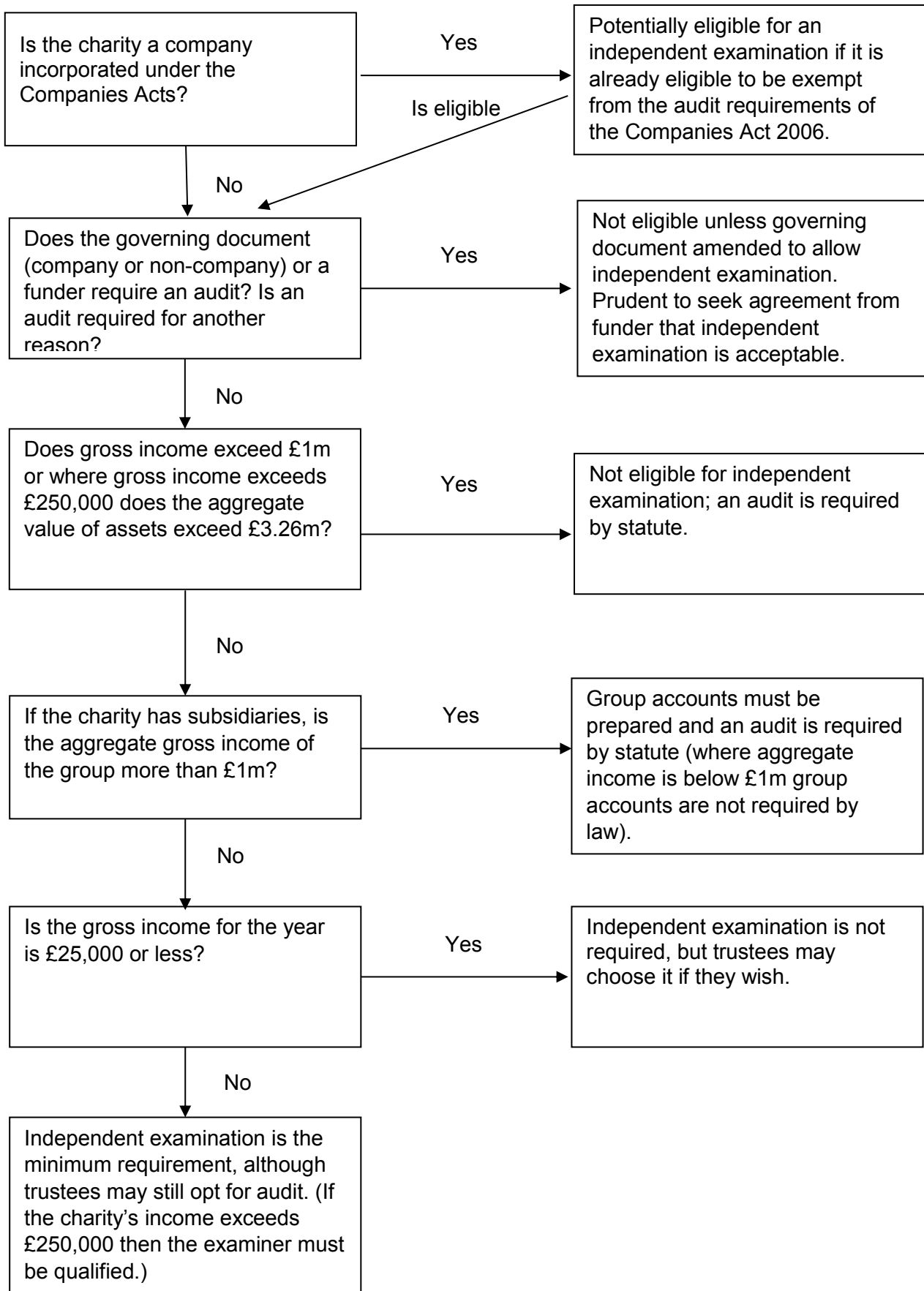
This right might be used by an examiner when they believe that they have identified a matter where the Commission's input is necessary for its resolution. It is important not to report minor issues particularly if the trustees are aware of them and have taken action to remedy them now or in the future. It is also important not to report matters that are minor, not significant or immaterial to the accounts including matters of an administrative nature that have no bearing on the use of charitable funds or assets. The Commission is unlikely to consider regulatory action as justifiable in these circumstances.

The right is widely drawn and there is no obligation on the examiner to make a report and the Commission does not wish to impose a duty where there is none. When judging whether to use their discretion to report a relevant matter the examiner needs to remember that the Commission is a risk led and proportionate regulator. The Commission values the contribution of volunteer examiners and volunteer trustees and seeks to help and support trustees where genuine errors or omissions are made rather than taking regulatory action against them. Therefore we would only take forward the report of a relevant matter as a regulatory action if the matter gives rise to a significant regulatory concern.

The examiner should refer to: **Reporting of relevant matters to UK charity regulators** for further information about what might be usefully reported, and when and how they should report to the regulator. Appendix 4 includes an example of the separate reporting of a relevant matter to the Commission.

Any concerns identified in the examiner's report which are also reported separately as relevant matters to the Commission do not cause that examiner's report to the trustees to become a 'qualified report'. There are very limited circumstances that cause an examiner's report to be qualified and see section 5 for more information.

# Appendix 1: Flowchart: charity eligibility requirements for independent examination



## Appendix 2: Calculation of gross income

The Charities Act 2011 states that a reference to the gross income of a charity: “means its gross recorded income from all sources including special trusts”. This broad definition is interpreted for administrative purposes by the Commission when setting the annual return requirements and making the annual return regulations. This administrative definition of gross income is reviewed annually in preparation for the annual return process.

The definition of gross income for a charity depends on the form of accounts prepared:

- a) ‘For receipts and payments accounts’ - gross income is the total receipts recorded in the statement of accounts from all sources excluding the receipt of any endowment, loans and proceeds from the sale of investments or fixed assets.
- b) ‘For accruals accounts’ - gross income is the total income as shown in the SoFA prepared in accordance with the applicable SORP but:
  - excludes the receipt of any endowment; and
  - includes any amount transferred to income funds during the year from endowment funds in order to be available for spending.

(The SORP total for income and endowments is struck before any gains on the revaluation of fixed assets or gains on investments. Such gains do not form part of ‘gross income’ for these purposes’.)

The definition of gross income for a group: The Charities Act 2011 (Group Accounts) Regulations 2015 set out the threshold for financial years ending on or after 31 March 2015. The calculation for the gross income threshold for a group is:

- the gross income of the group net of intra group transactions exceeds £1m, where:
  - gross income means, in relation to a non-charitable subsidiary undertaking, the amount of income that would be construed as its gross income were it a charity (refer to the applicable SORP for more information about what constitutes income for a charity)
  - intra group transactions are those transactions between the parent charity and its subsidiary or between the subsidiary and its parent charity which are netted off as part of the consolidation adjustments when preparing the group accounts

## Appendix 3: Extract from the 2008 Regulations

What follows is an extract from the current Charities (Accounts and Reports) Regulations 2008 which set out the form and content of an independent examiner's report. The Regulations have yet to be updated by Parliament and so any references to the 1993 Act should be taken as references to the respective provisions of the Charities Act 2011.

In practice, examiners need not refer to the Regulations as the Directions and guidance cover all that is required. Those examiners who prefer to style their own independent examiner's reports rather than follow the formats given in appendix 4 must ensure that their wording is compliant with the Regulations.

### CHAPTER 4

#### INDEPENDENT EXAMINATION OF INDIVIDUAL CHARITY ACCOUNTS

##### Independent examination of individual charity accounts

31. An independent examiner who has carried out an examination of the accounts of a charity under section 43 of the 1993 Act must make a report to the charity trustees which—
- (a) states his name and address and the name of the charity concerned;
  - (b) is signed by him;
  - (c) is dated and specifies—
    - (i) in all cases, the financial year in respect of which the accounts to which it relates have been prepared;
    - (ii) where the charity whose accounts are being examined is a company, confirms that the accounts are not required to be audited under Part 7 of the 1985 Act;
  - (d) if the gross income of the charity in that year exceeds the sum specified in section 43(3A) of the 1993 Act, specifies the basis on which he qualifies to act as independent examiner in accordance with that section;
  - (e) states any, or any other, relevant professional qualifications or professional body of which he is a member;
  - (f) where the accounts are being examined in the circumstances specified in regulation 34(3)(b), states the date when the Commission dispensed with the requirements of section 43(2) of the 1993 Act;
  - (g) specifies that it is a report in respect of an examination carried out under section 43 of the 1993 Act and in accordance with any directions given by the Commission under subsection (7)(b) of that section which are applicable;
  - (h) states whether or not any matter has come to the examiner's attention in connection with the examination which gives him reasonable cause to believe that in any material respect—
    - (i) accounting records have not been kept in respect of the charity in accordance with—
      - (aa) where that charity is a company, section 221 of the 1985 Act;
      - (bb) in any other case, section 41 of the 1993 Act;
    - (ii) the accounts do not accord with those records;
    - (iii) in the case of an examination of a statement of accounts which has been prepared under 42(1) of the 1993 Act, the statement of accounts does not comply with any of the requirements of regulations 6, 7 or 8 as relevant other than any requirement to give a true and fair view;
    - (iv) in the case of the examination of the accounts prepared under Part 7 of the 1985 Act, the charity's accounts—
      - (aa) do not comply with the requirements of section 226A of the 1985 Act other than any requirement to give a true and fair view;
      - (bb) in any case where those accounts state they have been prepared in accordance with the SORP, have not in fact been prepared in accordance with the methods and principles set out in the SORP;

- (i) states whether or not any matter has come to the examiner's attention in connection with the examination to which, in his opinion, attention should be drawn in the report in order to enable a proper understanding of the accounts to be reached;
- (j) contains a statement as to any of the following matters that has become apparent to the examiner during the course of the examination, namely, that—
  - (i) there has been any material expenditure or action which appears not to be in accordance with the trusts of the charity;
  - (ii) any information or explanation to which he is entitled under regulation 32 has not been afforded to him;
  - (iii) in the case of an examination of a statement of accounts which has been prepared under section 42(1) of the 1993 Act, any information contained in the statement of accounts is inconsistent in any material respect with any report of the charity trustees prepared under section 45 of the 1993 Act in respect of the financial year in question;
  - (iv) in the case of an examination of accounts prepared under Part 7 of the 1985 Act, any information contained in the accounts is inconsistent in any material respect with any report of the charity trustees prepared under section 45 of the 1993 Act or the report prepared under section 234 of the 1985 Act in respect of the financial year in question.

## **CHAPTER 5**

### **EXAMINATION OF THE ACCOUNTS OF ENGLISH AND WELSH NATIONAL HEALTH SERVICE CHARITIES**

#### **Examination of the accounts of English and Welsh National Health Service Charities**

32. Where a person has carried out an examination of the accounts of an English National Health Service charity under section 43A of the 1993 Act, or the Auditor General for Wales has carried out an examination of the accounts of a Welsh National Health Service charity under section 43B of that Act, that person or, as the case may be, the Auditor General for Wales must make a report to the charity trustees which—

- (a) states the name of the charity concerned, and, in the case of an examination under section 43A, the name and address of the examiner;
- (b) is signed by him;
- (c) is dated and specifies the financial year in respect of which the accounts to which it relates have been prepared;
- (d) in the case of an examination under section 43A, states any relevant professional qualifications or professional body of which he is a member;
- (e) specifies that it is a report in respect of an examination carried out under section 43A, or, as the case may be, section 43B, of the 1993 Act and, in the case of an examination under section 43A, in accordance with any directions given by the Commission under subsection (5) of that section which are applicable;
- (f) states whether or not any matter has come to the examiner's attention in connection with the examination which gives him reasonable cause to believe that in any material respect—
  - (i) accounting records have not been kept in respect of the charity in accordance with section 41 of the 1993 Act;
  - (ii) the accounts do not accord with those records;
  - (iii) in the case of an examination of a statement of accounts which has been prepared under 42(1) of the 1993 Act, the statement of accounts does not comply with any of the requirements of regulation 6, 7 or 8, as relevant, other than any requirement to give a true and fair view;
- (g) states whether or not any matter has come to the examiner's or, as the case may be, the Auditor General for Wales', attention in connection with the examination to which, in his opinion, attention should be drawn in the report in order to enable a proper understanding of the accounts to be reached;

(h) contains a statement as to any of the following matters that has become apparent to the examiner or, as the case may be, the Auditor General for Wales, during the course of the examination, namely, that—

- (i) there has been any material expenditure or action which appears not to be in accordance with the trusts of the charity, or
- (ii) any information or explanation to which he is entitled under regulation 33 has not been afforded to him, or
- (iii) in the case of an examination of accounts a statement of which has been prepared under section 42(1) of the 1993 Act, any information contained in the statement of accounts is inconsistent in any material respect with any report of the charity trustees prepared under section 45 of the 1993 Act in respect of the financial year in question.

## **CHAPTER 6**

### **MISCELLANEOUS**

Audit and independent examination: supplementary provisions

33.—(1) Any person carrying out an audit or examination of the accounts of a charity under sections 43, 43A or 43B of or paragraph 6 of Schedule 5A to the 1993 Act has a right of access to any books, documents and other records (however kept) which relate to the charity concerned and which the person concerned considers it necessary to inspect for the purpose of carrying out the audit or examination.

(2) Such a person is entitled to require, in the case of the charity concerned, such information and explanations from past or present charity trustees of, or trustees for, the charity, or from past or present officers or employees of the charity, as he considers it necessary to obtain for the purposes of carrying out the audit or examination.

(3) An auditor carrying out an audit of the group accounts of a parent charity under paragraph 6 of Schedule 5A to the 1993 Act also has—

- (a) a right of access to any books, documents and other records (however kept) which relate to any of the subsidiary undertakings included in group accounts and which the auditor considers it necessary to inspect for the purpose of carrying out the audit;
- (b) the right to require, in the case of any such subsidiary undertaking, such information and explanations from—
  - (i) in the case of a subsidiary undertaking which is a charity, past or present charity trustees of, or trustees for, that charity;
  - (ii) in the case of any subsidiary undertaking which is not a charity from the subsidiary undertaking itself and from past or present officers or employees of that undertaking; as he considers it necessary to obtain for the purposes of carrying out the audit;
- (c) the right to require the charity trustees of the parent charity to take all such steps as are reasonably open to them to obtain from any such subsidiary undertaking such information and explanations as he may reasonably require for the purposes of carrying out the audit.

(4) For the purposes of this regulation, “officer” includes any auditor or other person appointed to scrutinise the accounts of any such undertaking.

Dispensations from audit or examination requirements

34.—(1) The Commission may—

- (a) in the circumstances specified in paragraph (2), dispense with the requirements of section 43(2) or (3) of the 1993 Act in the case of a particular charity;
- (b) in the circumstances specified in paragraph (3) dispense with those requirements in respect of a particular financial year of a charity;
- (c) in the circumstances specified in paragraph (4) dispense with the requirements in paragraph 6(4)(a) of Schedule 5A to the 1993 Act in the case of a particular charity;
- (d) in the circumstances specified in paragraph (5) dispense with those requirements in

respect of a particular financial year of a charity.

(2) The circumstances specified for the purposes of paragraph (1)(a) are where the Commission is satisfied that the accounts of the charity concerned—

(a) are required to be audited in accordance with any statutory provision contained in or having effect under an Act of Parliament which imposes requirements which, in the opinion of the Commission, are sufficiently similar to the requirements of section 43(2) for those requirements to be dispensed with;

(b) have been audited by the Comptroller and Auditor General or the Auditor General for Wales.

(3) The circumstances specified for the purposes of paragraph (1)(b) are where the Commission—

(a) is satisfied that the accounts of the charity concerned for the financial year in question have been, or will be, audited or examined in accordance with requirements or arrangements which, in the opinion of the Commission, are sufficiently similar to the relevant requirements of section 43 of the 1993 Act applicable to that financial year of that charity for those requirements to be dispensed with;

(b) considers that, although the financial year in question of the charity concerned is one to which section 43(2) of the 1993 Act applies, there are exceptional circumstances which justify the examination of the accounts by an independent examiner instead of their audit in accordance with that subsection.

(4) The circumstances specified for the purposes of paragraph (1)(c) are where the Commission is satisfied that the group accounts of the parent charity concerned—

(a) are required to be audited in accordance with any statutory provision contained in or having effect under an Act of Parliament which imposes requirements which, in the opinion of the Commission, are sufficiently similar to the requirements of paragraph 6(4)(a) of Schedule 5A for those requirements to be dispensed with;

(b) have been audited by the Comptroller and Auditor General or the Auditor General for Wales.

(5) The circumstances specified for the purpose of paragraph (1)(d) are where the Commission is satisfied that the group accounts of the parent charity concerned for the financial year in question have been, or will be, audited in accordance with requirements or arrangements which, in the opinion of the Commission, are sufficiently similar to the requirements of paragraph 6(4)(a) of Schedule 5A for those requirements to be dispensed with.

(6) The Commission must make it a condition of a dispensation granted under this regulation that the charity trustees send to the Commission any report made to the trustees with respect to the accounts of that charity for the relevant financial year of which it requests a copy.

(7) The Commission must make it a condition of a dispensation granted under paragraph (3)(b) that the charity trustees comply with the requirements of section 43(3) of the 1993 Act as if they were able to make and had in fact made an election under that section that the accounts of the charity for the relevant financial year be examined by an independent examiner.

(8) The Commission may revoke a dispensation granted under this regulation if the charity trustees fail to comply with a condition imposed under paragraph (6) or (7).

## Appendix 4: Example examiner's reports

These example reports are provided to help examiners set out their reports in a way which complies with the 2008 Regulations. The examples cover a number of situations that an examiner may come across in their work and includes charities that are also registered with the Office of the Scottish Charity Regulator (OSCR) or the Charity Commission for Northern Ireland (CCNI). The examiner's report is addressed to the trustees and is the culmination of their work. Careful consideration is needed when preparing the report as to what, if any, matters need to be drawn to the attention of the trustees.

Although the examiner's report is addressed to the trustees, it will be of interest to anyone reading the trustees' annual report and accounts including the Commission.

Where the examiner identified one or more concerns when making the statements required by the 2008 Regulations on the accounts (see Direction 13) then the report is said to be a 'qualified report'. It is qualified because the examiner is unable to report that all the matters required by the regulations were satisfied. It should be noted that an unqualified report is not the same as giving a 'clean bill of health' as the examiner is not saying everything about the charity is fine nor is the examiner reporting that the accounts are error free, nor that the accounts give a 'true and fair' view.

Where the charity's income is greater than £250,000, the examiner must confirm the membership or qualification(s) that permit them to be eligible to undertake the examination. See appendix 5 for further information.

In exceptional circumstances, the Commission may permit the trustees to have an independent examination to be carried out instead of an audit. If this is the case then the 2008 Regulations require the examiner to disclose in their report that the examination is in place of an audit and the date of the Commission's dispensation.

There are two kinds of examiner's report, one for non-company charities and another for charitable companies. Those charities set up under the Companies Acts are termed 'charitable companies' for the purposes of this guidance and because of company law the examiner's report is different to 'non-company' charities. Most charities are non-company charities. These are trusts or unincorporated associations or charitable incorporated organisations. If in doubt check the governing document of the charity, as a charitable company has articles of association and they will have been issued with a company number by Companies House.

The example examiner's reports are:

4.1 Examiner's unqualified report (for a non-company charity preparing accruals accounts) with a gross income of £250,000 or less in the relevant financial year (in this example the examiner does not have to be a member of one of the listed bodies)

4.2 Examiner's unqualified report (for a non-company charity preparing receipts and payments accounts) with a gross income of £250,000 or less in the relevant financial year (in this example the examiner does not have to be a member of one of the listed bodies)

4.3 Examiner's unqualified report (for a company charity) - gross income exceeded £250,000 (and so the examiner had to confirm their membership of a listed body - see appendix 5 for the list of approved bodies for England and Wales).



4.4 Examiner's unqualified report with a matter of concern reported due to a one off lapse in the keeping of accounting records (for a Charitable Incorporated Organisation preparing receipts and payments accounts). Having considered the incident the examiner found no general shortcomings in the keeping of accounting records and given the other information provided by the trustees, the amount involved and the action taken by the trustees the matter was not considered by the examiner to be material to the presentation of the accounts. The examiner judged that it was not a matter of material significance and so there was no duty to report directly to the Commission. Also given the small amount involved the examiner chose not to exercise their discretion to report the matter as relevant to the work of the Commission.

4.5: Examiner's matter of concern reported - failure to prepare receipts and payments accounts properly- qualified examiner's report (non-company charity). The examiner's report is considered to be a qualified report and so the examiner made a report of a matter of material significance to the Commission.

4.6: Examiner's matter of concern reported- qualified report (non-company charity) with a gross income of £250,000 or less in the relevant financial year. It is a qualified report with a matter of concern report where a non-company charity has made a cash payment overseas without evidence that the funds were properly spent. The examiner made a report of a matter of material significance to the Commission.

4.7: Examiner's matter of concern reported – not compliant with SORP and Companies Act (company charity) - qualified examiner's report- gross income is £250,000 or less. The examiner reported the non-compliance as a matter of material significance to the Commission.

4.8: Examiner's unqualified report for a non-company charity preparing accruals accounts and also registered with OSCR (charity law in Scotland requires where accruals accounts are prepared that the examiner be a member of one of the listed bodies approved in Scotland irrespective of charity income).

4.9: Examiner's unqualified report for a non-company charity preparing receipts and payments accounts and also registered with OSCR (for receipts and payments the examiner does not have to be a member of one of the listed bodies if the charity's gross income is less than £250,000).

4.10: Examiner's unqualified report for a charitable company also registered with OSCR (charity law in Scotland requires the examiner to be a member of one of the listed bodies approved in Scotland irrespective of charity income where accruals accounts are prepared).

4.11: Examiner's unqualified report for a non-company charity preparing accruals accounts with an income of less than £250,000 and registered with CCNI (as the charity's gross income is less than £250,000 the examiner does not have to be a member of one of the listed bodies).

4.12 Unqualified independent examination of a smaller charity group (independent examiners may find it helpful to remind trustees that an independent examination is not an audit and this is explained in this example). In the example the parent charity is not a company and all the subsidiaries that are consolidated are companies and this is reflected in the wording of the examiner's report.

**Example 4.1: examiner's unqualified report (for a non-company charity preparing accruals accounts) with a gross income of £250,000 or less in the relevant financial year**

**Independent examiner's report to the trustees of ABZ Trust**

I report to the trustees on my examination of the accounts of the ABZ Trust (the Trust) for the year ended 30 November 2017.

**Responsibilities and basis of report**

As the charity trustees of the Trust you are responsible for the preparation of the accounts in accordance with the requirements of the Charities Act 2011 ('the Act').

I report in respect of my examination of the Trust's accounts carried out under section 145 of the 2011 Act and in carrying out my examination I have followed all the applicable Directions given by the Charity Commission under section 145(5)(b) of the Act.

**Independent examiner's statement**

I have completed my examination. I confirm that no material matters have come to my attention in connection with the examination giving me cause to believe that in any material respect:

1. accounting records were not kept in respect of the Trust as required by section 130 of the Act; or
2. the accounts do not accord with those records; or
3. the accounts do not comply with the applicable requirements concerning the form and content of accounts set out in the Charities (Accounts and Reports) Regulations 2008 other than any requirement that the accounts give a 'true and fair view which is not a matter considered as part of an independent examination.

I have no concerns and have come across no other matters in connection with the examination to which attention should be drawn in this report in order to enable a proper understanding of the accounts to be reached.

Signed:

Name:

Relevant professional qualification or membership of professional bodies (if any):

Address:

Date:

**Example 4.2: examiner's unqualified report (for a non-company charity preparing receipts and payments accounts) with a gross income of £250,000 or less in the relevant financial year**

**Independent examiner's report to the trustees of ABY Trust**

I report to the trustees on my examination of the accounts of the ABY Trust (the Trust) for the year ended 30 November 2017.

**Responsibilities and basis of report**

As the charity trustees of the Trust you are responsible for the preparation of the accounts in accordance with the requirements of the Charities Act 2011 ('the Act').

I report in respect of my examination of the Trust's accounts carried out under section 145 of the 2011 Act and in carrying out my examination I have followed all the applicable Directions given by the Charity Commission under section 145(5)(b) of the Act.

**Independent examiner's statement**

I have completed my examination. I confirm that no material matters have come to my attention in connection with the examination giving me cause to believe that in any material respect:

1. accounting records were not kept in respect of the Trust as required by section 130 of the Act; or
2. the accounts do not accord with those records.

I have no concerns and have come across no other matters in connection with the examination to which attention should be drawn in this report in order to enable a proper understanding of the accounts to be reached.

Signed:

Name:

Relevant professional qualification or membership of professional bodies (if any):

Address:

Date:

### **Example 4.3: examiner's unqualified report (for a company charity)- gross income exceeded £250,000**

#### **Independent examiner's report to the trustees of WXY Charitable Company ('the Company')**

I report to the charity trustees on my examination of the accounts of the Company for the year ended 30 November 2017.

#### **Responsibilities and basis of report**

As the charity's trustees of the Company (and also its directors for the purposes of company law) you are responsible for the preparation of the accounts in accordance with the requirements of the Companies Act 2006 ('the 2006 Act').

Having satisfied myself that the accounts of the Company are not required to be audited under Part 16 of the 2006 Act and are eligible for independent examination, I report in respect of my examination of your charity's accounts as carried out under section 145 of the Charities Act 2011 ('the 2011 Act'). In carrying out my examination I have followed the Directions given by the Charity Commission under section 145(5) (b) of the 2011 Act.

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

Since the Company's gross income exceeded £250,000 your examiner must be a member of a body listed in section 145 of the 2011 Act. I confirm that I am qualified to undertake the examination because I am a member of [insert named of applicable listed body], which is one of the listed bodies.

I have completed my examination. I confirm that no matters have come to my attention in connection with the examination giving me cause to believe:

1. accounting records were not kept in respect of the Company as required by section 386 of the 2006 Act; or
2. the accounts do not accord with those records; or
3. the accounts do not comply with the accounting requirements of section 396 of the 2006 Act other than any requirement that the accounts give a 'true and fair view which is not a matter considered as part of an independent examination; or
4. the accounts have not been prepared in accordance with the methods and principles of the Statement of Recommended Practice for accounting and reporting by charities [applicable to charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102)].

I have no concerns and have come across no other matters in connection with the examination to which attention should be drawn in this report in order to enable a proper understanding of the accounts to be reached.

Signed:

Name:

[insert name of applicable listed body]:

Other relevant professional qualification(s) or membership of professional bodies (if any):

Address:

Date:

**Example 4.4: examiner's unqualified report with a matter of concern reported due to a one off lapse in the keeping of accounting records (for a Charitable Incorporated Organisation preparing receipts and payments accounts)**

**Independent examiner's report to the trustees of EFG Charitable Incorporated Organisation ('the CIO')**

I report to the charity trustees on my examination of the accounts of the CIO for the year ended 30 April 2018.

**Responsibilities and basis of report**

As the charity trustees of the CIO you are responsible for the preparation of the accounts in accordance with the requirements of the Charities Act 2011 ('the Act').

I report in respect of my examination of the CIO's accounts carried out under section 145 of the Act. In carrying out my examination I have followed all applicable Directions given by the Charity Commission under section 145(5)(b) of the 2011 Act.

**Independent examiner's statement- matter of concern identified**

I have completed my examination. I confirm that no material matters have come to my attention in connection with the examination giving me cause to believe that in any material respect:

1. accounting records were not kept as required by section 130 of the Act; or
2. the accounts do not accord with those records.

In carrying out my examination I noted a lapse in the keeping of accounting records recording of restricted income. At the end of one church service a special appeal was held for a mission to Samarkand but the money was banked together with the routine collections for that month and no separate record kept of the amount received for the specific purpose of the mission to Samarkand. The accounts did show the expenditure on the mission to Samarkand was separately identified and amounted to £2,837. In response you, the trustees, pointed out that the deposits for that service was noted £1,978 against an average weekly banking of £1,275. You confirmed that this was a one-off lapse in following the established protocol that ensures that specific appeals are counted and deposited separately and that you had reminded all who are involved in collecting and counting the collections at services.

I confirm that there are no other matters to which your attention should be drawn to enable a proper understanding of the accounts to be reached.

Signed:

Name:

Relevant professional qualification(s) or membership of professional bodies (if any):

Address:

Date:

## **Example 4.5: examiner's matter of concern reported - failure to prepare receipts and payments accounts properly- qualified examiner's report (non-company charity)**

### **Independent examiner's report to the trustees of DEF Trust ('the Trust')**

I report to the charity trustees on examination of the accounts of the Trust for the year ended 30 April 2018.

#### **Responsibilities and basis of report**

As the charity's trustees you are responsible for the preparation of the accounts in accordance with the requirements of the Charities Act 2011 ('the Act').

I report in respect of my examination of the Trust's accounts carried out under section 145 of the Act. In carrying out my examination I have followed all applicable Directions given by the Charity Commission under section 145(5)(b) of the 2011 Act.

#### **Independent examiner's statement- matter of concern identified**

I have completed my examination. I have identified matters of concern that give me reasonable cause to believe that:

1. accounting records were not kept in respect of the Trust as required by section 130 of the Act; and
2. the accounts do not accord with those records.

The receipts and payments accounts prepared for the Trust show cash received in the year of £36,873 however no records have been kept to match the record of the donations received to the deposits made and cash balances were retained and not deposited at the Trust's bank. The only written record retained is a letter advising a grant award of £10,000. The majority of the expenditure was made in cash from retained unbanked cash or via cash withdrawals using a charity debit card but few receipts were kept. Aside from invoices for utilities and rent and play equipment, there are no records of volunteer or other expenses. Total cash spent amounted to £86,000 with receipts for only £41,732 leaving £44,268 of payments without any supporting records.

I confirm that there are no other matters to which your attention should be drawn to enable a proper understanding of the accounts to be reached.

Signed:

Name:

Relevant professional qualification(s) or membership of professional bodies (if any):

Address:

Date:

Example report 4.5: Following their independent examination, the examiner made a report of a matter of material significance because the concern related to the statements the Regulations require the examiner to make in their report to the trustees. The examiner provides additional information to that provided in the examiner's report.

Whitetree  
White Town Lane  
White Whitterington  
Well County  
WW1 3ZZ

July 17<sup>th</sup> 2018

Dear Sir,

**Independent examiner reporting a matter of material significance concerning DEF Trust, charity number 1XXX905**

I am making a report to you in accordance with section 156 of the Charities Act 2011 to advise you of a matter which I believe is of material significance to you in the exercise of your functions under sections 46, 47 and 50 of the Charities Act 2011. The matter relates to a failure to maintain accounting records that caused my report on the accounts to be a qualified report because my concern related to a matter covered by the statements that the Regulations require me to report upon.

Whilst carrying out the independent examination of DEF Trust I noted that the trustees had not retained sufficient records to support £44,268 of payments made in the year. The charity has grown very rapidly with a grant made to the charity in the previous year providing funds to support a major expansion in the activities for children. The trustees explained that they had not appreciated the extra work involved and in their haste to recruit additional volunteers had not put in place the book-keeping processes to ensure money is promptly banked and that volunteers sign a receipt book for their expense claims. The charity also provides toys, tea and refreshments, lunches for the children, and buys presents and cakes for the children, all of which were paid for in cash. Volunteers were also reimbursed in cash for out of pocket expenses and the travel costs. Admission fees for several supervised day trips for the children were also paid in cash. I was assured that at least one of the trustees was on hand at all times when money was received or spent and they oversaw all the payments made. Neither the trustees nor their family members have benefitted in any way from the charity's funds or were paid expenses.

A further difficulty was that the volunteer treasurer had been ill for much of the year and so the discipline of obtaining receipts and using cheques had not been maintained and settlement by way of cash used for convenience. I was given full co-operation in conducting my examination and the circumstances and information provided to me gave full answers to all my questions and whilst, I am not required to look for fraud, I came across no evidence that led me to believe that fraud had taken place.

I understand that the trustees recognise that there has been a major lapse in record keeping and they have now hired a book-keeper and put in place proper controls by adopting the Charity Commission's guidance **Internal financial controls for charities (CC8)**.

Having completed my examination of the accounts, I have noted this as a matter of concern in my independent examiner's report highlighting that sufficient accounting records had not been fully maintained.

Yours faithfully,

Mr A Doubt

**Example 4.6: examiner's matter of concern reported- qualified report (non-company charity) with a gross income of £250,000 or less in the relevant financial year**

**Independent examiner's report to the trustees of ABC Trust ('the Trust')**

I report to the charity trustees of the Trust on my examination of the accounts of the Trust for the year ended 30 April 2018.

**Responsibilities and basis of report**

As the trustees of the Trust you are responsible for the preparation of the accounts in accordance with the requirements of the Charities Act 2011 ('the Act').

I report in respect of my examination of the Trust's accounts carried out under section 145 of the Act. In carrying out my examination I have followed all applicable Directions given by the Charity Commission under section 145(5)(b) of the 2011 Act.

**Independent examiner's statement- matter of concern identified**

I have completed my examination. I have identified a matter of concern in my report because I have concerns that there has been material expenditure or action which appears not to be in accordance with the trusts of the Trust and the restrictions placed on the use of restricted funds.

The accounts disclose the payment of a material restricted grant of £75,000 to the XXX partner organisation operating in country X. The trustees explained that a trustee took the funds over in US dollar currency in a suitcase and gave the funds to a representative of XXX partner organisation. However you, as the trustees, were unable to explain how the funds were used and were not able to provide evidence by way of receipt or letter of acknowledgment from XXX partner organisation. A concern exists that the grant may have to be repaid because of the lack of evidence available to inform the donor of its use.

I confirm that no other matters have come to my attention that giving me cause to believe that in any material respect:

1. accounting records were not kept in respect of the Trust as required by section 130 of the Act; or
2. the accounts do not accord with those records; or
3. the accounts do not comply with the applicable requirements concerning the form and content of accounts set out in the Charities (Accounts and Reports) Regulations 2008 other than any requirement that the accounts give a 'true and fair view which is not a matter considered as part of an independent examination.

I confirm that there are no other matters to which your attention should be drawn to enable a proper understanding of the accounts to be reached.

Signed:

Name:

Relevant professional qualification(s) or membership of professional bodies (if any):

Address:

Date:



Example 4.6 In undertaking their examination the examiner of 'ABC Trust' identified matters that they reported separately and straight away to the Commission as matters of material significance. The example report of matters of material significance provides additional information which relates to the example examiner's report.

Whitetree  
White Town Lane  
White Whitterington  
Well County  
WW1 3ZZ

July 17th 2018

Dear Sir,

**Independent examiner reporting a matter of material significance concerning ABC Trust, charity number 1XXX700**

I am making a report to you in accordance with section 156 of the Charities Act 2011 to advise you of a matter which I believe is of material significance to you in the exercise of your functions under sections 46, 47 and 50 of the Charities Act 2011. The matter relates to a failure of internal controls that has led to significant charitable funds being put at major risk.

The income of ABC Trust for the year ending 30 April 2012 was £242,876 and included a restricted grant given by AB Donor Trust of £75,000 to fund a planned project in country X to assist in the relief of poverty. During the course of my examination I discovered that Mr CD, a trustee of the charity, travelled to country X on 10 occasions taking these funds with him in the form of US dollars in a suitcase and gave these funds to Mr TZ of XXX, a partner organisation. Neither Mr CD nor the other trustees have any receipt from Mr TZ nor do they have any field reports or other evidence as to how the money was used.

The trustees remain confident in Mr TZ who they say they have known for at least a year and believe that the facilities run by XXX partner organisation give great benefit to the poor of country X. Following my examination the trustees have sought to obtain field reports from Mr TZ but have been advised that he is unavailable, having journeyed to neighbouring Y Country and his date of return is uncertain. There is a concern that AB Donor Trust may now require the return of these funds because the charity has insufficient records to demonstrate how the money was spent.

Having completed my examination of the accounts I identified a matter of concern in my independent examiner's report due to these matters.

Yours faithfully,

Mr A Doubt

**Example 4.7: examiner's matter of concern reported – not compliant with SORP and Companies Act (company charity) - qualified examiner's report- gross income is £250,000 or less**

**Independent examiner's report to the trustees of WXY Charitable Company ('the Company')**

I report to the charity trustees on my examination of the accounts of the Company for the year ended 30 April 2018.

**Responsibilities and basis of report**

As the trustees of the Company (and its directors for the purposes of company law) you are responsible for the preparation of the accounts in accordance with the requirements of the Companies Act 2006 ('the 2006 Act').

Having satisfied myself that the accounts of the Company are not required to be audited under Part 16 of the 2006 Act and are eligible for independent examination, I report in respect of my examination of the Company's accounts carried out under section 145 of the Charities Act 2011 ('the 2011 Act'). In carrying out my examination I have followed the Directions given by the Charity Commission under section 145(5)(b) of the 2011 Act.

**Independent examiner's statement- matter of concern identified**

I have completed my examination. I have identified matters of concern that give me reasonable cause to believe that the accounts prepared for the Company are not fully compliant with the accounting requirements of section 396 of the 2006 Act and have not been prepared fully in accordance with the methods and principles of the Statement of Recommended Practice for accounting and reporting by charities. Instead of a Statement of Financial Activities incorporating an income and expenditure account, only a profit and loss account has been prepared. In neither the profit and loss account nor the balance sheet are the funds analysed between unrestricted and restricted funds yet the amount of restricted funds held is detailed in the notes to the accounts and relates to a public collection with balance of £x remaining at the year end.

I confirm that no other matters have come to my attention in connection with the examination giving me reasonable cause to believe that in any material respect:

1. accounting records were not kept in respect of the Company as required by section 386 of the 2006 Act; or
2. the accounts do not accord with those records; or
3. except for the matter of concern noted above the accounts do not comply with the accounting requirements of section 396 of the 2006 Act other than any requirement that the accounts give a 'true and fair view which is not a matter considered as part of an independent examination; and
4. except for the matter of concern noted above the accounts have not been prepared in accordance with the methods and principles of the Statement of Recommended Practice for accounting and reporting by charities [applicable to charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102).

I confirm that there are no other matters to which your attention should be drawn to enable a proper understanding of the accounts to be reached.

Signed:

Name:

Relevant professional qualification(s) or membership of professional bodies (if any):

Address:

Date:

Example 4.7 In undertaking their examination the examiner of 'WXY Charitable Company' identified matters that they reported separately and straight away to the Commission as matters of material significance. The example report of matters of material significance provides additional information which relates to the example examiner's report.

Whitetree  
White Town Lane  
White Whitterington  
Well County  
WW1 3ZZ

July 17th 2018

Dear Sir,

**Independent examiner reporting a matter of material significance concerning WXY Charitable Company, charity number 1XXX780**

I am making a report to you in accordance with section 156 of the Charities Act 2011 to advise you of a matter which I believe is of material significance to you in the exercise of your functions under sections 46, 47 and 50 of the Charities Act 2011. The matter relates to a failure of the directors to compile their accounts in compliance with the applicable Statement of Recommended Practice (SORP).

Although I have advised the directors that a charity must follow the SORP when preparing accounts on an accruals basis they were unwilling to incur the cost of reformatting the accounts of the charity.

Because the directors have not followed the SORP, the accounts do not distinguish the material restricted funds separately from the unrestricted funds and my concern is that the directors may subsequently spend restricted funds in error leading to a breach of trust.

Having completed my examination of the accounts I stated this matter of concern in my independent examiner's report to the trustees.

Yours faithfully,

Mr A Doubt

## **Example 4.8: examiner's unqualified report for a non-company charity preparing accruals accounts and also registered with OSCR**

### **Independent examiner's report to the trustees of ABE Trust ('the Trust')**

I report to the charity trustees on my examination of the accounts of the Trust for the year ended 30 April 2018.

#### **Responsibilities and basis of report**

As the trustees of the Trust you are responsible for the preparation of the accounts in accordance with the requirements of the Charities and Trustee Investment (Scotland) Act 2005 (the '2005 Act'), the Charities Accounts (Scotland) Regulations 2006 (as amended) and the Charities Act 2011 ('the 2011 Act'). You are satisfied that your charity is not required by charity law to be audited and have chosen instead to have an independent examination.

I report in respect of my examination of the Trust's accounts as carried out under section 44 (1) (c) of the 2005 Act and section 145 of the 2011 Act. In carrying out my examination I have followed the requirements of Regulation 11 of the Charities Accounts (Scotland) Regulations 2006 (as amended) and the applicable Directions given by the Charity Commission under section 145(5)(b) of the 2011 Act.

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

Since the Trust has prepared its accounts on an accruals basis and is also registered in Scotland your examiner must be a member of a body listed in Regulation 11(2) of the Charities Accounts (Scotland) Regulations 2006 (as amended). I can confirm that I am qualified to undertake the examination because I am a registered member of [named body] which is one of the listed bodies.

I have completed my examination. I confirm that no matters have come to my attention giving me cause to believe that in any material respect:

1. accounting records were not kept in respect of the Trust as required by section 44 (1) (a) of the 2005 Act and Regulation 4 of the Charities Accounts (Scotland) Regulations 2006 (as amended) and section 130 of the 2011 Act; or
2. the accounts do not accord with those records; or
3. the accounts do not comply with the accounting requirements Regulation 8 of the Charities Accounts (Scotland) Regulations 2006 (as amended) and do not comply with the applicable requirements concerning the form and content of accounts set out in the Charities (Accounts and Reports) Regulations 2008 other than any requirement that the accounts give a 'true and fair view which is not a matter considered as part of an independent examination.

I have no concerns and have come across no other matters in connection with the examination to which attention should be drawn in this report in order to enable a proper understanding of the accounts to be reached.

Signed:

Name:

[insert name of applicable listed body]:

Other relevant professional qualification(s) or membership of professional bodies (if any):

Address:

Date:

**Example 4.9: examiner’s unqualified report for a non-company charity preparing receipts and payments accounts and also registered with OSCR (for receipts and payments the examiner does not have to be a member of one of the listed bodies if the charity’s gross income is less than £250,000)**

**Independent examiner’s report to the trustees of ABL Trust (‘the Trust’)**

I report to the charity trustees on my examination of the accounts of the Trust for the year ended 30 April 2018.

**Responsibilities and basis of report**

As the trustees of the Trust you are responsible for the preparation of the accounts in accordance with the requirements of the Charities and Trustee Investment (Scotland) Act 2005 (the ‘2005 Act’), the Charities Accounts (Scotland) Regulations 2006 (as amended), and the Charities Act 2011 (‘the 2011 Act’). You are satisfied that your charity is not required by charity law to be audited and have chosen instead to have an independent examination.

I report in respect of my examination of the Trust’s accounts carried out under section 44 (1) ( c) of the 2005 Act and section 145 of the 2011 Act. In carrying out my examination I have followed the requirements of Regulation 11 of the Charities Accounts (Scotland) Regulations 2006 (as amended) and all applicable Directions given by the Charity Commission under section 145(5)(b) of the 2011 Act.

**Independent examiner’s statement**

I have completed my examination. I confirm that no matters have come to my attention giving me cause to believe that in any material respect:

1. accounting records were not kept as required by section 44 (1) ( a) of the 2005 Act and Regulation 4 of the Charities Accounts (Scotland) Regulations 2006 (as amended) and section 130 of the 2011 Act; or
2. the accounts do not accord with those records; and
3. the accounts do not comply with the accounting requirements of Regulation 8 of the Charities Accounts (Scotland) Regulations 2006 (as amended).

I have no concerns and have come across no other matters in connection with the examination to which attention should be drawn in this report in order to enable a proper understanding of the accounts to be reached.

Signed:

Name:

Relevant professional qualification(s) or membership of professional bodies (if any):

Address:

Date:

**Example 4.10: examiner's unqualified report for a charitable company also registered with OSCR (charity law in Scotland requires the examiner to be a member of one of the listed bodies approved in Scotland irrespective of charity income where accruals accounts are prepared)**

**Independent examiner's report to the trustees of WXZ Charitable Company ('the Company')**

I report to the charity trustees on my examination of the accounts of the Company for the year ended 30 April 2018.

**Responsibilities and basis of report**

As the trustees of the Company (and also its directors for the purposes of company law) you are responsible for the preparation of the accounts in accordance with the requirements of the Charities and Trustee Investment (Scotland) Act 2005 ('the 2005 Act'), the Charities Accounts (Scotland) Regulations 2006 (as amended) and the Companies Act 2006 ('the 2006 Act'). You are satisfied that the accounts of the Company are not required by charity or company law to be audited and have chosen instead to have an independent examination.

Having satisfied myself that the accounts of the Company are not required to be audited under Part 16 of the 2006 Act and are eligible for independent examination, I report in respect of my examination of the Company's accounts carried out under section 44 (1) (c) of the 2005 Act and section 145 of the Charities Act 2011 ('the 2011 Act'). In carrying out my examination I have followed the requirements of Regulation 11 of the Charities Accounts (Scotland) Regulations 2006 (as amended) and the Directions given by the Charity Commission under section 145(5)(b) of the 2011 Act.

**Independent examiner's statement**

Since the Company is required by company law to prepare its accounts on an accruals basis and is registered as a charity in Scotland your examiner must be a member of a body listed in Regulation 11(2) of the Charities Accounts (Scotland) Regulations 2006 (as amended). I can confirm that I am qualified to undertake the examination because I am a registered member of [named body] which is one of the listed bodies.

I have completed my examination. I confirm that no matters have come to my attention in connection with the examination giving me cause to believe that in any material respect:

1. accounting records were not kept as required by section 386 of the 2006 Act and Regulation 4 of the 2006 Accounts Regulations; or
2. the accounts do not accord with those records with the accounting requirements of Regulation 8 of the Charities Accounts (Scotland) Regulations 2006; or
3. the accounts do not comply with the accounting requirements of section 396 of the 2006 Act other than any requirement that the accounts give a 'true and fair view which is not a matter considered as part of an independent examination; or
4. the accounts have not been prepared in accordance with the methods and principles of the Statement of Recommended Practice for accounting and reporting by charities [applicable to charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102)].

I have no concerns and have come across no other matters in connection with the examination to which attention should be drawn in this report in order to enable a proper understanding of the accounts to be reached.

Signed:

Name:

[insert name of applicable listed body]:

Other relevant professional qualification(s) or membership of professional bodies (if any):

Address:

Date:

### **Example 4.11: examiner's unqualified report for a non-company charity preparing accruals accounts with an income of less than £250,000 and registered with CCNI**

#### **Independent examiner's report to the trustees of ABP Trust ('the Trust')**

I report to the charity trustees on my examination of the accounts of the Trust for the year ended 30 April 2018.

#### **Responsibilities and basis of report**

As the trustees of the Trust you are responsible for the preparation of the accounts in accordance with the requirements of the Charities Act (Northern Ireland) 2008 (the '2008 Act') and the Charities Act 2011 ('the 2011 Act'). You are satisfied that the accounts of the Trust are not required by charity law to be audited and have chosen instead to have an independent examination.

I report in respect of my examination of the Trust's accounts carried out under section 65 of the 2008 Act and section 145 of the 2011 Act. In carrying out my examination I have followed the general Directions given by the Charity Commission for Northern Ireland under section 65(9)(b) of the 2008 Act and the Directions given by the Charity Commission for England and Wales under section 145(5)(b) of the 2011 Act.

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

I have completed my examination. I confirm that no matters have come to my attention in connection with my examination giving me cause to believe that in any material respect:

1. accounting records were not kept as required by section 63 of the 2008 Act and section 130 of the 2011 Act; or
2. the accounts do not accord with those records; or
3. the accounts do not comply with the accounting requirements of the 2008 Act and the 2011 Act; or
4. the accounts do not comply with the applicable requirements concerning the form and content of accounts set out in the Charities (Accounts and Reports) Regulations 2008 other than any requirement that the accounts give a 'true and fair view which is not a matter considered as part of an independent examination.

I confirm that there are no other matters to which your attention should be drawn to enable a proper understanding of the accounts to be reached.

Signed:

Name:

Relevant professional qualification(s) or membership of professional bodies (if any):

Address:

Date:

## **Example 4.12: examiner's unqualified report (for a non-company small charity group)**

### **Independent examiner's report to the trustees of ABZ Group ('the Group')**

I report to the charity trustees on my examination of the consolidated accounts of the Group comprising the ABZ Trust ('the Trust') and its subsidiary undertakings for the year ended 30 April 2018.

#### **Responsibilities and basis of report**

As the trustees of the Trust you are responsible for the preparation of the consolidated accounts of the Group in accordance with the requirements of the Charities Act 2011 ('the Act') and you have chosen to prepare consolidated accounts for the Group. You are satisfied that the accounts of both the Trust and the Group are not required by charity law to be audited and have chosen instead to have an independent examination.

I report in respect of my examination of the consolidated accounts. I have carried out my examination under section 145 of the 2011 Act. In carrying out my examination I have followed the Directions given by the Charity Commission under section 145(5)(b) of the 2011 Act.

An independent examination does not involve gathering all the evidence that would be required in an audit and consequently does not cover all the matters that an auditor considers in giving their opinion on the accounts. The planning and conduct of an audit goes beyond the limited assurance that an independent examination can provide. Consequently I express no opinion as to whether the consolidated accounts present a 'true and fair' view and my report is limited to those specific matters set out in the independent examiner's statement.

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

Since the Trust's gross income exceeded £250,000 your examiner must be a member of a body listed in section 145 of the 2011 Act. I confirm that I am qualified to undertake the examination because I am a member of [insert named of applicable listed body], which is one of the listed bodies.

I have completed my examination. I confirm that no matters have come to my attention in connection with the examination giving me cause to believe:

1. accounting records, with respect to the Trust, were not kept as required by section 130 of the 2011 Act and, with respect to its subsidiaries, were not kept as required by section 386 of the Companies Act 2006; or
2. the accounts do not accord with those records; or
3. the accounts do not comply with the applicable requirements concerning the form and content of accounts set out in the Charities (Accounts and Reports) Regulations 2008 other than any requirement that the accounts give a 'true and fair view which is not a matter considered as part of an independent examination; or
4. the accounts have not been prepared in accordance with the methods and principles of the Statement of Recommended Practice for accounting and reporting by charities [applicable to charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102)].



I confirm that there are no other matters to which your attention should be drawn to enable a proper understanding of the accounts to be reached.

Signed:

Name:

[insert name of applicable listed body]:

Other relevant professional qualification(s) or membership of professional bodies (if any):

Address:

Date:

## Appendix 5: Relevant experience/knowledge and professional qualification requirements

This appendix explains who can carry out an independent examination and the knowledge and experience needed and whether a formal membership of an accountancy body is required.

The appointment of an independent examiner is made by the trustees who must reasonably believe that the person selected has the requisite ability and practical experience to carry out a competent examination of the accounts.

Before accepting an appointment as the independent examiner of a charity, the examiner should be satisfied they have the requisite ability and practical experience to carry out a competent examination and, where required, the examiner must be a member of a listed professional body.

The skills required of an examiner will depend on whether accounts are prepared on a receipts and payments basis or an accruals basis, and the size and nature of the charity's transactions. A person with financial awareness and numeracy skills should have the requisite ability to act as an independent examiner for receipts and payments accounts. For accruals accounts the examiner should have a good understanding of accountancy principles, accounting standards and knowledge of the applicable SORP.

All examiners need some familiarity with certain basic principles of fund accounting (see appendix 7), the responsibilities of trustees, and the charity's governing document. For more information about the duties of trustees refer to: The essential trustee: what you need to know (CC3).

The majority of charities have a gross income below the threshold at which accruals accounts must be prepared and, unless constituted as a company under company law, are able to prepare simple receipts and payments accounts. This form of accounting is very straightforward and provides a simple alternative to accruals accounts that fully meets the legal requirements of smaller charities. Knowledge of accounting standards and the applicable SORP is not required to examine receipts and payments accounts.

Depending on the complexity of the charity to be examined, prospective examiners may also need to have practical experience relevant to the charity in question which might include:

- an involvement in the financial administration of a charity of a similar nature
- having acted successfully as an independent examiner on previous occasions for similar charities
- relevant practical experience in accountancy or commerce
- a working knowledge of charity accounting

### **Independent examination of accruals accounts**

Having the requisite ability is important to ensure that the examiner undertakes a competent examination. A competent examination is one conducted with reasonable skill and care in accordance with the Directions for independent examination. Trustees who have had the charity's accounts prepared on an accruals should select a person who is a member of one of the accountancy bodies listed in the 2011 Act as amended by the 2015 Order.

The examiner should be satisfied that they have the requisite ability with the necessary skills before undertaking the examination of accounts prepared on the accruals basis. When examining accounts prepared on an accruals basis the examiner should be a member of one of the

accountancy bodies listed and the examiner must be a member of a listed body if the charity's gross income exceeds £250,000.

In England and Wales for financial years ending on after 31 March 2015, once a charity's gross income exceeds £250,000, the examiner must be a person who is a member of one of the following bodies listed in the 2011 Act, as amended by the 2015 Order. Also the examiner should ensure that they are allowed by the rules of that body to undertake the role of independent examiner. The listed bodies are:

- Institute of Chartered Accountants in England and Wales
- Institute of Chartered Accountants of Scotland
- Institute of Chartered Accountants in Ireland
- Association of Chartered Certified Accountants
- Association of Authorised Public Accountants
- Association of Accounting Technicians
- Association of International Accountants
- Chartered Institute of Management Accountants
- Institute of Chartered Secretaries and Administrators
- Chartered Institute of Public Finance and Accountancy
- Fellow of the Association of Charity Independent Examiners
- Institute of Financial Accountants
- Certified Public Accountants Association

Examiners carrying out independent examinations for cross border charities must check if they are also required to be a member of a body listed in that jurisdiction and that they are eligible to carry out that independent examination.

Members of professional bodies should check whether they are required to hold a practising certificate to accept the appointment, whether charging a fee or acting as a volunteer. The requirements of each professional body differ in their requirements for a practising certificate and professional indemnity insurance.

Independent examiners are entitled to receive reasonable remuneration for their services although many examiners provide their services on a voluntary basis. When charging a fee, examiners must also be aware that they are considered to be providing accountancy services and so must be conversant with, and where required by law comply with the Money Laundering Regulations and the provisions of the Proceeds of Crime Act 2002. These provisions normally apply to anyone who carries out accountancy services for a fee, whether a member of a professional body or not. The Commission is not the regulator for this area of law; for further sources of information, refer to Appendix 9.

## Appendix 6: Preparation of the trustees' annual report and filing with the Commission

It is the responsibility of the trustees of registered charities to prepare a trustees' annual report and accounts. However the independent examiner may assist the trustees to prepare them.

Subject to certain size limits, it is the responsibility of the trustees of registered charities to file their trustees' annual report and the charity's accounts and external scrutiny report with the Commission within 10 months of the financial year end.

### Accounts preparation

The Commission's publication Charity reporting and accounting: the essentials (CC15d) explains the requirements for a trustees' annual report and options for preparing accounts.

Except for charitable companies registered with Companies House, the trustees of smaller charities can opt to prepare receipts and payments accounts provided their charity's gross income does not exceed the relevant gross income threshold for their preparation. Receipts and payments accounts offer a simple and flexible alternative to more complex accruals accounts.

Receipts and payments accounts are simply an analysed record of the cash received and spent in the financial year reconciling cash and bank balances held at the beginning and end of the year together with a schedule of any other assets or liabilities at the year-end known as a 'Statement of Assets and Liabilities'. The Commission's receipts and payments accounts pack (CC16) provides a standard layout for the trustees' annual report, the receipts and payments account, the Statement of Assets and Liabilities and the examiner's report.

### Accounts filing

For financial years ending on or after 1 April 2009, where a charity's gross income exceeds £25,000, the trustees are responsible for ensuring that their trustees' annual report and accounts, together with the independent examiner's report are submitted to the Commission within 10 months of the financial year end. Trustees of charitable companies should note that filing with Companies House is required within 9 months of the financial year end. The trustees of charitable companies filing with Companies House are recommended to file with the Commission at the same time.

The trustees should agree a timescale for completion of the examination with the examiner. The trustees' annual report, accounts and supporting records and information should be provided to the examiner early enough to allow the examination to be completed and for the accounts to be approved by the trustees before the filing deadline.

If the trustees want the independent examiner to deal with filing then this should be agreed in writing with the examiner as part of the engagement. If the filing is likely to be late the trustees should alert the Commission before the deadline for filing expires, setting out the circumstances, the action the trustees are taking and the likely date by which filing will be made.

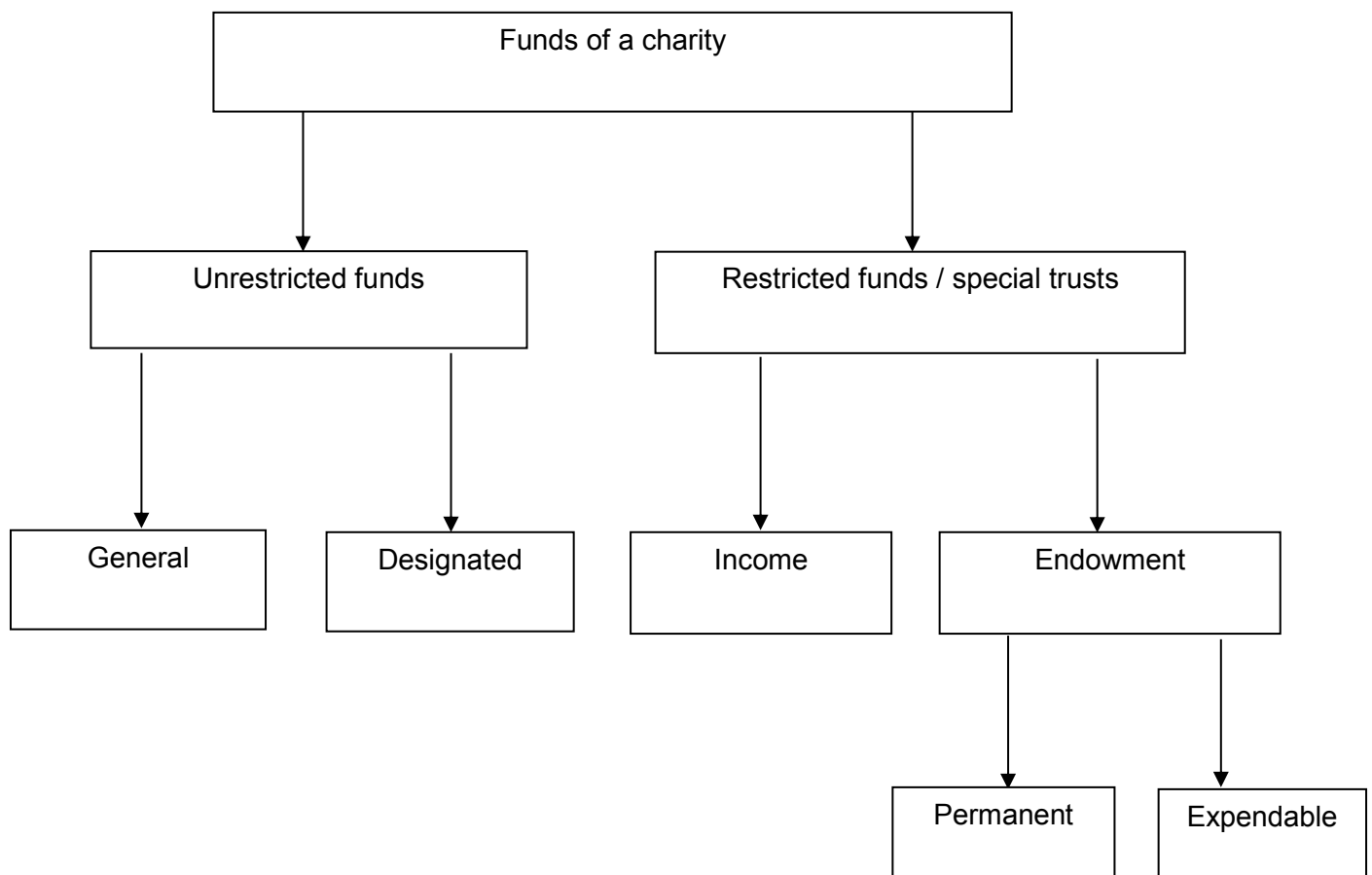
## Appendix 7: Principles of fund accounting

Accounting for the particular charitable funds held by a charity is a key feature of charity accounting. Each class of fund has unique characteristics in trust law. Fund accounting distinguishes between two primary classes of fund: those that are unrestricted in their use, which can be spent for any charitable purposes of a charity, and those that are restricted in use, which can only be lawfully used for a specific charitable purpose.

The proper administration of individual charitable funds is essential if charity trustees are not to act in breach of trust.

Restricted funds (also known as special trusts in England and Wales) are further analysed between restricted income funds and endowment funds (also known as capital funds). Figure 2 sets out these classes of fund diagrammatically. This differentiation of funds is an essential feature in the presentation of a charity's statement of accounts.

Figure 2: The classes of charitable funds



A prerequisite of fund accounting is an understanding of the different classes of funds a charity may hold on trust. A charity may hold both unrestricted and restricted funds. Income generated by the investment of a particular fund's assets accrues to that fund unless the terms of the initial gift provide otherwise, for example in the case of permanent endowment. Similarly, any Gift Aid amount recovered on a donation forms part of that gift and is an addition to the same fund as the initial donation unless the donor or the terms of the appeal have specified otherwise.

### **Unrestricted funds**

Unrestricted funds are spent or applied at the discretion of the trustees to further any of the charity's purposes. Unrestricted funds can be used to supplement expenditure made from restricted funds. For example, a restricted grant may have provided part of the funding needed for a specific project. In this case unrestricted funds may be used to meet any funding shortfall for that project.

Trustees may choose during the reporting period to set aside part of the unrestricted funds to be used for a particular future project or commitment. By earmarking funds in this way, the trustees set up a designated fund that remains part of the unrestricted funds of the charity. This is because the designation has an administrative purpose only and does not legally restrict the trustees' discretion in how to apply the unrestricted funds that they have earmarked. Identifying designated funds may be helpful when explaining the charity's reserve policy and the level of reserves it holds.

### **Restricted funds**

Funds held on specific trusts under charity law are classed as restricted funds. The specific trusts may be declared by the donor when making the gift or may result from the terms of an appeal for funds. The specific trusts establish the purpose for which a charity can lawfully use the restricted funds. It is possible that a charity may have several individual restricted funds, each for a particular purpose of the charity.

In certain circumstances the donor may express a form of non-binding preference as to the use of the funds, which falls short of imposing a restriction in trust law. In this case the charity will include the funds as part of its unrestricted funds. To respect these non-binding donor wishes, trustees may decide to designate those funds to reflect the purposes which the donor had in mind.

Some trustees have the power to declare special trusts over unrestricted funds. Where such a power is available to the trustees and they use it, the assets affected will form part of the restricted funds as a special trust. The trustees' discretion to apply that fund will then be legally restricted.

### **Principles of fund accounting**

Restricted funds fall into one of two sub-classes: restricted income funds or endowment funds. Restricted income funds are to be spent or applied within a reasonable period from their receipt to further a specific purpose of the charity; that is to further one or more but not all of the charity's charitable purposes. Alternatively the restricted fund may be an endowment. Trust law requires a charity to invest the assets of an endowment, or retain them for the charity's use in furtherance of its charitable purposes, rather than apply or spend them as income (see 'Endowment funds' below).

In maintaining the accounting records, charities must separately identify each restricted fund and the income received and expenditure made from each restricted fund.

Costs charged to a restricted fund relate to the activities undertaken to further the specific charitable purposes the fund was established to support. These costs include both direct and support costs associated with the activities undertaken by the restricted fund(s). In addition to a reasonable allocation of support costs, other costs associated with raising, investing and managing the restricted funds should normally be charged to the fund to which the cost relates.

Expenditure attributable to a restricted fund may still be charged to it even if there is an insufficient balance on that fund at the time. However, expenditure should only be charged to a restricted fund in deficit when there is a realistic expectation that future income will be received to cover the shortfall, for example when a decision has been made to invite donations to that restricted fund.

## **Endowment funds**

A gift of endowment, where there is no power to convert the capital into income, is known as a permanent endowment fund. A permanent endowment fund must normally be held indefinitely. Where trustees have the power to convert endowment funds into income, such funds are known as expendable endowments. A gift of expendable endowment provides the trustees with a power to convert all or part of it into income.

Expendable endowment is distinguishable from income funds in that there is no actual requirement to spend or apply the capital unless, or until, the trustees decide to spend it. If the trustees exercise the power to spend or apply the capital of the expendable endowment, the relevant funds become unrestricted funds or restricted income funds depending on whether the terms of the gift permit expenditure for any of the charity's purposes, or only for specific purposes.

The income generated from endowment funds held for investment must be spent on furthering its charitable purposes unless the charity exercises a power of accumulation or a charity in England and Wales has invested the endowment on a total return basis under the provisions of section 104A of the Charities Act 2011 as amended by the Trust (Capital and Income) Act 2013 or an Order of the Charity Commission made under section 105 of the 2011 Act. If there is no restriction as to the use of the income, the income is an addition to unrestricted funds. It is possible that a charity may have several endowment funds; the income from each endowment being restricted to a particular purpose.

The concept of permanence does not mean that a charity must keep holding the assets in the endowment funds in the form that they were initially given. The investments or property held within an endowment fund can be changed. For example, a charity could sell a particular equity investment and reinvest the proceeds in a different financial asset, or it might use the proceeds from the sale of endowed freehold land and buildings to purchase a new freehold property which will then form part of the endowment.

## **Accounting for expenses related to endowment**

A charity cannot use permanent endowment as if it were income, for example to make payments or grants to third parties. Trust law only permits expenses to be charged to permanent endowment when incurred in the administration or protection of the investments or property of the endowment, for example:

- fees incurred in managing the investment of the endowment
- the costs of valuation fees and expenses incurred in connection with the sale of endowed land
- the cost of improvements to land held as an endowment investment
- the loss of value due to depreciation or impairment of an endowed property

If the endowment has insufficient funds to meet the expenses that can be charged to it, or the terms of the trust of the endowed gift prohibit the charging of expenses, then the expenses must be charged to income funds. Other expenses must normally be charged to income funds.

### **Accounting for the investment return on income and endowment funds**

The return on investment is made up of the income derived from the investment (interest, dividends, royalties or rents) and any gain or loss in the market value of the investment. If a charity sells an investment, a gain or loss on the carrying amount of the asset is realised upon its disposal. Where a charity retains an investment, an unrealised gain or loss on the carrying amount of the investment may arise at the balance sheet date.

For unrestricted funds and restricted income funds, trust law requires both the income and any investment gain or loss are allocated to the fund holding the investment.

Where the charity has a number of individual restricted income funds, any investment income and gain or loss on investments must be allocated to the individual restricted funds holding the investment.

Trust law applies different rules to endowment funds. In the case of endowment, trustees cannot add the income from investments to the endowment capital except where they have a power to invest on a total return basis (see the SORP module 'Total return (investments)') or exercise a power of accumulation. Instead, the income from the investment is allocated to either unrestricted funds or a restricted income fund depending on the terms of the gift. However, any gain or loss on investment is attributed to the endowment capital. If a charity has several invested endowments, any gain or loss on investments must be allocated correctly to each individual endowment.

### **Transfers between funds**

A transfer may be made for several reasons, including:

- to transfer assets from unrestricted funds to finance a deficit on a restricted fund
- to transfer the value of tangible fixed assets from restricted to unrestricted funds when the asset has been purchased from a restricted fund donation but is held for a general and not a restricted purpose
- where restricted funds have been lawfully released and transferred to unrestricted funds
- where the trustees have exercised a power to declare a special trust over a gift initially recognised as unrestricted
- where charity law permits the proceeds of restricted funds to be spent for an alternative purpose (such as the *cy-près* procedures in England and Wales), for example the alternative use of the proceeds of a failed appeal, or the alternative use of excess of funds raised from an appeal



## Appendix 8: Glossary of terms

This glossary sets out a number of technical terms used in the guidance and appendices which may not be familiar to all examiners.

**(The) 2011 Act:** the Charities Act 2011

**2008 Regulations:** the Charities (Accounts and Reports) Regulations 2008 No.629

**2009 Order:** the Charities Acts 1992 and 1993 (Substitution of Sums) Order 2009 No. 508

**2015 Order:** the Charities Act 2011 (Accounts and Audit) Order 2015 No.321

**Accounting policies:** those principles, bases, conventions, rules and practices that specify how the effects of transactions and other events are reflected in the accounts through the recognition, measurement and presentation of assets, liabilities, gains, losses and changes or movements in funds. They are supplemented by estimation techniques where judgment is required in recording the value of income, expenditure, commitments and assets and liabilities. Accounting policies should be relevant and reliable and allow comparability and understanding of financial information presented in the accounts.

**Accounting standards:** accounts which are intended to show a true and fair view should conform to certain standards issued or adopted by the Financial Reporting Council.

**Accruals basis:** this concept requires the effects of transactions and other events to be reflected, as far as possible, in the accounts for the period in which they occur, and not, for example, in the period in which any cash settlement is made. This concept is central to the recognition of balance sheet assets and liabilities.

This term has been used to describe accounts prepared in accordance with the requirements of section 132 of the 2011 Act. Such accounts should be prepared by the trustees to show a 'true and fair view'. The accounts comprise:

- a Statement of Financial Activities (SoFA)
- a balance sheet
- a statement of cash flows where required
- notes to the accounts

Such accounts should be prepared on a basis of accounting policies that enable the accounts to give a true and fair view and are consistent with accounting standards and the accounting concepts of going concern and accruals.

**Applicable SORP:** the applicable Statement of Recommended Practice (SORP) is the SORP that applies for the reporting period (financial year) of the charity which has been approved by the Financial Reporting Council as consistent with the applicable accounting standards and generally accepted accounting practice. For reporting periods (financial years) beginning on or after 1 January 2016 there is only the one SORP: the Charities SORP (FRS 102) which must be used together with any Update Bulletins issued.

**Bank reconciliation:** this statement reconciles the balance at the bank, as at the statement date, with the balance shown in the accounts by adjusting the closing bank balance for those transactions not cleared, for example, cheques that have been written but not presented and deposits that have been made but not credited, on or prior to the closing bank balance.

**Branch (or branches):** the term 'branch' is used to describe a charity's administrative arrangements whereby its internal operating structure is arranged according to function, location or other factor designed to facilitate its administration. Branches may include supporters' groups, members' groups, and offices in different countries, communities or parishes that are part of a charity. Branches are commonly used to organise fundraising, to represent the charity in a locality or to carry out the charity's work in a locality.

**Charitable companies** means a charity is a company formed and registered with Companies House under the Companies Act 2006 which is established exclusively for charitable purposes.

**Charitable Incorporated Organisation (CIO)** means a charity registered as a body corporate under Part 11 of the Charities Act 2011.

**Charity trustees:** charity trustees are defined by section 177 of the 2011 Act and are the people who, under the charity's governing document, are responsible for the general control and management of the administration of the charity. In the charity's governing document they may be called trustees, managing trustees, committee members, governors, or directors, or they may be referred to by some other title.

**Control accounts:** these accounts form part of the nominal ledger in manual or computer accounting systems and are used as a control function for sales, purchases, payroll and on occasion for cash. In the case of sales or purchase ledger control the total amounts invoiced and cash received or paid against invoices are posted to such accounts. The balance on such accounts can be reconciled to purchases invoiced but unpaid or sales invoices for which payment has not been received.

**Directors:** one or more persons over the age of 18 who are responsible in law for the operations of the company. The directors form a board of directors which constitutes the decision making body and the board is responsible for managing the company's affairs. Directors have specific duties under company law and are legally liable for their actions. The charity trustees of a charitable company are its directors.

**Endowment:** a form of restricted fund where trustees are legally required to invest or retain the capital. Income generated from the capital should be spent. Normally these funds will represent investments but may also represent property held as endowment for use by the charity. There are two forms of endowment. Permanent endowment is a fund where the trustees do not have the power to spend the capital. Expendable endowment is a fund where the trustees have the option to spend the capital, under certain circumstances, in the same way as spending income funds.

**Evidence:** this term is used in section 5 in determining whether a matter is of material significance to the Commission and should be reported. Evidence comprises the information or facts gathered by the examiner during the course of the examination. The sources of evidence available include the accounts, the accounting records, the examiner's analytical review, the explanations given in answer to questions, matters established through any verification procedures that prove necessary and the charity's other records, for example minutes of trustee meetings.

**Form and content:** the statutory requirements as to disclosures, analysis and information which should be contained in the accounts.

**Fraud:** the Fraud Act 2006 established a definition of fraud. Fraud can be committed by way of false representation, failure to disclose information, or abuse of position where the intention is that the person committing the fraud is acting dishonestly and is seeking to gain from the fraud or cause another party loss as a result of the fraud.

**Going concern:** this concept requires the charity to prepare accounts on the basis that it will continue in operational existence for the foreseeable future. The going concern basis applies to accounts prepared on an accruals basis unless it is necessary, or the trustees intend, to cease operational activities, wind up or liquidate the charity.

**Governing document:** any document setting out the charity's purposes and, usually, how it is to be administered. It may be a trust deed, constitution, memorandum and articles of association, will, conveyance, Royal Charter, scheme of the Commission, or other formal document. The trusts of a charity are the provisions contained in the governing document(s) of the charity.

**Gross (total) assets:** the aggregate amount of assets of a charity, before deduction of liabilities, as at the balance sheet date, ie at the close of the last day of the charity's financial year.

**Group accounts:** this term describes the situation where a charity controls one or more subsidiary companies. In order to provide an overview of all the assets and liabilities ultimately controlled by the trustees the accounts prepared combine the affairs of the charity with those of its subsidiaries and these are termed the group accounts. The preparation of group accounts should follow the guidance set out in the SORP and is only required by law where the income of the group (net of intra group transactions) exceeds the statutory threshold.

**Letter of engagement:** a letter addressed to the charity trustees from the independent examiner detailing the accounting responsibilities of the charity trustees and the statutory responsibilities of the independent examiner. It may also include matters such as fee arrangements, proposed timetable for the examination and details of any non-statutory work to be undertaken by the examiner. The purpose of the letter is to agree terms and reduce misunderstanding and the content of any such letter should be agreed in writing with the charity trustees.

**Material/materiality:** the judgement by the examiner as to whether any information omitted or misstated would affect the reader's understanding of the accounts. Materiality depends on the size, amount or importance of the item, error or misstatement. Items can also be material by their nature, for example payments to trustees.

**Material significance:** the term used to refer to a matter that falls within the statutory definition of the duty to report matters of material significance to the Commission. This duty and the matters the Commission considers of material significance to its regulatory functions are listed in section 5 of this guidance.

**Members:** the members of a charity are those persons or class of persons defined in the governing document as the members of the charity. The governing document sets out the process for appointing and removing members, the role and responsibilities of members and the place membership has in the governance of the charity. Under company law the members of a company are the initial subscribers of a company on registration and are also those persons who become members and whose names are entered in the company's register of members. Company law and the articles of association of the company will set out the process for appointing and removing members, the role and responsibilities of members and the place membership has in the governance of the charitable company.

**Misappropriation:** means to apply or use money or assets owned by the charity dishonestly for someone's own use.

**Misconduct:** misconduct in the context of reporting matters of material significance refers to evidence of, or a reasonable suspicion of fraud, theft, criminal behaviour, recurring or significant breach of trust or administrative errors (mismanagement), or the drawing of an unauthorised private benefit.

**Mismanagement:** mismanagement is the failure of the trustees to properly manage the affairs of the charity and to safeguard its assets. For more information on the duties of trustees refer to the commission's guidance **The essential trustee: what you need to know (CC3)**.

**Misstatement:** means whether in any respect the accounts are materially misstated by the inclusion of an item, or an aspect of the accounts that is factually incorrect, in error, or wrong, or by the omission of an item that should properly be included in the accounts.

**Nominal ledger:** nominal ledger, or general ledger, is an accountancy term for the manual or computerised record which contains the accounting transactions for the period. The ledger contains the detailed history of all the transactions that have been processed over a defined period of time from which a trial balance can be extracted and financial accounts prepared. Smaller charities may not maintain a nominal ledger but instead maintain an analysed cash book, normally in an analysed columnar form, with income shown separately from expenditure.

**Non-statutory accounts:** non-statutory accounts are accounts prepared by the trustees which are not prepared under or required by Part 8 of the Charities Act 2011 and the applicable 2008 Regulations, or where the charity is a company, Part 15 of the Companies Act 2006. Such accounts include management accounts prepared during the year to inform trustees about the finances of the charity, and group accounts which are prepared on a voluntary basis.

**Payroll summaries:** computerised or manual records indicating by named employee, the gross salary paid, employers' tax and employers' national insurance and other employee related costs (eg healthcare plan costs or employer's contributions to defined benefit or defined contribution pensions), where applicable.

**Professional audit:** an audit is undertaken by a person who is eligible under the 2011 Act and who is normally a registered auditor. The auditor has to express their professional opinion as to whether the accounts are 'true and fair' in accordance with UK auditing standards.

**Receipts and payments basis:** Accounts prepared under section 133 of the 2011 Act. The accounts comprise:

- a receipts and payments account
- a Statement of Assets and Liabilities
- and, if a charitable incorporated organisation, the required notes to the accounts

Such accounts do not purport to show a 'true and fair view'; instead they should provide a factual summary of money received and paid during the year and a statement providing information as to the charity's assets and liabilities at the end of the year.

**Restricted income funds:** funds that the trustees are able to spend on particular purposes of the charity. Restricted income funds are subject to specific trusts which may be declared by the donor(s) or with their authority (eg in a public appeal) or created through a legal process, but are still within the wider objects of the charity.

**Significant:** means that the concern the examiner has identified regarding the accounting records, unusual items, or findings that require further explanation or reporting. Often significance can best be assessed after the examiner has carried out the analytical review and also after the examiner has finished their work and is reflecting on what they have found. A matter can be viewed as significant even if it's not material in terms of its amount.

**SORP:** the Statement of Recommended Practice: Accounting and Reporting by Charities sets out the recommended practice for the purpose of preparing the trustees' annual report and for preparing accounts of a charity on an accruals basis. The accounting recommendations of a SORP do not apply to charities preparing receipts and payments accounts. For reporting periods (financial years) beginning on or after 1 January 2015 there was a choice between the Charities SORP (FRSSE) and the Charities SORP (FRS 102) but for reporting periods (financial years) beginning on or after 1 January 2016 there is only the one SORP: the Charities SORP (FRS 102) which must be used together with any Update Bulletin issued.

**Statutory accounts:** statutory accounts are the accounts prepared by the trustees which are required by and meet the form and content requirements of Part 8 of the Charities Act 2011 and the applicable 2008 Regulations, or where the charity is a company, Part 15 of the Companies Act 2006. The statutory accounts comprise the required trustees' annual report and the external scrutiny report prepared by the auditor or independent examiner and statement of accounts.

**Statutory audit:** where the term statutory audit is used this refers to the requirement in charity law for an audit to be carried out where the charity's gross income and/or assets exceed the relevant threshold by a person who is eligible for appointment as auditor of a company, or a person approved by the Commission in accordance with the 2008 Regulations.

**Terrorism:** under Part II of the Terrorism Act 2000, the Secretary of State has the power to proscribe any organisation which they believe is 'concerned with terrorism'. An organisation is 'concerned with terrorism' if it commits or participates in acts of terrorism, prepares for terrorism, promotes or encourages terrorism, or is otherwise concerned in terrorism either in the UK or abroad.

**Trial balance:** a listing of the closing balances on all of the separate individual accounts maintained within the charity's manual records or computerised records.

**Trusts:** these are the provisions which at any given time regulate the purposes and administration of the charity or are funds that are subject to specific trusts which may be declared by the donor(s) or with their authority (eg in a public appeal) or created through a legal process, but are still within the wider objects of the charity (restricted funds).

**Trustee:** means a charity trustee. Charity trustees are the people responsible for governing a charity and directing how it is managed and run. The charity's governing document may call them trustees, the board, the management committee, governors, directors, or something else. The Charities Act 2011 defines the people who have ultimate control of a charity as the charity trustees, whatever they are called in the charity's governing document.

**Unrestricted funds:** funds which the trustees are able to spend at their discretion for any of the charity's purposes. Unrestricted funds include unrestricted funds which the trustees have earmarked for a particular purpose; these earmarked funds are called designated funds. Such designated funds are legally part of the unrestricted funds, though they may be reported separately in the balance sheet or notes, where accruals accounts are prepared, or as part of unrestricted funds, where receipts and payments accounts are prepared.

**Working papers:** the written or computerised records, such as notes of explanations received and schedules of work undertaken, kept by the examiner to record what they have done, what they have found, the questions they posed and the answers they had to those questions. Working papers will include the examiner's analytical review, and copies of any records that may be relevant to the examination. The examiner will generally keep with their working papers a copy of any trial balance, schedules prepared supporting the accounts, the accounts examined, the trustees' annual report and, where applicable, a copy of the engagement letter.

## Appendix 9: Sources of further information

The following are a selection of Charity Commission publications likely to be most relevant to an independent examiner:

CC3 The essential trustee: what you need to know  
CC7 Ex gratia payments by charities  
CC8 Internal financial controls for charities  
CC11 Trustee expenses and payments  
CC12: Managing a charity's finances- planning, managing difficulties and insolvency  
CC14 Charities and investment matters: a guide for trustees  
CC15d Charity reporting and accounting: the essentials- November 2016  
CC16 Receipts and payments accounts pack  
CC17 Accruals accounts pack – Charities SORP FRS 102  
CC17 Accruals accounts pack- smaller charitable companies  
CC18 Use of church halls for village hall and other charitable purposes  
CC19: Charities' reserves building resilience  
CC20 Charities and fundraising  
CC25 Managing charity assets and resources: an overview for trustees  
CC26 Charities and risk management  
CC27 It's your decision: charity trustees and decision making  
CC28 Sales, leases, transfers or mortgages: what trustees need to know about disposing of charity land  
CC29 Conflicts of interest: a guide for charity trustees  
CC31 Independent examination of charity accounts: trustees  
CC32a Independent examination of charity accounts: recommended checklist  
CC35 Trustees, trading and tax: how charities may lawfully trade  
CC40 Disaster Appeals: Charity Commission guidance on starting, running and supporting charitable disaster appeals  
CC46 Statutory inquiries into charities: guidance for charities and their advisers  
CC47 Complaints about charities  
CC49 Charities and insurance  
PB1 Public benefit: the public benefit requirement  
PB2 Public benefit: running a charity  
PB3 Public benefit: reporting

Charity Commission 'How to' guides:

Managing your charity  
Charity money, tax and accounts  
Fundraising  
Setting up a charity  
Staff and volunteers  
Trustee role and board  
Your charity's work

The full range of the Commission's publications and guides can be accessed via the website:  
<https://www.gov.uk/government/organisations/charity-commission/about/publication-scheme>

The SORP and model examples, help-sheets and other information on the SORP can be obtained from: [www.charitySORP.org](http://www.charitySORP.org)

The Regulations: The Charities (Accounts and Reports) Regulations 2008 (SI 2008 No.629) and The Charities Acts 1992 and 1993 (Substitution of Sums) Order 2009 (SI 2009 No. 508) are available from the [Legislation.GOV.UK](http://Legislation.GOV.UK) website.

Guidance on company law requirements: The **Department for Business Energy and Industrial Strategy** publishes a number of helpful leaflets explaining the requirements of company law.

HM Treasury guidance on the Proceeds of Crime Act 2002 and associated Money Laundering Regulations. The Regulations are essential reading for any examiner who is charging a fee or receiving payment because they are providing accountancy services that fall within businesses affected by these regulations. If you are also a member of a professional body, your professional body may also publish information about money laundering which will help you.